

## The Key Report 31 January 2007

### Top Story

#### 1. WA – wish you were here?

We found this an interesting piece of news from ABC Rural, Tuesday 16 January:

Wine grape growers in Western Australia are expecting much better prices than those in the east this vintage. They are hoping for a rise of up to \$400 a tonne for high quality cool climate grapes, because of lower yields in south-eastern Australia due to frost and drought.

Jim Campbell Clause of AHA Viticulture says premium Western Australian grapes will be sought to fill the gap. 'West Australia's direct competitors were particularly hard hit, which left a little bit of a gap for West Australian producers,' he said.

'Traditionally where grape buyers were sourcing grapes from south-east Australia in cooler areas, if that source of fruit was diminished, then they are coming down into the south-west to buy some fruit.'

Grape buyers may well go to WA, but will they pay up to \$400 a tonne more for grapes? It's very early in the season to get a real handle on what is being paid, but we asked **Mark McKenzie**, Executive Director Wine Grape Growers' Australia (WGGA), for his view:

'At least one winery in the Riverina is offering \$100 flat for some varieties, and another \$135 - \$150 per tonne. These are "predatory" prices at below last year's all time lows. I would make a few other observations:

'Growers are disappointed that some of the major companies contract prices have eased further this year – even as some spot market prices have increased.

'Wine grape industry leaders have expressed dismay at the real likelihood of spot market prices being higher than prices for contracted fruit for some varieties – a very strange turn of events given the position last year and a pretty ordinary comment on the value of a contract.

'This indicates that – with a couple of exceptions – wineries are pricing by "pack mentality", with no eye to grower viability and the long term consequences of the damage to growers' financial positions and to the fabric of the industry of continuing price predation – let alone the damage to their own brands by continuing to encourage cheap wine.

'In cooler regions some prices have eased further (also causing dismay) or have increased by \$100 or so on 2006 figures for selected varieties. Cool climate growers' position may improve a little this year as shortages of fruit become apparent, but the general feeling of disquiet is the same as in the inland regions. The exceptions are additional volumes being sought to replace frosted or drought affected vineyards of the wine companies and selected varieties – particularly Sauvignon Blanc. *(This is where WA may benefit – TKR)*

'The supply position is now well known, and tightening by the day (added to by the loss of some more fruit from bunch splitting in the last week from heavy rains). AWBC official

assessment is now 1.5 million tonnes for 2007 – considered generous by some. This is a 25 percent fall on last year's figures. Given this position, and the grave position for water allocations for 2007/2008, it is difficult not to come to the conclusion that some companies are attempting to rebuild their margins at growers' expense – keeping a keen eye on their competitors to keep themselves competitive in the bulk wine market.

'Frankly, a number of wine companies and processors are simply "bullshitting" about the market. Bulk wine prices are moving up, the mid-sized companies and processors are in the market offering premiums, and some have conveniently ignored the early message on prices conveyed via Foster's spot market offers – since also reflected in increases for most Foster's contract grower prices as well. Tellingly, early estimates from inland Chardonnay harvesting for sparkling base shows very light crops. Some may think that there will be surplus grapes in the temperate zones, but drought and frost have brought the likely tonnages well back in these regions as well.

'This continued pressure on prices and grower margins will cause a number of consequences: Growers (including many very good growers) will be forced to leave the industry in increasing numbers due to continuing unviable returns – prompting a future skills problem and shortages of selected categories of fruit (in the inland regions) in the mid-term future.

'Growers will continue to develop alternative marketing methods built on collective bargaining – like the Vintage Traders Ltd initiative for group selling launched this year by Murray Valley Wine Growers. (*See item below – TKR*)

'These selling groups will inevitably turn to processors to convert fruit in the face of continuing unviable grape prices – seeking to take the margins themselves that are currently being taken by the "bottom feeders" through predatory pricing – and bringing new competitors into play for the wine companies. The short term thinking on show again this year is breathtaking.

'Now we just have to wait for the scramble for fruit as vintage begins and the buyers realise the volumes of grapes are well down in 2007, facing an extremely tight year in 2008 and that merchantable wine stocks are much lower than some have led us to believe. Hence – our advice to growers to hang on for better prices.'

From a TKR mate based in the Barossa Valley: 'In the Barossa, prices seem to have remained unchanged from last year. There are plenty of stories of one or two of the big companies going back to growers who did not have their contracts renewed last year with offers to buy this year. Mostly, however, the prices offered have been low and most offers have been on a for-this-year-only basis – no offer of longer term contracts.

