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Identifying the Main Economic Issues Facing the South Australian Wine Industry

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Director's Note

Welcome to the twenty seventh issue of *Economic Issues*, a series published by the South Australian Centre for Economic Studies as part of its Corporate Membership Program. The scope of Economic Issues is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within the scope, the intention is to focus on key issues – public policy issues, economic trends, economic events – and present an authoritative, expert analysis which contributes to both public understanding and public debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

The author of this paper is Dr Nicola Chandler (formerly, Senior Research Economist at the South Australian Centre for Economic Studies) and now Visiting Research Fellow, Wine Economics Research Centre, School of Economics, University of Adelaide.

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The paper is, however, prepared totally independently of government agencies. The views expressed in the report are the views of the author.

Michael O'Neil
Executive Director
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April 2010

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Acknowledgements

The author interviewed several people who work in the wine industry in winemaking and marketing. They provided their views on the factors explaining the success of the Australian wine industry in general and the South Australian wine industry in particular; the issues that they consider most significant; problems pervading the wine industry; and some possible solutions. Speaking directly to industry means that some of the arguments and references are anecdotal. However, they make good points that a statistical analysis might miss. The opinions are put forward as they were put to the author and we extend our thanks to those interviewed, especially the following:

- Mark Conroy, National Marketing Manager, Pirramimma, McLaren Vale
- Matthew Copping, winemaker, Haselgrove Wines, McLaren Vale
- Simon Parker, winemaker, Haselgrove Wines, McLaren Vale

Contacted for their comments and ideas:

- Stuart Bourne, winemaker, Barossa Valley Estate, Barossa;
- Steven Knight, Stewarts Wine Company, Brisbane, Queensland.

Identifying the Main Economic Issues Facing the South Australian Wine Industry

Overview

South Australia is the country's largest grape grower, wine producer and wine exporter and has held this position for many decades. Wine exports are now the third largest export earner for the State. It is an important industry not only for the reasons above, but that the industry contributes to employment in manufacturing, research, development and technical innovation.

This paper commences with a 'look back' to 1938 to highlight some cyclical patterns across the wine industry. Current challenges – most notably those resulting from over-production and a decline in product prices – were evident in 1924/25, in the mid-1950s and mid-1980s and each time the industry has rebounded stronger than before. The lessons include that prices are the natural correction mechanism, that global fluctuations will continue to occur, but that the high standard of the product and marketing have contributed to the strengths of the industry.

In response to recent challenges, interviewees recognised the importance of research into all facets of the industry; research that demonstrated good practice in adapting to climate change; adapting to higher temperatures and water issues; research into understanding global trends and change in consumer preferences and continuing to develop a framework for the industry such as the GI system.

> The industry has a strong vested interest in investing in research to prepare and adapt to change due to climate change and water issues, as well as consumer preferences and global trends. However, ultimately the wine industry has been, is, and has the potential to continue long into the future to be, the source of great pride and prosperity for this State.

This paper considers the views and opinions of those in the wine industry, combines these insights with an historical perspective and data/trends on the wine industry to identify the main economic issues facing the wine industry in South Australia.

Introduction

South Australia is the country's largest grape-grower, wine producer and wine exporter and has held this position for many decades. Early last century, South Australia was referred to as the "Vineyard of the Empire". The data in Box 1 are quoted from South Australia's newspaper, *The Mail*, 6 August 1938, and illustrate the dominance of the State's wine industry over seven decades ago.

... 1938 re-visited ...

The 1938 vintage was "an all-time record for the State", but serious concerns voiced at that time are echoed in discussions today. "The [Australian] vintage this year apparently established a record because of the increase in the production of wine in South Australia" and "fears have been expressed about what the immediate future has in store for the wine industry, especially at next year's vintage, if the climatic conditions are favorable [*sic*]". The article states, "production has overtaken consumption" with the quantity of wine in storage increasing by 58.5 million litres during the preceding eight-year period.

Box 1 South Australian Wine Industry: 1938

Growth in Australian total wine exports, last 12 years (per cent)	365.9
South Australia's share of the Australian total (per cent):	
Wine production	74.5
Wine exports	>90.0
Vineyard area	45.6

Many Australians will remember the most recent serious wine glut of the early 1980s which resulted in the infamous (and contentious) vine pull scheme, whereby the government paid growers $2,500 per hectare to pull out vines. The 1938 article makes reference to over-production "14 years ago", i.e., in 1924/25. There were also notable wine gluts in the 1911 to 1915 period and in the late 1950s to early 1960s.

The cyclical patterns observed in production and prices, with these recurring wine gluts, usually accompanied by lower prices, are common to most agricultural activities, due to relatively long production lags. In the case of wine, production lags typically last several years from the planting of vines until the vines produce fruit that enters vintage.

This repeated cyclic pattern is as prevalent now as it was in 1938, when it was attributed on the supply side to "the planting of new areas with wine grapes, despite all warnings, together with more or less favorable seasons", while on the demand side, "the production of wine in Australia continues to increase without new or expanding markets being found for the surplus over local consumption". The 1938 article states, "various methods of meeting the situation and stabilising the industry have been put forward, but the position is a difficult one". Once again, these issues ring true today.

In introducing this paper about the economic challenges facing the South Australian wine industry in 2010, it is important to appreciate the parallels (and differences) to the industry in recent history. The parallels are clear – the wine industry in South Australia today continues to be integral to the State's economy, landscape and identity, and it again faces challenges relating to fundamental supply-side and demand-side issues. Differences arise from the ever-changing nature of the market for wine both overseas and domestically, caused by trends in consumer preferences, industry structure, economic factors, government intervention, and developments relating to the nature of the product itself. Where there is a clear market imbalance, it is important that this be allowed to be corrected. Ongoing adaptation, industry cooperation, support from government (not necessarily financial) and a clear industry strategy together provide the key to survival and success.

