

The Key Report 14 February 2007

Top Story

1. Australia's Missionary Movement

Steve Charters MW was a lecturer at Edith Cowan University in WA and is now Professor of Champagne Management/Professeur Titulaire de la Chaire de Management du Champagne at Reims Management School. He sent TKR his thoughts on the time he spent in the Australian industry.

'I arrived in Australia in the mid-nineties, when the industry was dynamic and exciting, and worked in Sydney for three years (mainly in retail) before becoming a wine academic at Edith Cowan University. Due to a combination of factors, many planned and a few fortuitous, the Australian industry has seen great success. But I don't need to repeat what is well-known, so I'll stick to my concerns for the industry.

'A key to Australian success has been industry cohesion. Larger and smaller producers had a sense that they needed each other and were prepared to work for the good of the industry. A few things have happened to change that. The first is that some ownership now lies outside Australia. Overseas owners may have a great passion for wine, but the future of the Australian industry is not their concern unless it has an impact on their company.

'Secondly, the increasing public (or investor) ownership of the larger companies means that mutual benefit is of secondary importance to profit.

'Thirdly, increasingly managers are being brought in as managers, not as wine industry experts (with good reason sometimes – those who've come up through the industry often have little managerial expertise).

'Now, all of this is probably inevitable and not necessarily bad in a business sense, but it radically alters the culture of the industry. The needs of large and small producers are fissuring, the direction taken by organisations like the WFA and the AWBC is subject to conflicting demands, and, as we see now with grape contracts, it's harder for growers and producers to have a co-operative approach. The problem is that this radical change is happening without anyone apparently planning for it or managing it.

'Fourthly, and it worries me as a pommie expat to say this, I detect a note of arrogance in the industry. There seems already to be a sense that we have a God-given right to our success. All that has happened is that we've opened up to all-comers, international markets which had previously been the fiefdom of Europeans. It's much tougher out there than in 1985, and the South Africans and Chileans are beginning to show signs of some of the cohesion we once had, as well as an awareness of where we are weak in the market. We can't afford to ignore them.

'Combined with this arrogance, I also feel there is an increasing ignorance of what happens elsewhere. One of the great strengths of the pioneers of the Australian industry (Evans, Halliday, Croser etc.) has been a deep understanding and appreciation of overseas wines. That allowed them to see precisely where their wines, and Australian wines, fitted in the scheme of things – an immense strength when you are marketing those wines. A friend of mine recently ran a tasting of Australian Shiraz, and as a

reference point threw in a Cote Rotie for comparison. That prompted one of the assistant winemakers at a reasonably large local winery to say how pleased he was, as he'd never tasted a syrah from France before. What are they teaching winemaking students these days – and how can we hope to compete if we become insular?

'I think that when the Australian wine industry was growing up, from the 60s to the 90s, there was a sense of – dare I say it – a missionary zeal about what was happening. Badly managed perhaps (as most early missionary movements are) but exciting, inspiring, enjoyable to be part of and with a single purpose. As missionary movements grow the key is controlling that growth, and the necessary introduction of better management and organisation, without losing the inspirational and cohesive element (both the Methodists and the Russian communists ignored this to their cost). A close friend of mine has just taken a job at a smallish winery. His first job is to clear out thousands of cases of surplus stock, dating back to 2003. That isn't so very inspiring nor so enjoyable a prospect.

'What I think this all means, in essence, is that the industry is now taking a very short term view about how it operates. In marketing-speak, immediate sales have become more important than the long-term development of brand equity. We've allowed ourselves to be overtaken by events, so that we've lost the opportunity to plan and manage the wine industry for the mid- and long-term. This is all, of course, rather ironic given that we work with a product with a lead-in time of 7-10 years, and for an industry that a decade ago had developed its own 30 year plan.

'No doubt I'll be labeled a whinging pom. As I said at the beginning, the achievements of the Australian wine industry are substantial and vastly outweigh its failures. But...'

This is one of the rare occasions that TKR has no comment: not because we don't have one, but because we really would like to hear yours. Send it to tonykeys@netconnect.com.au.

2. 3.5 million hits in a week – that's powerful marketing

Last week we ran a short article on the Wine Evolution conference in Paris. Admittedly we weren't there, but from the reports we received and various articles read, it led us to the disappointing conclusion that little new was said and few, if any, answers provided.

The global wine industry appears moribund at the moment. There is far too much wine being produced, new markets are opening too slowly, buyers in established markets are squeezing producers too hard on prices and in turn producers are squeezing growers.