'I have also heard that in the Riverland, prices generally have not risen much and that the big companies are still playing very hard ball despite the shortage of fruit.

'Perhaps it is still a bit early, but I should think that with the rain damage over the weekend, and further crop reductions due to fruit splitting, prices may well be forced up a little.'

As previously reported in TKR, Vintages Traders Australia Ltd is up and running, involving around 200 Murray Valley wine-grape growers. This could be a good vintage

for them to start. If 2007 had been a bumper two million tonne year, TKR wonders if wineries would have avoided dealing with the group. In this short year producers will have no choice but to deal with them, and hopefully that means fair prices for good quality grapes. In the November/December edition of *Grapevine*, Mike Stone, CEO of Murray Valley Winegrowers, fires a broadside at producers who don't like his set up – and so he should. However, let's not forget the times when grape grower loyalty was not all it should have been and wineries were gazumping each other to get grapes. Let vintage 2007 show fair standards on both sides.

## Domestic

### 2. Export label agreement

An article in *The Australian* (24 January) by Blair Speedy stated that 'Australian winemakers are set to reap cost savings of up to \$25 million after key "new world" wine-producing countries agreed to uniform standards on bottle labeling'.

It's good news, and based on the work done by members of the World Wine Trade Group, who represent Australia, USA, Canada, South Africa, New Zealand, Argentina and Chile. The savings will come because compulsory product information on labels is to be made standard across the board, eliminating the need to have different labels for each country.

How the \$25 million in savings is calculated is less clear. It was put as 'tens of millions' by Steve Guy from the AWBC in a radio news report, which could imply anything – including waving the flag – but there should at least be reduced printing costs. However, while this good 'label' news is happening, there are also moves in the US by the federal government to include potential allergens (such as milk, eggs and fish) on all wine labels.

The rules now being drafted state that wine labels will have to declare if the wine has been made using milk, eggs, fish, crustacean shellfish, tree nuts, peanuts, wheat and soybeans.

No need to tell most readers of TKR that casein (milk), egg whites and isinglass (fish) are all fining agents, and some labels do carry 'traces of egg' notification. It's a difficult situation. Yes, people do have a right to know exactly what is in the food they eat and drink, but how do you explain 'fish' in wine? The American Wine Institute is arguing the point that wine doesn't contain these products even if any have been used in the making because they are filtered out pre-bottling.

It could be that the money saved on bringing labels into line might go on having to get them redesigned to carry extra information.

A point that came up in discussion regarding label laws and the US was what about all the US warnings about 'drinking while pregnant', 'not operating machines' etc? What, indeed? We asked **Steve Guy** to comment. He told us that to the best of his knowledge there should be no implication or impact for the US health warning. He adds, 'the labeling agreement applies to the mandatory elements that are common to all six signatories to the WWTG (e.g. what has to appear on the front label).

'As the US health warning would, in most likelihood, appear on the back label, then there is no conflict with yesterday's agreement. As yet there has been no suggestion from the US that they would want the health warning to appear on the front label.'

### **3. E & T opens new Cellar Door**

Cellar doors can be a quandary. Can't always afford to have one but can't afford not to have one. They often tie the owners to the place or money has to be found to pay staff. However, they can work well and positioning is one of the main reasons. The Evans & Tate cellar door is in a good position (on Caves Road – the main tourist route) and has around 36,000 visitors a year, but that includes kids and probably partners that are being dragged along.

The question is why would a company carrying such large debt splash out on a new one?

Due to open on the 8 February, it has what is expected of cellar doors plus the addition of a 'Reserve Room'. In the media release E&T say that 'the Reserve Room is an innovative concept aimed at educating consumers on the finer details of wine appreciation'.

Well, it's not exactly an 'innovative concept'. These rooms have been a runaway success in California. The aim is to encourage groups to pay extra to have a private wine tasting, often tutored by a winemaker or certainly by someone with in-depth knowledge. E&T say they will use crystal stemware for the tasting and visitors can also opt for the wines to be matched with 'tastes' of the finest local produce, indulge in wines by the glass or request wine flights of museum stock or a certain variety.

It's a great idea and should do very well for them. People will spend up to get away from the kids and bored partners and to taste with a winemaker – in this case Kate Wood. The sessions last for half an hour and cost just \$10 per person for wine only, or \$20 for the wine and food session.