Overview

South Australia a leader in wine production and exports ...

The wine industry is a key sector in the Australian economy, accounting for $2.48 billion in export earnings in 2008/09, after peaking at $2.88 billion in 2006/07.[1] South Australia has the largest wine industry in the country, at 44.1 per cent of Australia's wine production in 2008/09 and 63.5 per cent of exports (in value terms). The State earned $1.57 billion from wine exports in 2008/09, after peaking at $1.85 billion in 2007/08.

The wine sector has grown strongly since the 1980s with record production levels in both South Australia and Australia-wide in the 2003/04 to 2005/06 period before falling back sharply in 2006/07 as shown in Table 4. Production levels have been recovering in subsequent vintages.

These statistics reflect a successful period for the South Australian and national wine sector in terms of economic growth. However, even before the onset of the Global Financial Crisis, wine industry stakeholders expressed concern about industry viability, over-production, how to market their product both in Australia and overseas, and how best for the industry to go forward given the interests of the growers, wineries and consumers. This paper focuses on the experiences and concerns of a number of industry stakeholders consulted during the preparation of this paper, providing a local flavour and an insight into the views of those closest to the issues. It is a purely bottom-up approach, collating input from individuals and drawing it together as a reflection of industry sentiment.

In this *Economic Issues* paper, the objective is to understand from people working in the wine industry what they consider to be the South Australian wine sector's main areas of strength to date and going forward, and what they believe to be the main challenges ahead. The author consulted directly with industry stakeholders along the value chain, including winemakers, winery managers, wine marketers, wine retailers and wine educators. This paper presents their views and

concerns and what they consider could be done within the industry, where training may be required, and what is the most appropriate approach for industry organisations. Wine industry data are sourced primarily from the Australian Wine and Brandy Corporation (AWBC) website, particularly the 'Winefacts' section.

The first point to note about those consulted is that many of these people cross the boundaries between industry categories. For example, many winemakers are involved in marketing wine, many marketers also work in retail establishments, and many wine educators are also (or have been) winemakers or wine marketers (i.e. they wear more than one hat).

In discussing the developments in the wine sector, with a focus on South Australia, a number of factors came to light which were considered to have contributed to the sector's successful economic performance to date. We identify the key sustaining strengths of the sector and the main challenges that are likely to affect performance in the future.

The paper does not cover all factors affecting the wine sector, but it does address those factors which are forefront in the minds of the stakeholders consulted. It is interesting to note that the interviews came across as 'one voice', with no real points of difference in opinions about what South Australia and Australia as a whole has done right and where the problems have arisen. Even suggestions for the way forward concur. It also came across that the State has great pride in its wine industry and is able and willing to adapt to improve and survive.

The wine industry in Australia and in South Australia

Overview of South Australian wine sector

... marketing South Australia through marketing our wine product ...

The wine industry is an important sector in Australia, and more so in South Australia, where it is a subject of great pride as well as contributing significantly to State earnings and employment. The product is one of the key factors that has made South Australia known globally, and it is also important in attracting visitors to the State, further contributing to the State economy.

In order to understand the issues facing the South Australian wine industry, it is necessary to set the scene in terms of the sectoral performance to date, the main influences on the development of the industry and also to understand the reasons why the sector has evolved in the ways that it has.

The South Australian wine industry has grown rapidly in recent years, and has become more and more significant to the South Australian economy. This section shows the recent history of the South Australian wine sector, in light of the national position in the world league in terms of production and exports, and in comparison to developments in other states and territories, in terms of production, numbers of wine producers, earnings and employment.

Table 1 shows a summary of key statistics of the South Australian wine industry and the changes during recent years,[2] demonstrating the meteoric rise of the State's wine industry in every aspect. South Australian wine grape production grew by 52.1 per cent during the period 1998/1999 to 2008/09, peaking even higher in the mid-2000s, as shown in Table 5. Red grape production dominated this growth, increasing by 72.7 per cent during this time, while white grape production increased by 27.9 per cent. Wine production in the State increased between 1998/99 and 2008/09 by 27.2 per cent, peaking in 2003/04 as shown in Table 6.[3]

An additional startling statistic is the soaring number of wine producers, up by over three times since 1984, and up by 191.9 per cent since 1997.

Table 1: Summary of key statistics of the South Australian wine industry, selected years

	1998/99 to 2008/09		Change (per cent)
South Australian wine grape production			52.1
Red grapes			72.72
White grapes			27.9
South Australian gross wine production			27.2
South Australian number of wineries	1984	2008	315.8
	1997	2008	173.4

Source: Winefacts, AWBC.

The following sections put the South Australian figures into context with respect to the Australian performance and that of other states and territories, before returning to look more closely at the South Australian experience and consider the main challenges now facing the industry.

Australian wine industry

... closing in on Argentina...

The size of the Australian wine industry relative to the rest of world between 1995 and 2005 is shown in Table 2. The dominance of France and Italy was most apparent in 1995, with these two countries accounting for 44.0 per cent of the world total. Australia produced 503 million litres, which equated to 2.0 per cent of world production. However, during the subsequent decade, wine production in the traditionally dominant countries stagnated and their global share fell back, while the production of several other countries increased significantly, to raise global production by 11.0 per cent. Expansions were most notable in Australia, Spain, Chile and China. Australian wine production almost tripled, reaching 1.43 billion litres in 2005, taking it to sixth position in the world table, with 5.1 per cent of the world's wine production.