New ideas are needed... Australia has had its moments. Like it or not, 'Kanga Rouge' did its bit, as has Yellowtail and Jacobs Creek. Is it now time to move on? A brand that is fast moving up the recognition ladder is Stormhoek Winery in South Africa (www.stormhoek.com). The following report is from **Nick Dymoke-Marr**, a director of UK based importer Orbital Wines, who in turn own Stormhoek. We asked him if he could explain Stormhoek's success and if there was a lesson in it for Australia:

'We started a blog for Stormhoek in May 2005. The main purpose was to try and begin a conversation online. As each week and month has gone by this conversation has developed in ways which we never could have anticipated at the time.

'The campaign, if you can call it that, has done many things for us. It has given us a story that people seem to find interesting and it has completely disrupted our business. By this, I mean that we, as a team, now think very differently about what we do, and how we present ourselves to the industry and beyond. And it is now having a positive effect on sales for the brand.

'An interesting thing to us is that our activities have been picked up by a number of other companies in unrelated industries and have allowed us to have discussions with these businesses, such as Microsoft, BBC, Apple and BMW. These conversations have all added to our view of things'.

Towards the end of November, Stormhoek posted on their web site a voucher that could be downloaded. It offered 40 percent saving on wine and Champagne at Threshers. Within hours it had been distributed via blogs, email and chat-rooms. Threshers own website crashed under the load and queues were to be found at some stores. The offer ran until the 10 December and was limited to sales of up to £500. Dymoke-Marr explains: 'The Thresher voucher was a bolt out of the blue and came about as a result of a chance conversation I had with Alex Anson at Thresher. We had no idea that it would go viral in quite the way it did. Basically, Thresher's achieved their budgeted Christmas week's sales in the first week of December.'

During the first week of December, Stormhoek had 3.5 million unique visits to the blog (normally 350-400k in a month) and the coupon was downloaded over one million times. As far as can be calculated the coupon with the Orbital code had over 300,000 redemptions. 'It proved to us just how powerful the internet can be,' says Dymoke-Marr.

Once the ball is rolling, however, it has to be kept in motion. At the moment, cartoonist, friend and part owner of Orbital, Hugh Macleod, is on a nation-wide tour of Tesco stores with a filmmaker to chart the progress. (Look up the website – its interesting www.stormhoek.com)

'The Love Tour was arranged to support a special Stormhoek Rosé which has a cartoon Valentine's Day label designed by Hugh Macleod. This seems to have really grabbed the imagination of many people including the buying and marketing teams at Tesco and the guys in the shops, who've not seen anything like it before. Perhaps it proves that we can engage the consumer on a premise other than the cheapest price – at the end of the day, this is what it's all about. My impression so far of The Love Tour is that people will remember this for months and months, whereas the memory of the last half-price deal they bought will be forgotten before they even make it through the check out.

'The message for Australia (and I don't wish to teach my granny how to suck eggs!) is that we need to speak the language of our customers, not some foreign dialect that they just don't understand.

'Paul Henry spoke in London last week about the industry reverting to pulling together for collective success, just like back in the old days. I think this is right but ultimately we need to connect with the consumer on their terms, not ours. I'm afraid to say this means gagging ourselves from talking about difficult concepts such as soil, climate, wine making and barrels etc, etc.'

Nick finishes with: **'We're in the entertainment industry after all!'**

Tie this article in with Stephen Charter's opinion. Even involve the ever-cheery, flag-waving folk at WBM. In the latest issue Peter Fuller writes about the need to re-kindle the UK/Australian relationship. Put it all together and it appears that recognition is finally being given to the long-held TKR view that there is a great deal more work to be done and new steps to be taken.

Domestic

3. Hardy's justifies water usage

When researching the Water special that came out last week, TKR asked Hardy Wine Co the following question: Is the good and very public work on water conservation being done at Banrock Station negated further along the river by the huge Berri Winery?

Rebecca Hopkins, Group Public Relations Manager: 'In response to your question, the work being done at Banrock Station is not being negated by the winery at Berri, in fact, both sites pride themselves on their water conservation and efficiency initiatives.'

'While Berri Estates is one of the largest wineries in Australia, it is also one of the country's most efficient in generating the least amount of wastewater per tonnes crushed. The winery also embraces world's best practices and initiatives in all facets of wine production and in fact, over the past decade, Berri Estates has halved its water use, due to the continual improvement of water conservation programs.'