A month later in Bordeaux the first wine center based on American/Australian concepts will open in the region. 'La Winery' covers 26ha, has parkland complete with water features where people can picnic, exhibition areas, amphitheatre, restaurant, tasting rooms and 1,000 square metres of retail space.

It's taking the E&T model a step or two further, as it will sell a selection of wines both local and foreign, ranging in price from €3 to €2000 per bottle. Alongside the free tasting there will also be ticketed tastings – reported to be Bouchard Burgundy dating back to the 1940s, verticals of Sassicaia from Italy and Vega Sicilia from Spain.

## **International**

### **4. French create their own 'South East Australia'**

South Eastern Australia as a 'region' has come to mean 'cheap' in the eyes of many consumers. There's no denying that we need the region for labeling purposes, and it's unfortunate the way it is now perceived. Therefore, we wonder why the French are so positive regarding the proposed launch of *Vignobles de France* that will enable French winemakers to blend *vins de pays* wines across regions.

The theory is that by having France on the label it will be less confusing to consumers; they will flock to the brand and the French over-supply of wine will disappear. We think it may work to a certain extent but not as much as the French probably hope it will. Further up the quality/price/prestige ladder, several Burgundy producers working under the Blasons de Bourgogne name and in partnership with US company Vintage Capital Wine have released a Pinot Noir and Chardonnay from Burgundy simply called 'Be Friends'. There is no other detail other than the variety on the label.

Across the country in Bordeaux, Guillaume Halley, proprietor of Chateau la Dauphine in Fronsac and Chateau Canon de Brem in Canon-Fronsac, is declassifying the latter, which is considered the better Appellation (AC), to market all his wine under the Chateau la Dauphine label. Halley says they are much the same, just falling into two different ACs – one sells out every year, the other doesn't.

Meanwhile, Australia is striving to get consumers (especially in the UK and US) to trade up by educating them to better understand regions. Will that work? Just like the French coming at the same problem from a different direction we think it will, but not as much as Australian producers hope it will.

Changing people's perception of Australian wine might prove much harder than we or Paul Henry and his worldwide team at the AWBC think. How far have we come in two decades?

Go to <http://www.mattiesperch.com/Home.htm> and have a look. We have been told this is a Gallo brand but that is unconfirmed. It's fun, and hey – Australians are known to be able to take a joke, but will it do anything for the wine image?

We have said it before and nothing has happened to change our minds – there is so much great wine in the world and so few people really interested enough or prepared to pay for it.

## **5. Grapes and Wine boost US economy by \$162 billion**

Californian based MKF Research LLC has just released a study titled 'The Impact of Wine, Grapes and Grape Products on the American Economy: Family Businesses Building Value'. The conclusion is that the whole grape/wine sector contributes more than US\$162 billion annually to the American economy. The report says that the grape/wine industry provides 1.1 million full time jobs, and in addition:

'Some 23,856 grape growers working 934,750 grape bearing acres and pulling in US\$3.5 billion in farm gate grape sales.

'Wineries are now in all 50 states – a total of 4,929 wineries in 2005, up from 2,904 in 2000 (70 percent increase in five years), generating US\$11.4 billion in winery sales revenue. California accounts for virtually all table grapes and raisins, and roughly 90 percent of the nation's wine production, with New York and Washington State each at about three percent and the rest of the states at four percent combined. Grape juice production is concentrated primarily in Washington State, New York, Pennsylvania and Michigan.

'Added value via US\$2.7 billion in distributor share of American wine revenue and \$9.8 billion in retail and restaurant share of American wine revenue with 27.3 million wine-related tourist visits contributing US\$3 billion in estimated wine-related tourism.

'Other grape products account for US\$1.669 billion retail value in grape juice and grape product sales, \$3 billion retail value of table grape sales and \$560 million retail value of raisin sales.'

State and Federal governments also do well via taxes – US\$9.1 billion (federal) and US\$8 billion (state).