Table 2: Top ten wine producing countries in 2005, production 1995, 2000 and 2005

	Wine production (million litres)			Share of global total (per cent)		
	1995	**2000**	**2005**	**1995**	**2000**	**2005**
France	5,560	5,977	5,470	21.9	20.7	19.4
Italy	5,620	5,409	4,907	22.1	18.8	17.4
Spain	2,104	4,179	3,330	8.3	14.5	11.8
USA	1,867	2,660	2,546	7.4	9.2	9.0
Argentina	1,644	1,254	1,520	6.5	4.4	5.4
Australia	**503**	**859**	**1,434**	**2.0**	**3.0**	**5.1**
South Africa	845	837	905	3.3	2.9	3.2
Germany	836	1,008	898	3.3	3.5	3.2
Chile	317	667	805	1.2	2.3	2.9
China	396	534	731	1.6	1.9	2.6
Total	25,400	28,811	28,199			

Source: Winefacts, AWBC, their source The Global Wine Statistical Compendium, 1961-2005.

Production by State

... South Australia the dominant wine grape producer ...

The Australian grape crush by State is shown in Table 3 for the period 1997 to 2009. The table shows South Australia's position as the largest wine grape producer in the country, consistently accounting for more than 43 per cent of the total wine grape crush, and as much as 50 per cent in 2001. New South Wales (with the ACT) is second largest, followed by Victoria, and Western Australia in fourth place. Less than half of one per cent of the crush is carried out in Queensland, Tasmania and the Northern Territory so these are summed in the 'Other States' column.

Table 3: Australian wine grape crush by State, 1997 to 2009 ('000 tonnes)

Vintage	South Australia	NSW/ ACT	Victoria	Western Australia	Other States	Total	South Australia per cent
1997	389	265	125	18	2	799	48.7
1998	485	308	308	22	3	1,126	43.1
1999	516	385	190	32	4	1,127	45.8
2000	511	397	197	36	4	1,145	44.6
2001	716	430	217	56	6	1,425	50.2
2002	747	557	235	63	4	1,606	46.5
2003	647	475	211	60	6	1,399	46.2
2004	921	623	283	82	8	1,917	48.0
2005	911	645	285	77	7	1,925	47.3
2006	913	657	258	66	8	1,902	48.0
2007	605	488	230	69	5	1,397	43.3
2008	829	631	299	62	10	1,831	45.3
2009	751	647	269	59	6	1,732	43.4

Source: Winefacts, AWBC.

The Australian gross wine production figures for 1996/97 to 2008/09 are shown in Table 4. Again, South Australia's dominance is clear, consistently producing 44 per cent or more of the national total, followed by New South Wales (including the ACT) and Victoria as the second and third largest producing States, respectively.

Table 4: Australian gross wine production by state, 1996/97 to 2008/09 (million litres)

Year	South Australia	NSW/ ACT	Victoria	Western Australia	Other States	Total	South Australia per cent
1996/97	306,772	193,746	105,912	10,617	332	617,379	49.7
1997/98	383,589	220,386	123,823	12,722	1,027	741,547	51.7
1998/99	408,319	278,138	278,138	20,173	989	851,143	48.0
1999/00	400,777	295,849	139,267	22,200	1,074	859,166	46.6
2000/01	552,081	323,360	161,899	37,178	2,019	1,076,538	51.3
2001/02	588,697	411,829	179,043	39,118	1,686	1,220,372	48.2
2002/03	541,607	348,320	155,471	38,032	2,555	1,085,985	49.9
2003/04	733,683	456,976	221,589	55,678	3,211	1,471,228	49.9
2004/05	697,449	464,720	218,511	50,503	2,643	1,433,827	48.6
2005/06	724,160	481,745	177,053	43,124	3,707	1,429,788	50.6
2006/07	447,624	325,535	143,442	43,113	2,258	961,972	46.5
2007/08	572,870	428,336	196,003	42,658	4,909	1,244,776	46.0
2008/09	519,525	436,782	185,370	33,760	3,004	1,178,441	44.1

Source: Winefacts, AWBC.

South Australian production

Looking more closely at South Australia, recent wine grape production is shown in Table 5. Excluding the poorer year of 2006/07, wine grape production has grown strongly since the late 1990s, up by 79.3 per cent between 1998/99 and the peak year of 2005/06. The 2006/07 season saw crops decimated by harsh weather conditions including lack of rainfall and a windy spring (adversely affecting fruit set). Prior to the 2006/07 season, total production was expected to be around 900,000 tonnes, of which around 63 per cent was red grapes and 37 per cent white grapes. Levels recovered to over 800,000 tonnes in 2007/08 and were slightly down in 2008/09 at just under 750,000 tonnes, but nevertheless 50 per cent above the vintage a decade earlier.

Wine production in South Australia over a similar period is shown in Table 6. Prior to the 2006/07 drop in output, there had been more than a doubling of gross wine production since 1996/97, peaking at nearly 734 million litres in 2003/04 and reaching a similar level in 2005/06. As stated above, less than ideal weather conditions saw production drop in 2006/07, partially recover in 2007/08 and drop back partially in 2008/09 to around 520 million litres.

Table 5: South Australian wine grape production, 1998/99 to 2008/09 (tonnes)

	Red grapes	White grapes	Total
1998/99	264,988	226,634	491,621
1999/00	286,496	191,859	478,355
2000/01	445,112	224,887	669,999
2001/02	451,343	238,300	689,643
2002/03	408,669	203,428	612,097
2003/04	597,107	282,968	880,075
2004/05	545,182	310,856	856,038
2005/06	555,719	325,628	881,348
2006/07	332,158	251,182	583,340
2007/08	510,048	299,064	809,112
2008/09	457,632	289,959	747,591

Source: Winefacts, AWBC.