'Furthermore, under the new water regime outlined in the Ramsar Plan of Management for the Banrock Station Wetland Complex, over 1150 megalitres of water will be saved over the next two years through the relocation of vineyard irrigation pumps from the Banrock Station Wetland to the River Murray, returning water to river flows that would have been lost through evaporation.'

4. Boutique or craft brewers

There are loads of them springing up all over the place, which is good news because it is now much easier to get a decent beer. But are they appearing too fast and will they all survive? Are we at TKR being gloomy (again)? Maybe we are, but looking at the January listing of the Empire Beer Group on 9 January at 34 cents (1 cent discount on the proposed price of 35 cents) and Friday's (9 Feb) close of 24 cents must raise some concern. Empire is based in Perth and run by Phillip Gallagher, formerly of the Matilda Bay Brewing Company. Their plan is to add to the Margaret River based Colonial Brewing Company, not only in WA but also by picking up or establishing other small brew pubs (with an on-site brewery) in the eastern states.

Also from WA and ASX-listed is Gage Road Brewing. They have gone from a listing price of 40 cents on 13 December 2006 to close at 32.5 cents Friday 9 February. However, they are rolling out a national brand and are being distributed via the Hardy Wine Co, so the future looks bright. As for all the others – go well but go careful and take note all the small wineries struggling.

International

5. 'Food Miles' a potential killer for Australian wine

We've noticed an increased interest in low alcohol wines: UK based Marks & Spencer, a large wine retailer, is looking to 'source more wines at 12 percent alcohol, rather than 14

percent in the future', according to an article on www.decanter.com by Beverley Blanning. The article also contains this information:

- According to lobby group Alcohol in Moderation (AIM), the average level of alcohol in Australian red wine rose from 12.4 percent in 1984 to 14 percent in 2004.
- In California reds, average alcohol reached a record 14.8 percent in 2001, compared to 12.5 percent in the late 1970s.

If your winery follows any practices aimed at combating climate change, such as using green energy and off-setting carbon usage, it might be worth worthwhile going to <http://www2.marksandspencer.com/thecompany/ourcommitmenttosociety/index.shtml> and look up 'Plan A'.

A potential killer for Australian wine exports, 'Food miles' is a simple concept: the further food/wine/goods travel to be on sale in a UK supermarket, the more greenhouse gas has been generated to get them there.

For the geographically challenged, Sydney to London is 10,562 miles, 16,997 km or 9178 nautical miles, as the crow flies. In short, Australia is a lot of 'food miles' from the UK. In comparison, France, Spain and Italy are not that far at all. If your commercial antenna is greater than your environmental equivalent, you may need to start considering this aspect. The more wineries are doing to compensate for 'food miles', the more chance they will have of being listed.

6. Live Wombat

The following note from **Roland Kaval**, Wine Manager at Global Wine Marketers, reinforces the point that price is not everything: 'On a bright note, we have a brand in the US, Wombat Hill (who says critter labels are dead?), which was selling slowly at US\$6.99 / 5.99. We've appointed a new importer, repositioned it at US\$8.99 / 7.99 and it's firing. It's a good sign.'

7. Export update

Wine shipments under \$2.50 a litre have increased 39 percent according to the latest AWBC wine export figures. Included in this are bulk shipments running at an average of \$1.04 per litre. Now 14 percent down on a MAT basis, it raises the question will this be the lowest point? As estimates for vintage 2007 are looking to be around 40 percent down and recovery in 2008 unlikely, it appears that figures like \$1.04 per litre can only increase.

China and New Zealand have been buying huge amounts of bulk at under 70 cents. It appears they will soon have to pay more or goodbye.

Looking at the other end of the scale, Germany (noted for its penny-pinching wine buying ways) is going great guns at the top end in the \$7.99 to \$9.99 per litre. Exports are up an incredible 89 percent; it's only around 66,000 cases but excellent news as is the over \$10 per litre figure up - 20 percent to just over 40,000 cases.

Good signs also at the top end in the US with increases of 10 percent in the \$5 to \$7.49, 7 percent in \$7.50 to \$9.99 and 12 percent at over \$10 per litre exported. The UK is also coming good in the higher three price brackets; increases were 8, 4 and 18 percent respectively.

Much of the previous ballyhoo about the Canadian market appears to have been overstated as they have taken big dives in the \$5 to \$7.49 per litre sector - down 19 percent and down even more (26 percent) in the \$7.50 to \$9.99 per litre sector.