On the downside, the report identifies challenges and opportunities for the grape, wine, and grape products industries, including:

- Insufficient federal funding of research and education to ensure long-term growth
- A scarcity of skilled labor in all areas of the industry
- The inherent climatic risks of any agricultural industry
- Soft demand for grapes grown for grape juice
- Increasing competitive pressures in the grape juice market
- A volatile and ever-changing market for wine grapes
- A shortage of certain types of wine grapes
- Lack of access to affordable capital for start-up or expansion
- Highly competitive market for wine, due to increasing pressure from imports, severe price-value pressure, and the impacts of consolidation in distribution and retailing
- Continuing restrictions on market access reflecting the legacy of prohibition

## **Business**

### **6. Tandou sold for \$10 million**

There were several reports in the press last week that leading Indian drinks company Champagne Indage (CI) had bought the wine making operation of Tandou. There was no confirmation from Tandou – all they would say is that they were in negotiation regarding the sale of the Monash (SA Riverland) winery. Share trading was suspended and an announcement was pending. That came on Monday 29<sup>th</sup> January simply saying the winery had been sold for 'approximately \$10 million' but still no name of the buyer.

All the news about the buyer has been coming from CI, they really are becoming a growing force within the drinks industry. Plenty of strings to the CI bow, including McKinley Vintners – a UK distributor which they acquired last February that is operated by Harvey Miller Wine Agencies (a UK-based wine importer). After three years the two companies will merge, with CI holding a majority stake.

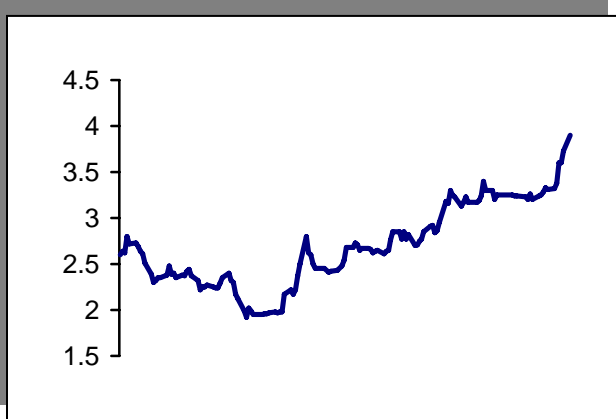
Cranswick (pre Evans & Tate) did a deal with CI and made a great fuss about India being the 'next big thing' for Australian wine. That was around the turn of the century and little has changed. What appears to confuse all is the time frame; ever optimistic Australians are still saying India is the next big thing. 'When' is the bigger question.

Martin Johnson, CEO of Evans & Tate, told TKR that 'there was a relationship with Indage that was inherited from Cranswick. We are no longer involved with them (for at

least two years), since that business is sub-premium and therefore counter to our strategy.'

There is no doubt that CI is on a roll. Last July the company obtained board approval to raise up to 1.2 billion rupees for further expansion. They also say they are looking for other acquisitions. The question that hangs in the air is whether this will be good for Australian wine by opening the Indian market to all producers who wish to have a crack at it, or will Champagne Indage dominate, effectively blocking other exporters?

## 7. McGuigan shakeup



Is there anything to be read into Lisa McGuigan stepping down as global marketing director of McGuigan Simeon? Her father Brian McGuigan is still on the board but has disposed of his shareholding, so perhaps it's just the end of an era. CEO Dane Hudson may want to impose his own stamp on the company and perhaps he feels the McGuigan influence is impeding his plans. Late last year saw a new distribution arrangement in the UK with Waverly Vintners, an off-shoot of

Scottish & Newcastle, which lay claim to being the largest wholesale distributor in the UK – servicing around 35,000 accounts.

This month sees a new general manager for North America, so it looks as if Mr Hudson is pushing hard for sales. If he achieves higher sales, will they come from new consumers to Australian wine, or just replace another Australian producer? It would be good to think it will be the former, but it's more likely the latter, and that surely points to Hardy's and Foster's as front runners, followed by companies like Yalumba, Angove's, De Bortoli etc. Will retaliation be in the form of further price cutting? The good news for Ms McGuigan is that she will continue to manage the Tempus Two Brand. One can't help but wonder if, with the help of Big Mac sitting on all that dosh, the Tempus Two brand won't be bought from McGuigan Simeon, which also makes one wonder if a name change wouldn't be beneficial for McGuigan Simeon. Whatever Mr Dale is doing, it's pleasing the market. As the six month chart shows, shares dropped from around \$2.50 to below \$2 but are now sitting at closer to \$4 a share.