Table 6: South Australian gross wine production, 1996/97 to 2008/09 ('000 litres)

Year	'000 litres
1996/97	306,772
1997/98	383,589
1998/99	408,319
1999/00	400,777
2000/01	552,081
2001/02	588,697
2002/03	541,607
2003/04	733,683
2004/05	697,449
2005/06	724,160
2006/07	447,624
2007/08	572,870
2008/09	519,525

Source: Winefacts, AWBC.

South Australian wine exports

... South Australia the leading exporter ...

South Australia's wine exports earned $1.57 billion in 2008/09, making wine the third largest earner after metals and 'other/confidential commodities'. Since wine exports from Australia in total earned $2.48 billion in 2008/09, South Australia clearly dominated wine exports, accounting for 63.5 per cent of these earnings.

South Australian employment

The wine industry employed 10,759 people in South Australia in 2006, equivalent to 1.6 per cent of the State's total employment.[4] The wine industry employment categories are defined by the three ANZSIC codes as follows:

0114 – Grape growing	4,245	people employed
2183 – Wine manufacturing	6,511	people employed
2184 – Spirit manufacturing	3	people employed

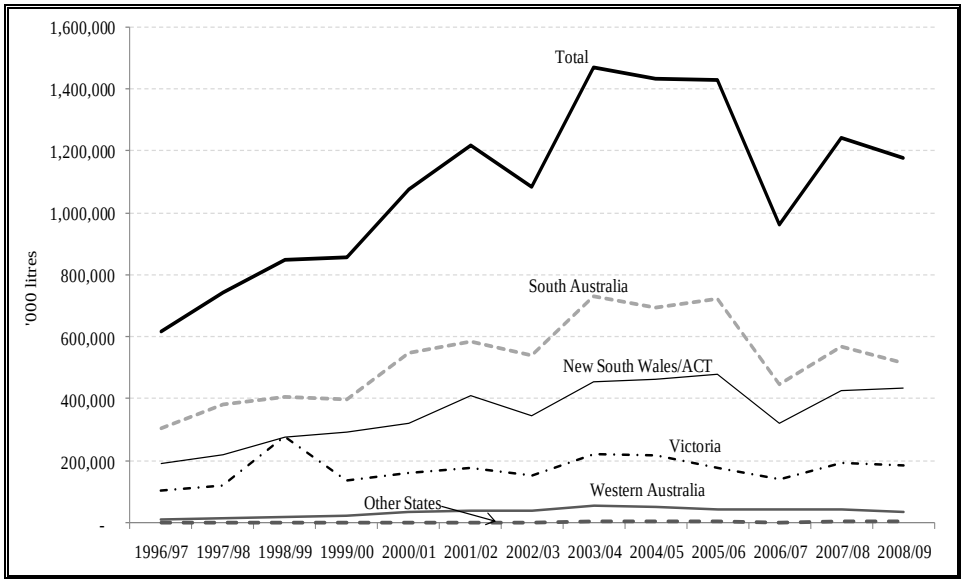
Wine and spirit manufacturing accounted for 60.5 per cent of total employment in the wine industry, while grape growing employed approximately 39.5 per cent of the total in 2006. In addition, the wine industry has knock-on employment requirements for people in the retail sector, hospitality, transport, marketing and other sectors. Anderson et al. (2009) found that South Australia accounted for 38.2 per cent of the nation's grape and wine employment in 2006.

The South Australian wine industry as a standout performer

As shown above, the South Australian wine industry has expanded strongly in recent years. It has also grown strongly compared to the wine sector in other Australian States/Territories. In particular, data are presented below to compare the level of wine production and the number of wine producers across the States.

Figure 1 clearly illustrates the dominance of South Australia across the whole period, and until the poor production year of 2006/07, it was also growing the most strongly, followed closely by New South Wales. Victoria remains the third largest producing state, showing a more subdued increase in production over the period. Western Australia's production has been growing strongly, albeit from a small base.

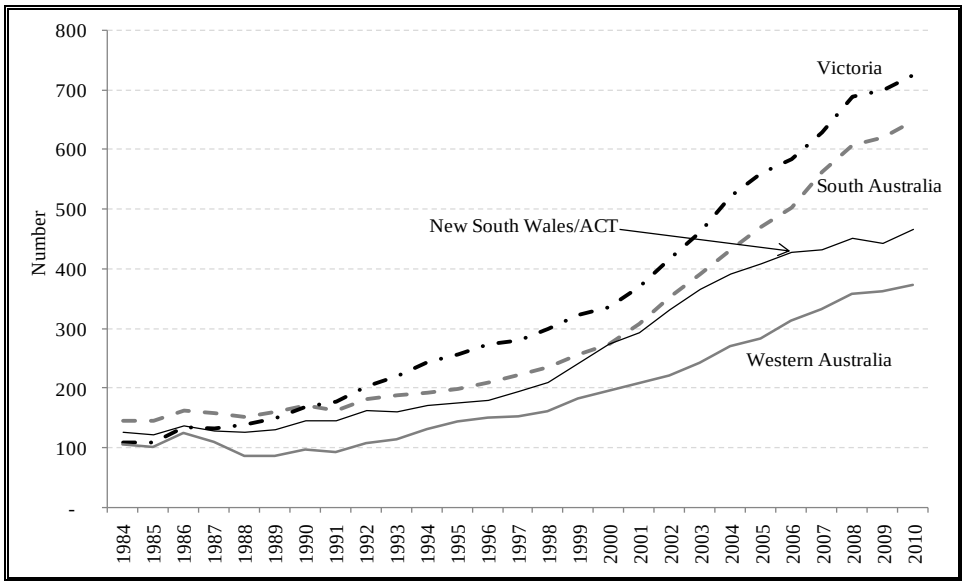
Figure 1: Gross wine production by state, 1996/97 to 2008/09 ('000 litres)



Source: Winebiz.