7. Business Roundup

Foster's share price broke the \$7 mark last week, reaching a high of \$7.15 and settling back to close the week at \$7.08. It's been a long time coming. Compare these results over the last 5 years:

9 February 2006 \$5.57
9 February 2005 \$5.40
9 February 2004 \$4.29
7 February 2003 \$4.34
8 February 2002 \$4.72

Thankfully for long term shareholders, dividends have been paid over the period. As they have flogged most of the extra bits and pieces over the past few years – overseas breweries, the pub estate, the name Foster's in Europe and Russia, etc – the company is now pretty lean. The 2006/07 year-end accounts will be quite fascinating.

Around 1.8 million **Evans & Tate** shares were traded last week. Not that it moved the price a great deal, coming into the week at 21.5 cents and exiting at 20.5. Most (if not all) was based on speculation surrounding the Yarraman offer to merge with E&T, bring in new funding, get rid of ANZ, install a super management team, list in the US and take the world wine scene by storm. E&T have pushed the date back to 14 February. Will it be a lovely Valentine's Day or a Valentine's Day massacre?

Below is last week's share trading for **Simon Gilbert Wines**, which started the week at 6.6 cents and crept up to 7 cents, with big trades on Thursday 8. An interesting pattern of trades...

Monday 5	40,000
Tuesday 6	164,111
Wednesday 7	100,000
Thursday 8	575,434
Friday 9	25,000

The **Coonawarra Australia Property Trust (CAPT)** only saw 2000 shares traded last week. Could it be the swan syndrome we wondered - gliding along the surface with frantic activity underneath?

Indeed it was... Wednesday 14 February saw the announcement that Coonawarra Premium Vineyards Ltd, responsible entry for the trust has given clearance for CAPT to underwrite a renounceable rights issue by Simon Gilbert Wines (SGW) at 6.5 cents with 1 right available for every two SGW shares held.

The deal is not done and dusted but reliant on the trust reviewing the half year results. If it goes ahead, with CAPT underwriting the rights issue they will likely pick up all the 'non subscribers' rights and move from their present 19.9 percent to the majority shareholder.

The ex Southcorp super-team of David Combe and Paul Pacino will move to pastures new as will fellow director Andrew Bursill.

Three new directors are to be appointed; not confirmed but Rex Watson the main man behind CAPT is expected to be one and Sue Henderson, ex Grant Burge Wines, another.

Defying speculation, **Lion Nathan** didn't go ahead with a share buyback, although they did confirm their 2007 profit forecast would remain in the \$245-\$260 million. Beer in Australia is doing well for them but New Zealand is struggling a little. Not much is being said about wine...the patient has stopped bleeding and remains in a stable condition.

8. Vintage Tales – not another boring Vintage Report

Reports of a strange vintage are reaching us. From the **Barossa Valley**, Martin Pfeiffer of **Whistler Wines** sent the following:

'About 50-80mm rain fell three weeks ago causing some concern, with splitting occurring mostly in dry grown shiraz (anything which had smaller canopies, smaller bunches and smaller berry size was hit worst) – i.e. the super premium stuff. Surprisingly, the Semillon was not affected much, with some splitting in Riesling. We applied our first spray of the season because I thought that not having previous covers on may leave me open for mould infection (applied Rovral, which has a 7 day withholding period). Otherwise, it has certainly been a year where it has paid for me to monitor the weather, perhaps take some risks and avoid spray application, saving us up to \$8000 for the year. Varieties like Chardonnay, Sauvignon Blanc and Pinot are presently being harvested with anything from 30-60 percent below normal average yields. Some varieties like Grenache, Semillon and perhaps Mataro seem to have more average yields, and benefited from the rains.

'Since the oversupply situation has done a complete turnaround (as you have reported), we have been fortunate to be selling off a good portion of our vintage this year, allowing us to make the stock adjustments we have spoken about previously and allowing us to get that much needed "cash flow".'

Up in the **Eden Valley**, Robert Hill-Smith and Robin Nettelbeck from **Yalumba** sent this report:

'Vintage has not started in earnest in the Eden Valley region overall, but vineyard performance reflects each site's water supply. For those growers in the region who have developed vineyards with contingent water supplies for a drought period, the vineyard performance has been to date quite exceptional. There are, however, a number of properties without adequate water supplies and the crops yields would appear to be approximately 40-50 percent below average. There are also a number of isolated vineyards in the lower parts of Eden Valley that were affected by Spring frosts, with initial crop assessments falling to 80 percent below average.