## 8. Pernod Ricard posts healthy results

Global drinks company Pernod Ricard, owner of Orlando Wyndham, has announced its first half results:

Net sales €3,507 million (A\$5,865 million), an increase of 7.3 percent  
Organic growth was 9.7 percent

Volume and organic growth of strategic brands			
H1 2007	Variation in volume	Volume organic growth	Net sales organic growth
Chivas regal	1%	1%	3%
Ballantine's	11%	22%	29%
Ricard	1%	1%	1%
Martell	17%	17%	25%
Malibu	4%	10%	15%
Kahlua	5%	12%	20%
Jameson	11%	11%	18%
Beefeater	5%	13%	23%
Stolichnaya	25%	29%	32%
Havana Club	14%	14%	11%
The Glenlivet	17%	17%	19%
Jacob's Creek	0%	0%	-3%
Mumm	3%	3%	6%
Perrier Jouet	26%	25%	43%
Montana	11%	11%	13%
<b>15 Strategic brands</b>	<b>7%</b>	<b>9%</b>	<b>14%</b>

\*\* Volume organic growth from August to December for AD brands

Sprits led the way with organic growth of 12.5 percent. Unfortunately, wines were down 1.1 percent, with Jacobs Creek showing a drop of 3 percent – see chart of the 15 strategic brands for other individual performance figures.

Sales figures from various world sectors:

Asia/Rest of World: € 980 million (up 11.3 percent)

Americas: € 984 million (up 10.0percent)

Europe: € 1,175 million (up 3.4 percent)

France: € 368 million (up 3.2 percent)

It was noted that 'Italy and the UK remained difficult'. The good figures have led to a review of the full year (2006/2007) sales figures organic growth put 'in excess of 6 percent'.

Overall, they are very good figures. Debt reduction remains a priority for the company, as does increased sales of brands owned, but no doubt they will keep an eye on acquisitions. However, one has to wonder if any wine company would be of interest.

## Views and opinions

### 9. Better Water Bottle? I bet they're not

Last week TKR ran an article on Datamonitor's top ten innovations from around the world in 2006, which included Hardy Wine Co's 'Shuttle'. The top ten also included this:

'Better Water Drinking Water Filter with Corn-Based Bottle. Enter the Better Water bottle, a 16.5 oz. (0.5 litre) bottle made with corn that has its own built-in filter. The filter removes chlorine and allows consumers to use municipal tap water. Each bottle can be refilled and reused up to 90 times. And since the bottle is made from corn, not petroleum, it is 100 percent renewable. The product is sold in the USA.'

Journalist **Felicity Carter** sent in this observation. 'Allow me to jump to conclusions and suggest that corn water bottles probably aren't as good as they sound. I suspect they're made from subsidised American corn, one of the worst crops on the planet, whose cultivation soaks up vast amounts of petroleum. Probably more honest and less wasteful

just to pour the petroleum straight into plastic manufacture, without degrading soil along the way.

'Having said that, they're probably fabulously benign, artisanal urns that will plough money back into the third world. But I bet they're not.'

### **10. On the Bench**

There is a part of me that would love to be organised and have all my tasting notes from the past 30 years on file and be able to cross reference...but it's not really me – I'm just not that analytical. I taste, comment and move on. I've drunk some beauties but that's history, and I hope to drink more in the future (and that's optimistic), but at the moment it's what's in the glass in front of me that's of interest. Which is what prompted the 'love to be organised' comment, because ranges from both wineries on taste have been very good indeed. More importantly, both, going by memory (those lost notes again), have shown consistent improvement over the past two to three years.

First up is a trio from **Hanging Rock Vineyard**, simply called 'Rock'. As far as I recall they have always been of an acceptable standard. Launched as an on-premise only product in 1998, their popularity has grown and the brand is now one of the company's biggest retail wines. This latest trio made me sit up and take notice. Retail price is a very reasonable \$10 to \$12.

**Rock Chardonnay 2006:** 'An Unwooded style made for immediate, easy drinking with delicious fresh stone fruit and nutty flavours.' That's what it says on the back label and that is exactly what it is. Damn good is my only added comment on the wine, and an extra tick for a non-bullshit description.

**Rock Rosé 2006:** Yes, yep, I can go with this. A little slow to start but comes alive in the middle with a thump. Plenty of flavour, part savoury, and finishes clean if a little short on length.

**Rock Shiraz Blend 2004:** Pinot Noir, Malbec and Grenache fill the 45 percent space after Shiraz. It has the most intriguing nose, so incredibly fresh. Part fruit with blueberry and blackberry, and part floral, like a big bunch of fresh cut flowers. It's light but far from weak, and extremely pleasant to drink.