Figure 2 shows the number of wine producers by State between 1984 and 2010. The number of wine producers in South Australia more than quadrupled from 146 in 1984 to 648 in 2010, rising at a faster pace than in New South Wales/ACT and Western Australia and comparable with Victoria.

Figure 2: Number of wine producers in South Australia, Victoria, New South Wales/ACT and Western Australia, 1984 to 2008



Note: Number of wine producers exceeds number of wineries.
Source: Winebiz.

Determinants of the success of the wine sector to date

... determinants of success ...

Having illustrated the success of the South Australian wine sector in terms of production, exports and employment growth, the author interviewed various industry representatives, including winery managers, wine marketers, wine retailers and wine educators. The main subject areas resulting from these discussions may be classified under four headings: the product; marketing; the South Australia factor; and economics/history.

The product

The product refers to the wine being sold on the domestic and international market, and the high standard of wine made in South Australia may be largely explained by four key factors as follows:

- Good value alternatives – the points of difference on which South Australian wines have been marketed have mostly been providing value for money combined with desired flavour profiles for consumers. An example of providing value for money on the world stage is with the South Australian shiraz and grenache/shiraz/mourvèdre (GSM) blends, which are traditional southern French varietals and blends. The South Australian versions were cheaper than the Rhône alternatives and provided the richer, riper, sweeter and more approachable flavour profiles for consumers.

- Good winemaking – in South Australia, the Waite/Roseworthy campus and in New South Wales, the Charles Sturt University (Wagga Wagga campus and Orange campus) operate respected winemaking courses, attracting winemakers from all around the world and around Australia and New Zealand. This provides South Australia with a continual stream of qualified winemakers. There has been progress made in wine chemistry and in technology used. In vineyard management, growers can better influence the quality of the grapes before they are picked, with improvements in canopy management and trellising.
- Good vintages – the respondents agreed that while volumes have fluctuated between vintages, the quality of the wine has always been good. There were said to have been no 'bad' vintages since 1974, i.e., with wine that was not of good quality. 1974 was said to be the last bad year, where quality was adversely affected by downy mildew throughout the country. A related point is the fact that with South Australian wines, the climate dictates that there is no need for chaptalisation (adding sugar) as had been the case for some winemakers in Europe, since there is no difficulty in Australia with ripening of the grapes to provide sufficient sugar.
- Cleanliness – the respondents stated that South Australian wines were known for their cleanliness and absence of resultant wine faults, such as unwanted bacteria, unbalanced H_2S content in the wine, or Brettanomyces – a yeast often colloquially referred to as Bret, and commonly associated with 'dirty winemaking'.

Marketing

Marketing has been the key to Australia's success in selling its wine around the world. Forthright marketing of Australian wine dates from the 1800s, and more recently the Australian wine companies such as Rosemount, Lindemans, Black Marlin, Black Opal, Jacob's Creek and Yellowtail, opened the door to foreign markets. Assisting in this process was the good rapport with people in the English-speaking countries, reflected in the first big export markets being the United States and the United Kingdom.

As cited in the 1938 article, Australia sent most of its wine exports to the United Kingdom, and was the third largest wine exporter to the United Kingdom in 1938. At this time, significant government assistance in trade was provided both by the British and Australian governments. The British government provided Empire wines with preferential duty treatment, and the Australian government passed the Wine Bounty Act of 1924 and later bounty acts in the 1930s, which assisted in the export of wine. In addition, in 1932, the British government granted a margin of preference of 2s per gallon on Australian wines. This provides a clear example, of how the government has long played a pivotal role in the sale of Australian wine overseas. More recently the Australian Wine and Export Council (AWEC, a committee of the Australian Wine and Brandy Corporation [AWBC], since renamed the Marketing Development

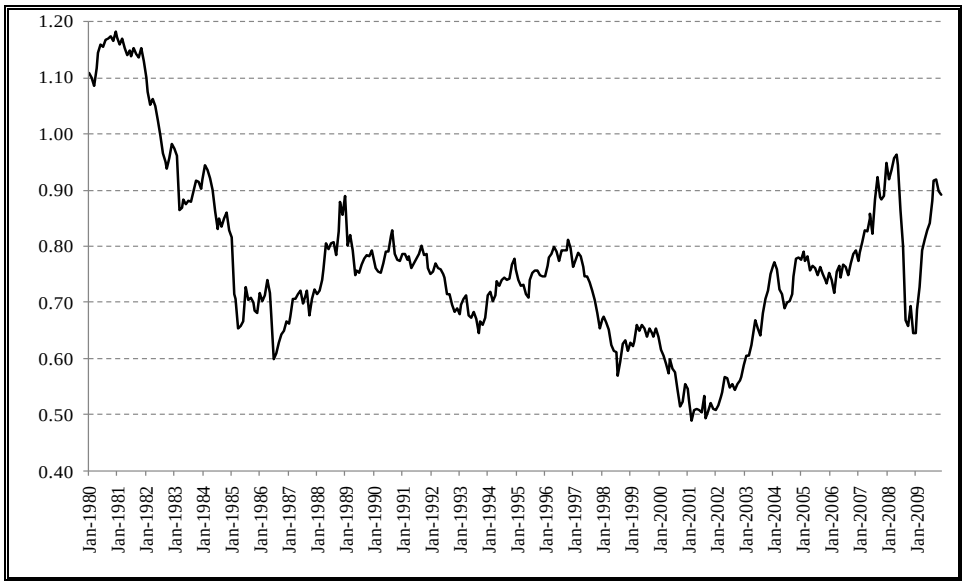
department of the AWBC) has played an important role in promoting and marketing Australian wines around the world.