'Taking all factors into consideration, it is suggested that overall crop will fall between 10-20 percent below average, which is significantly better than the Barossa Floor and most other cool climate regions in South Australia. This was assisted by a rainfall of approximately 75mm, which occurred in most parts of Eden Valley between the 19th - 21st of January.

'Local grape growers and winemakers had some initial concerns about splitting, however these were waylaid as the grapes development stage was not too far advanced for this to occur. The rain event in fact assisted the vineyards health, but more particularly relating to leaf health and retention. Despite the current drought the level of stress in many of the vineyards has been minimal. Lack of winter rainfall has meant that the vineyards were not overtly water logged in spring, with growth consistent right through to flowering and set. A slightly smaller crop and good leaf health will see good flavours with exceptional acid retention in those vineyards that have adequate water and have not been exposed to spring frost. History has shown that this region performs extremely well in drier than average years and without too many extreme temperature periods. 2006/07 could very well reflect this.'

Despite merger proposals and huge debt issues, it's good to see **Evans & Tate** do what they are fundamentally there to do – make wine. They sent out a general media release informing that the 2007 Vintage has commenced in **Margaret River** three weeks earlier than normal, a dramatic contrast to the late 2006 vintage. This is due to the unseasonably warm spring, leading into a rather cool January. This has slowed the ripening and intensified the varietal characters and flavour. We are currently seeing some intense tropical fruit flavours in the Sauvignon Blanc, and concentrated but restrained melon and lime flavours in the Chardonnay. 'Ideal ripening conditions, no disease pressure and lower than average yields have combined to produce what appears to be a model vintage. The vines look so balanced, the ratio between canopy and fruit is ideal, with just about all varieties showing modest cropping levels with optimum fruit exposure,' says Chief Winemaker Richard Rowe.

Mark Murphy from **Waterwheel Vineyard** near **Bendigo** says that they have not started picking yet. They will do so next week (which is very early) and expect to be down between 20-40 percent, mainly as a result of frost, depending on the variety. No oversupply here as they have had good domestic sales through 2006 and increased export demand combined to keep their inventory in balance.

From John Innes, **Rymill Winery**, Coonawarra: '**Coonawarra** will start to pick some sparkling base fruit in a week or so but I wouldn't expect much activity until late March, which pretty much says an average vintage time frame. We had around 90mm of rain on the 19/20 January, which was absolutely fantastic for the vineyards and no negative side effects, partly because there is no bloody fruit to affect, but also because it was very early in our season.

'The general expectation in Coonawarra is that yields will be down by 70 percent and I would be guessing that at least 50 percent of the vineyards won't see a harvester this year. The vineyards which have been largely unaffected by the frosts (they have high volume overhead sprinklers), are looking very good but with smaller than average crops. Fruit set has been quite good, considering the spring conditions, but bunches and berries are smaller than usual (but not dramatically so).

'Will this help the surplus? Definitely. You have to remember that apart from the large '01 and '04 vintages, Coonawarra has had smallish vintages in the other years. While we have felt the full impact of the industry surplus due to the large area of vines coming into production through the first half of this decade, I think we could safely say that we are in deficit for '06 wine and will be in severe deficit for '07 wine.

'The prospect of a high yielding '08 vintage is highly unlikely as the majority of the vines will still be in recovery mode from the '06 spring frosts, so come '09 I think we will all be looking for a return to good yields. Thereafter, who knows, but by then we will have worked through this phenomena of over cropped young vine Cabernet Sauvignon as many of the vines responsible for this will be eight-plus years old.'

Graeme Shaw, **Shaw Vineyards**: 'What a vintage for the **Canberra** District! Early spring frosts in late September and October caused considerable damage to many areas within the Canberra G.I. Most of the Murrumbateman vineyards were spared.

'While winter and spring rainfall was woeful, the vintage mid November looked very promising, with good, even flowering and healthy vines. As the latest date for frost damage in the past had been 28 October in 1998, things were looking good for this district and enquiries for fruit purchases were rolling in from Victoria and other areas.

'However, come November 19 and the mother of all frosts belted the hell out of most of the districts vines. My 80 acre vineyard suffered losses of around 95 percent along with many others. Some vineyards were spared, however damage is reported to around 80 percent.

'On December 29 a wild storm hit the Canberra region with hail over a meter deep on some Canberra streets. A number of vineyards were hit with up to 100ml of rain and hail in under an hour. Some vineyards, spared from the November frost, were hit hard by the hail – one vineyard was completely defoliated.