I remember tasting some **Rutherglen Estates** wines a couple or three years ago. They were OK. I also remember tasting more later on. 'These are getting better' was my thought. The 'Red 2005' they put out last year was outstanding and was reviewed positively by just about everybody.

The latest batch of six wines just blew me away. 'These wines are improving way out of proportion to the rest of the region; I just have to meet the winemaker,' was my impression.

The whole Rutherglen Estates set up is only just over a decade old. It was established in the golden era when many outsiders and a good few insiders of the Australian wine industry thought a crock of gold was to be found at the end of every row of vines. Let's not linger on the follies of the past and tax break vineyards etc. Being a phylloxera zone, grapes cannot be transported and so processing began, and their own brand was

established. At this time there was also a belief that another crock of gold was awaiting exporters of Australian wine in the UK. This could have had something to do with UK importer/distributor Bottle Green having a stake in Rutherglen Estates. However, how much gold is in those crocks is not the subject of this article.

Discarding crocks (which as we know can be full of anything), it's the golden decisions made by someone at Rutherglen Estates that will lead to golden coins. First the varieties planted: along with the ubiquitous Shiraz and Cabernet Sauvignon, regional specialty Muscat and Tokay, there is Durif, Sangiovese, Nebbiolo, Grenache, Zinfandel, Mourvedre, Viognier, Roussanne and Arneis.

The second golden decision was the appointment of Nicole Esdaile as winemaker. Ms Esdaile falls into that better-than-competent bracket. She's very talented, and puts factor X into the wine. She told me she was more a white wine maker – perhaps that accounts for the fact that the reds she makes are lighter than expected from the region. Sure, they have richness and depth of flavour but they also have an elegance and underlying suppleness. It's well toned muscle, not just beefcake. She also comes across as happy in her job and environment, admitting she gets a free hand in the making of the wines.

Whilst in Rutherglen, Ms Esdaile showed me some reserve wines due for release later in the year. I will review them when they are released but they are all what reserve wines should be – a few steps above the standard range.

Grape contracts established in the 90s are running out and in today's environment are unlikely to be renewed. If they are, it will be more to the producer's advantage than the growers. The viticulture at Rutherglen Estates is first rate and it seems probable that fruit will still be bought, even out of contract. If the current investors take a long term view, all appears to be set for a successful and golden future. They actually have what a lot only say they have – 'a range of wines punching above their weight'. Don't get greedy guys and look after Nicole Esdaile.

**Rutherglen Estates 'The Alliance' 2006:** A 70/30 Marsanne/Viognier blend. Another good nose, tighter than the straight Viognier and not as long, but very clean and enjoyable. Plenty of zippy acid underpinning fresh fruit flavours with just a small amount of complexity lifting it above its peers. Around \$15.

**Rutherglen Estates Marsanne 2006:** 'This wine will cellar for up to five years with no problem at all' say the notes and I would think they are right, although at this stage I wouldn't predict much further. Flavours are rather muted at the moment and require a little concentration to pull them to the fore. I think another six months will see this wine more together.

**Rutherglen Estates Viognier 2006:** Fragrant nose that has persistence but not intensity – it pleases without dominating. Weight in the mouth is spot on. Tasting this wine is like having a lazy stretch – it slowly unfolds. Good finish and long on aftertaste. Around \$20.

**Rutherglen Estates Nebbiolo 2005:** Oh, I did like this. Italian varieties impress me more and more; I couldn't work out if it had plum top notes underscored by more savoury flavours or the other way round. It revolved on its journey - dry, fine grained tannin and nips of acid helping it on its way. Unbelievable value at \$18.

**Rutherglen Estates Shiraz 2005:** So much good Shiraz around at the moment. If a UK or US buyer can't find one or six then they're in need of a white stick and a dog. This has a classic, spicy nose that continues on the palate. It is a biggie at 14.5 percent alcohol but carries it well because it is so finely toned. Alcohol has to be in proportion – a five foot tall bloke carrying 100 kilos is fat, a six foot guy carrying the same weight is not. Great balance of spice and fruit in the mouth and a long lingering finish. Also around \$18.

**Rutherglen Estates Durif 2005:** Definitely a wine of many parts and very complex. I just feel at the moment the flavours are separated. Its journey across the palate drifts from time to time, but in six months or so it will mold into a seamless line of pleasure.