It was also seen by the interviewees as a positive factor for the Australian wine producers that the wine labels were made very simple to understand, with the wine region and grape variety very clearly marked, compared to many of the European products, such as the French wines, which not all consumers in Europe could easily decipher.

... the critter trend and impact on exports ...

An important development during the early part of this century, as illustrated in Figure 3, was when the Australian dollar fell to around 50 cents to the US dollar, which helped in making Australian wines relatively cheap on international markets. This helped to start what is known colloquially as the 'critter trend', referring to wine labels with animals (critters) on them. These wines tended to be made with fruit from the broadacre irrigation areas such as the Riverland, Sunraysia, Murrumbidgee Irrigation Area and Riverina, and made in a soft, sweet, ripe, fleshy and approachable style, helped by the content of residual sugar in the wine. The critter trend certainly helped to open up global markets to Australian wines, but there was concern among respondents that these brands did damage with regard to the reputation of the quality and pricing of Australian wine.

Figure 3: Australian dollar/US dollar exchange rate, January 1980 to January 2010, monthly data



Source: www.rba.gov.au

... marketing the quality of our wines ...

Assistance in the global market at the upper end of the market came from wine critics, when they started to award high praise to Australian wines including many South Australian wines. Referred to by one respondent as the 'real' wine boom, Australian wine became more widely known in the 1990s when the wine critic Robert Parker started to award Australian shiraz from the Barossa and McLaren Vale over 95 points (out of a maximum 100 points).[5] There were also good write-ups overseas by well-known critics including Robert Parker and Jancis Robinson, and the

wine magazines such as Decanter and Wine Spectator. The world wine industry began recognising South Australian wine, and Australian wine in general, not just as cheap and user-friendly but also that there were good quality wines at the 'top end' of the market.

Another key to the ongoing success of Australian wine producers has been their responsiveness to the consumer, i.e., aiming to produce what people want to buy. For example, Australian chardonnay in the late 1980s and early 1990s had a reputation for being over-oaked, 'big', 'fat' and 'over-blown'. This turned consumers away from Australian chardonnay towards other white wines, and the winemakers have since responded by reducing the amount of oak and adjusting the winemaking techniques, so that very few chardonnays produced in Australia now would match such a description, and those that do are meeting the demand from those consumers who still prefer this style.

Also related to marketing, all respondents stressed the importance of investment in relationships. They believed that the consumer the world over wants to think he can "press the flesh" of the winery owner, the winemaker and their family, to feel close to the whole operation and in so doing feel an affinity to the product. Promotion of the wine is key and with this, relationships are formed whereby people feel close to the product. In this way, wine marketing is distinct from many other products. Respondents stressed the personal nature of the markets. As discussed below, the extent to which that some larger corporate entities take a less personalised approach was a key concern of interviewees.

Finally, and more recently, establishing Geographical Indications (GIs) – an official description of Australian wine zones, regions or sub-regions – means that distinct regions are starting to be recognised in Australia. For example, growers in Eden Valley in the Barossa region used to export their wine as Barossa wine. They are now putting Eden Valley on their labels for export. The GIs help to provide a further point of difference.

The South Australia factor

The general attitude around South Australia is that the wine industry is integral to the State's infrastructure, earns a significant proportion of the State's income, and has been a key player throughout the State's history, already established as the "Vineyard of the Empire" in the 1930s. There is a concentration of people in the industry, in Adelaide and in the rural areas, with knowledge in all aspects of grape-growing, winemaking and wine marketing. In addition there are established and respected educational facilities at the University of Adelaide Waite Campus and Roseworthy Campus. These facilities attract people from interstate and internationally, which results in there being an abundance of good winemakers in the State.

In the State's retail and restaurant sector, staff are being educated about wines. Many wine retail employees are, or have been, winemakers or wine marketers and so tend to be knowledgeable about the product and the market. Some shops specifically employ fine wine experts.[6]

There is also a prevalence of fine dining expertise, which helps to educate the consumer. For example, James Erskine, who recently left employment at the central Adelaide restaurant of Augé, was National Sommelier of the Year in 2009. (There is however no sommelier course available in Adelaide.)

... supportive infrastructure strengthening our reputation ...

There are training facilities in Adelaide in hospitality, including the International College of Hotel Management (ICHM), which is the Asia-Pacific campus of the world-renowned Swiss Hotel Association (SHA). Students have access to the best hospitality training facilities in Australia. ICHM is the only facility outside Europe that offers the highly prestigious Swiss Hotel Association Diploma. The ICHM Bachelor Degree of International Hotel Management is listed on the National Office of Overseas Skills Recognition register, and provides the additional skills and knowledge for professional management careers in hotel, hospitality, tourism and related fields.

The other key training organisation in Adelaide is Le Cordon Bleu Australia, which also has bases in Sydney and Melbourne. Started in Paris in 1895, Le Cordon Bleu is "dedicated to culinary, hospitality and tourism education", as stated on their website. Le Cordon Bleu Australia educates more than 2,000 people per annum. In Adelaide, courses offered include: Bachelor of Business (International Hotel Management): Bachelor of Business (International Restaurant Management); Master of Business Administration (International Hotel and Restaurant Management); and Master of International Hospitality Management.