'So much for selling fruit to other regions – we are now looking to buy. Now to the drought. Overall rainfall at my Murrumbateman Vineyard for last year was 283mm and so far this year 1mm. Unless we have near to average rainfall this winter and spring we can expect a pretty ordinary vintage again next year for those who do not have secure water supplies. I suppose the positive note from all this is a further reduction in cool climate fruit and hence a reduction in wine stocks. This can only assist in obtaining reasonable offers for the district's fruit for future vintages, particularly as Hardy's have exited the area and have bought out fruit contracts from their 17 contracted growers.

'Any companies looking to secure reliable supplies of premium cool climate fruit would be well advised to make contact with the districts growers sooner than later.'

Roland Kaval, Wine Manager at **Global Wine Marketers**, has just returned from a road trip 'sussing out what the 2007 Vintage has in store':

'Tales of woe everywhere except in W.A. The big guys are now talking a 15-20 percent reduction in crop (this is the figure they're seeing from the fruit they've already processed). It's a general view that both berry numbers and berry size are down – lower water allocations in the irrigated areas has prevented the bunches from filling out properly.

'What the frosts didn't stuff, the drought has! And I haven't mentioned possible smoke taint. All that is left to befall the wine industry is a plague of locusts and the Angel of God slaying the firstborn of all winemakers.

'It's interesting in the bulk market as the scenario is changing almost daily. I had one supplier who three months ago was offering all his bulk at 50 cents FOB (and was moving them slowly) and has now priced them at \$1 and can't keep up with demand. The news of the short vintage has finally got through to the big international bulk buyers who are jumping in before prices go up.

'We have been very competitive in the international market (due to low grape prices) but we now will lose market share big time. There is a train of thought that says if you're not making money at the bottom end why be in it, and at the moment, as we move from glut to shortage, our competitors e.g. Chile are moving the other way. Chilean Cab Sav now has a bulk price of 40 cents a litre.

'It's an interesting time in the industry. The Chinese have sopped up all the old crappy red that we had – at give away prices I grant you – but the only alternative was to open the valves. So, from where I sit, I see bulk being a lesser force in the big scheme of things.'

Matt Harrop, **Shadowfax Wines** in the **Geelong** region: We will start harvest in another couple of weeks – maybe 10 days. Crops here are very low – Geelong has been dry for the last 5 years and the frosts devastated many vineyards. We are expecting crops to be 40-60 percent lower than 2006. We will not pick any fruit from two of our vineyards as frost wiped both of them out. What will the wines taste like? Don't know – veraison was very rapid in reds and I expect the fruit to accumulate sugar rapidly. Some rain would be ideal to slow the ripening and cool things down a bit.'

North West from Geelong in the **Pyrenees** region, this report from Sean Schwager, Winemaker at **Warrenmang Vineyard**: 'Vintage looks like it will be early this year by up to 3 weeks unless cooler weather prevails. Sauvignon Blanc could be ripe as early as next week, and Chardonnay not far behind. Yields will be down as much as 50%, due to frost (mainly in our Avoca vineyard) and inability to apply water (not a local problem). Berries will be very small and let's hope the rollers in the crusher will be able to split them. Hopefully the smaller tonnage will make for an easier vintage but still excellent quality – only time will tell.'

Nicole Esdaile, Chief Winemaker at **Rutherglen Estates**, tells the tale of **NE Victoria**: '2007 has been a very difficult vintage for growers in North East Victoria, with the drought dramatically reducing yields and many growers being hit with three frosts in late November, resulting in no fruit whatsoever. To top drought and frost off, the December and January fires have presented the problem of what fruit that actually survived being smoke tainted....to complete the picture, many say they wouldn't be surprised if flood breaks the drought in mid-late February to finish them off.

'Fortunately, Rutherglen – while certainly drought and frost affected – only experienced smoke haze when the prevailing wind was from the south and really only a couple of days of heavy smoke before Christmas. All available tasting, testing & analysis suggest we have escaped any 'taint' issues. This is fantastic, because while we have

substantially reduced yields (up to 30 percent across the board, but down 95 percent on frost affected blocks), the fruit quality of what we have harvested is excellent.

'Like most areas in Australia, harvest has commenced very early. We actually harvested our first fruit on the 19 January, which is more than three weeks earlier than ever before. We are seeing good fruit concentration and acid balance in our whites, plus the colour and flavours in the small amount of Shiraz that we have harvested is very promising.