Furthermore, the South Australian public are an integral part of 'the South Australia factor' in that they are relatively well educated about wine, and tend not to be 'afraid' of wine. South Australian consumers are generally prepared to experiment with different brands and styles of wines.

Economics/history

Australian wine production was significantly impacted by the *Strategy 2025* document, published by the Australian wine sector in 1996 which had as a key target for Australian wine to achieve annual sales of $4.5 billion by the year 2025. Tax breaks for a range of managed investment schemes were of relevance to a number of enterprises including the wine sector – the interviewees informed the author that regional bodies in Australia were invited to present a clear plan to the government who then supported additional plantings with tax breaks. This led to investment opportunities and an influx of funds from other sectors, and a boom in plantings. In fact the annual sales target was surpassed in 2005. The *Strategy 2025* was superseded by *Wine Australia: Directions to 2025*, published in May 2007, with the emphasis on "sustainable success".

During the late 1990s and early 2000s, with the marketing push in Europe and America, and favourable wine critic appraisals helping with the product's reputation, world-wide recognition of Australian wine, combined with the low value of the Australian dollar against the US

dollar in the early 2000s (as illustrated in Figure 3) all supported a surge in Australian wine exports. This in turn stimulated a massive increase in vine plantings, and in huge expansion in fruit production from broadacre irrigation areas, particularly Riverina, Sunraysia, Murrumbidgee Irrigation Area and the Riverland. Thus, the strength of the global economy and the weak Australian dollar contributed to the ability of the Australian wine industry in expanding so rapidly into these markets.

The consumption of wine during the 1980s, 1990s and 2000s has been generally increasing globally as it has changed in perception as being a product for the select few, to being a product that everyone can enjoy. The falling prices of many wines (particularly, but not exclusively, the lower quality wines) have assisted in the wider consumption by people from all socioeconomic groups. This trend has certainly been a factor in Australia's success in penetrating markets and increasing sales domestically.

These factors, both global and national, created an ideal economic backdrop for the South Australian wine sector to expand rapidly.

Sustaining strengths of the South Australian wine sector

The statistics presented above attest to the growth and sustaining strength of the South Australian wine sector. The factors explaining this enduring performance are summarised here, and there is necessarily an overlap between the factors explaining this endurance and its expansion in the first place.

The product

The basis of the State's continued success as a wine producer and exporter is the product itself, as discussed above. Respondents agreed that South Australia produces a wide range of good quality wine, sold at prices accessible to the full spectrum of consumers. One respondent said that an enduring strength has been over-delivery of product for the price. Furthermore, the responsiveness of the winemakers to adapting winemaking techniques to suit consumer preferences has helped to preserve market share and product loyalty.

Following on from section entitled 'The product', South Australia boasts excellent educational facilities, attracting and producing good winemakers to the area. The interviewees also agreed that there been no bad vintages in terms of wine quality since 1974 (while there will have been some variation in quality, all vintages produced generally 'good quality' wines) – although volumes have varied widely due to weather conditions. The cleanliness of the wine is also an ongoing point of difference for Australian wines.

Continuity of style has assisted in South Australia establishing a reputation for its wines and for the regions. The Barossa, McLaren Vale, Clare, Coonawarra, Adelaide Hills and more are all GIs. Certain varieties are known around Australia and around the world to be particularly good from certain regions, for example, Barossa and McLaren Vale are known globally for high quality shiraz. There is a lot of potential in this zoning system, and in the promotion of the zones and their associated qualities, as discussed in section entitled 'Challenges/issues'.

... local specialisation and reputation; global exports ...

There was the widely held belief among respondents that South Australian producers had concentrated production on the 'right' grape varieties, suiting the area and consumer preferences, particularly referring to shiraz and grenache-based wines. One of the enduring strengths has also been the flexibility of the State to grow several different varieties – although with this came a note of caution – with regional identity becoming more important, and with certain varieties becoming associated with certain regions, there was concern that producers should be careful not to produce too many varieties across all regions, but to focus on the strengths of each region – such as excellent riesling from Clare and Eden Valley, sauvignon blanc from the Adelaide Hills, cabernet sauvignon from Coonawarra, and shiraz from Barossa and McLaren Vale. This regional specialisation on varietals has been shown to be happening throughout Australia, and this extent of regional and varietal specialisation is measured for the first time in Anderson (2009). There are shown to be clear patterns of geographical grape production reflecting regional strengths/terroir. Promotion of the regional varietals is discussed later.

The respondents talked about the advanced technology being used in Australian wineries and in packaging. It was generally agreed that ongoing improvements in technology have not necessarily helped make a larger volume of wine overall, but rather to make the wine more quickly, raise quality and to reduce costs by reducing labour input and spoilage. A downside of this was believed that technology in the wine industry has had a downward impact on employment in the sector.

... innovation and excellence in engineering ...