'Obviously, low to non-existent rainfall in spring and summer has meant the berries are very small, as are bunches and the quantity of them. We have also saved many dollars not having to spray in anticipation of any rain events.

'While the huge reduction in tonnage across Australia will certainly assist in reducing our overall glut, and the quality of the grapes harvested is of a high standard, one has to feel for the individual grapegrower, and also the contract processing winemaker who relies on their per tonnage income. Let's hope we can all survive until the market becomes more balanced.'

Matt and Sean haven't started, but **Jay Tulloch** writes: 'As of today (9 February) vintage in the **Hunter Valley** is all but over. We are currently in the worst drought known – there have been individual years of less rainfall but not with such impact. Water allocations from the Hunter river were cut to 8 percent but were later increased to 16 percent.

'Vintage commenced in the second week of January as opposed to the usual time of the last week in January or the first week of February. The other unusual feature has been the early start to harvesting of Shiraz in the last week of January instead of mid February.

'The drought aside, this must rank as the easiest growing season on record, with no disease problems and warm to hot temperatures without the extremes of the previous year. The general opinion around the area is that maturity levels have been very easy to reach and everyone seems to be very happy with the quality.

'The general comment is that the crop is down in the region of 20 percent on last year, and whilst there was to be some fruit left on the vines, this problem has now disappeared. There are a few storms about in recent days and as vintage is all but finished hopefully there is some rain on the way.

Mark Bolton is Brand Ambassador/Public Relations Manager for **McLaren Vale** based **d'Arenberg**. At 5.30am on the 30 of January, the first load of Sauvignon Blanc was delivered to the winery signaling the earliest start to a d'Arenberg vintage by one day. There have been two separate vintages commencing on the 31 of January, but vintage 2007 has set a new benchmark. According to d'Arry Osborn, the 10 February in the early 60s was the earliest start for reds here at d'Arenberg, well before irrigation and whites such as Chardonnay, Riesling and Sauvignon Blanc. Reds commenced on the 8 February.

I asked d'Arry if the lead up to vintage this year was the driest he had experienced and whether there were any similarities to past vintages. This triggered a range of interesting comments:

'The growing season of '59 was the driest. It was the worst I've ever seen. In '06 we experienced moderate levels of rain fall through April, May & June (46mm, 66mm & 3.6mm), whereas for the total year in 1959 we received only 11 points (2.7mm)!

'It was so dry, there was no greenery to be seen anywhere, even under trees...even weeds didn't grow. It was the easiest cultivating year ever – we didn't have to plough the rows as we normally would as there was nothing to plough.'

'Crops on early-picked vineyards are down as much as 50-100 percent (none on some) from a normal year (whatever that is), and most obvious with vines planted on the heavier soil structure (soils with clay). So far sandy soils have fared much better. So far we have nearly finished all of our McLaren Vale Chardonnay, Riesling and Sauvignon Blanc with Viognier and Roussanne already started. Some reds and whites were lost to berry splitting that occurred from 50mm of rain over the 19, 20 and 21 January. As Chester Osborn points out, we gained more yield than lost and overall fruit quality is better, more fragrant and turgid, therefore more life in the resulting wines. Grenache benefited from the rains although sugar levels are high and colour is behind.

'Vines planted on sandy soils have experienced minimal problems and the canopies are more balanced overall. Crop sizes are more normal and the vines have minimal levels of stress with the fruit being more uniform in size, showing better characteristics and acidity.

'On the 3, 4^{and} 5 of February we experienced very hot temperatures which weren't appreciated, but the heat did encourage a further rapid level of ripening. In some cases early ripening vineyards may have ripened a touch quickly, however the acid level is very good and flavour development not bad either.

'For most vineyards in McLaren Vale the quality looks good and on a positive note there are very few vineyards throughout the district that show obvious signs of excessive vigour and big bloated berries simply don't exist, which will lift the overall quality of the district.

'The Adelaide Hills is still a long way off but looks promising, though demand for fruit is high – particularly for Sauvignon Blanc and Pinot Noir. Volumes look normal.

'Another obvious point regarding this vintage: as the overall vintage volume is low, there is less fruit available and nothing under \$1000.00 per tonne. Standard price for McLaren Vale Shiraz is \$1,400 a tonne, which is a dramatic rise from last year.

'This leads to the question, what impact will this vintage have for d'Arenberg? We may have potential volume shortfalls to fill requirements, but every year, in some way, we deal with this problem – we are either up or down in volumes for any of our wine brands. We listen closely to our distributors on their expected market requirements and try and factor that into our production requirements but often that backfires on us. For vintage 2005 we purposely reduced the volume of one of our Cabernet Sauvignon wines as requested by our distributors. Many have now seen pre-release samples of our cabernets wines and want it, and now demand has exceeded supply! Regardless of the best forward planning, it's more prudent to focus on quality as that has a bigger impact in selling the product.

'The upside is that the volume shortfalls of 2007 and 2008 should be covered with adequate stocks of unreleased 2005's and 2006's. Both 2005 and 2006 are vintages of volume and look extremely good in bottle and in barrel. This has an obvious advantage for a wine producer that has developed strong brand recognition in both domestic and export markets.'

One last point I would make is a comment that d'Arry made: if Australia is entering a period of continuous drought then we'll have to expect and plan for small volume vintages. The drought years from 1959 to 1969 (it rained heavily during the '69 harvest), was a period of low production. The implementation of irrigation occurred in the early 60s and didn't increase yield. It simply kept vines alive until we experienced a period of wet years.

It appears El Niño is stopping, so eventually weather patterns should probably return to normal. For how long – who knows?

Across the Tasman, Tom Trolove, Marketing Manager at **Wine Marlborough, NZ**, sent this update. 'The second coldest December on record in Marlborough has seen a decrease in the expected 2007 Sauvignon Blanc harvest. However, there won't be any decrease in the intensity of flavours of the variety.'

Dr Rengasamy Balasubramaniam (Bala) from Delegat's Wine Estate says that following an excellent flowering in 2005, perfect bud-break and a large number of inflorescences on vines prior to flowering, everyone was predicting a bumper 2007 harvest.

'But the four to five weeks of flowering was unseasonably cool, which has resulted in a poor fruit set. It means we are now looking at an average yield, rather than a big yield,' he says.

Wine Marlborough Research Leader, Mike Trought says he was predicting a 20 to 25 percent increase in average yields this year. The cool flowering has seen that drop back to an average yield, with the fruit set providing more open bunches, less prone to disease threat and more open to even ripening.

Darren Golding, **Golding Wines**: 'It seems as if it's the season of calamity. All around wine regions are suffering from frosts, fires, droughts and the uncertainty of market forces. In the **Adelaide Hills** we have had significant frost issues in isolated pockets and the subsequent reductions in yield from secondary shoots. Those vineyards that escaped the cold snaps that seemed to go further into spring and early summer established excellent canopies with moderate crops throughout most varieties.

'Cropping levels across the board look like they will be down on the previous year, with lighter bunch weights, particularly in chardonnay. However I don't believe that we will see the same sort of reductions that other regions are experiencing. Consequently this will enable some growers within the Adelaide Hills to capitalise on the demand that seems to be creeping into the market.

'Fortunately the recent heavy rains didn't cause too much concern as most fruit had yet to reach veraison and hence we didn't see the splitting that could have occurred if it had been later into the season. Generally the season is looking promising with disease pressure being low and good intensity developing in moderate crops. Harvesting of

sparkling base has started, which would be anything from 2-3 weeks early. Mild dry weather for the next month would be good...'

Shayne Cunningham **Gapsted Wines**: 'The **King and Alpine Valleys** regions received a very welcome 30-45 mm of rain in mid January. The rain squelched the remnant bush fires across eastern Victoria, provided a welcome drink to the vines as the King and Ovens River water allocations have been reduced to zero. Fortunately there was no splitting from the rain which also washed the vine canopies of dust and soot from the fires.

'Our harvest started on 30th January with Sauvignon Blanc (SB), a full four weeks earlier than normal. Crops of SB, Pinot Gris and Chardonnay have been down 50-70 percent due to severe spring frosts and low bunch weights. Testing of reds show colours are up by 20-30 percent, but again yields will be very low.

'Early tests show smoke taint in varying levels across all of eastern Victoria, and the King and Alpine Valleys are no exception. The King and Alpine Valleys have set up a Special Task Force of wineries and growers to test fruit and devise a protocol to minimize the smoke character in the wines. This work will be ongoing.

'Undersupply is the new word on everyone's lips. Growers with SB, Pinot Noir and Pinot Gris are highly sought after seemingly by every winery in Australia. Industry gurus are talking that the 2007 crop might top out at 1.2 million tonnes - down 750,000 tonnes or 38 percent on normal expectations! The even bigger worry is the impact of 2007 vine stress on the 2008 crop, even if the drought breaks.'