Contributing to the ongoing cleanliness and quality of Australian wines is the technology involved in winemaking, storage and packaging. There is a strong emphasis on keeping equipment clean and ensuring that wines are treated to avoid spoilage from bacteria. In terms of the packaging, a generally positive development in the Australian wine market has been the widespread adoption of screw caps (also known as Stelvin) in response to an unacceptably high failure rate of cork which has become evident world-wide. The failure varies according to the person asked, but anywhere between 5 per cent and 10 per cent is generally agreed to be the average failure rate. The most common failure is due to the formation of trichloroanisole (TCA) as compounds in the wine react with the cork – the result is that the wine is ruined. There may also be contaminants in the cork causing spoilage for other reasons, or the cork may not provide a full seal, allowing oxidation, leaking, and variable

ageing of wines from the same batch. The adoption of screw caps has solved most of these issues, but there has been resistance by many winemakers around the world, and some will still not accept this change. In addition to the screw caps, TCA-resistant corks have allowed producers to keep using corks, with the spoilage rate greatly reduced. The most well-known is the DIAM cork, a closure manufactured from cork and treated to eradicate TCA.

Australia has also taken a leading role in wine packaging, inventing the cask or soft pack (also known as the 'bag in a box') in the 1970s to sell wine in larger quantities, typically two, three or four litre casks.

Also meeting specific customer preferences, some of the State's most successful wines are made using older facilities, such as the use of a basket press, and advertise it on their labels.[7] Some wines are bottled unfiltered and usually say this on labels, and this can be seen as an indication of quality, as flavour compounds are not filtered out.

Finally, confirmation of ongoing quality of the product comes from the wine show system – wine shows around Australia and globally, in which South Australian wine consistently performs well.

Marketing

Retail and fine dining expertise is ongoing and helps educate consumers. As stated above, the South Australian public is relatively well educated in terms of wine and open to trying new styles, varieties and products.

South Australian wine has performed well in the wine show system, which suggests that the sector is 'doing it right'. South Australian winemakers send their wines to the main five shows in Australia – in Adelaide, Brisbane, Perth, Sydney and Melbourne. This feeds into the marketing of the wines, which respondents believed contributes to the attractiveness of the wine to consumers, when they know a wine has won awards, or see wine show medal stickers on bottles. It was believed to be more influential to consumers in Australia than in other countries consuming Australian wine, such as the US and the UK.

Challenges/issues

This section presents the major challenges facing the Australian wine sector and in particular the South Australian wine sector, as the country's largest wine-producing State. While the issues and challenges are numerous, it is possible to group these concerns under four main headings: the global economy; climate; marketing and the product; and the market structure.

Global economy

The global financial crisis has resulted in there being immense financial pressure on South Australia's key export markets, particularly the United States and Europe (principally the United Kingdom). Total Australian

... export challenge in a global economy

exports of wine have fallen sharply, both in terms of unit value and total volume – AWBC figures (Source: ABC News, 11 May 2009) have the total export value in the year ending April 2009 down by 14 per cent on the previous year. The United Kingdom accounted for more than half of the fall. There has been an increase in lower priced bulk wine sales but a sharp fall in higher priced wine sales. The average price dropped 15 per cent to just $3.30 per litre. Put into context, during the 1998/1999 to 2002/03 period, export sales averaged over $4.50 a litre. By comparison, New Zealand average export prices are almost double the Australian average, estimated at NZ$7.90 (A$6.31) a litre for 2009, which was down by 12 per cent on the previous year (source: Sydney Morning Herald, 30 July 2009).

In addition the strong Australian dollar during 2008 and 2009 and into 2010, particularly against the US dollar and UK pound, is adversely impacting on overseas sales, as well as making imported wine relatively cheaper. As stated at the start of this paper, Australia's export earnings from wine fell from $2.88 billion in 2006/07 to $2.48 billion in 2008/09.

In the statement to the wine industry by the WFA, the AWBC, Wine Grape Growers' Australia (WGGA) and the Grape and Wine Research Development Corporation (GWRDC) entitled *Wine industry must confront the reality of oversupply* (November 2009), it was stated that on global markets on the supply side:

> Australia is producing 20-40 million cases a year more than it is selling – roughly equivalent to total sales to our second largest export market, the UK. Our surplus already exceeds 100 million cases and at current rates of production and demand this will more than double in two years.

Furthermore, on the demand side:

> Australia's wine exports have fallen by 8 million cases and 21 per cent in value since their peak in October 2007. The decline has been greatest for higher value exports, and where there has been growth at lower price points it frequently has been unprofitable and thus unsustainable.
>
> The global financial crisis has not helped, but it is far from the only factor; a strong dollar and our industry's cost competitiveness have been more significant.

An important point raised in the statement to the industry was with regard to the profitability of wineries and vineyards due to "high-grade cost structures", which hamper the cost competitiveness of Australia's wines on world markets. In addressing the problem, the overarching recommendation is that: "Some may need to leave the industry; others may need to change what they produce and how they do it."[8]

There are however some important growth areas in demand for Australian wine, particularly China, Hong Kong and Japan, providing opportunities for Australian wine exporters.

Climate

For any agricultural product, the climate is key to its performance. For wine and viticulture, the main impacts from climate change were considered by interviewees to be from impacts on water supply and temperature.

Anderson et al. (2008) present the range of challenges facing the Australian wine industry resulting from climate change and the range of options open to the industry to adapt. With around two thirds of Australia's wine being exported, the challenges and responses must be considered within a global context. For example, as Anderson et al. (2008) state, "global retailers are already requesting details and reporting of industry strategy with respect to climate change".

Looking first at the water issue, Webb (2006) looked at the impact of greenhouse gas-induced changes in hydrological balance in a range of viticultural areas. Webb used an aridity index as an indicator of water demand for viticulture and found that the aridity index is expected to increase in all regions by 2030 and 2050, with the Hunter Valley being the only region where there was a possibility of decreased aridity. For South Australia, there was one message – the viticultural areas will become drier.

... water, climate change ... the role of research and innovation ...

In South Australia, the interviewees believed that the situation regarding water availability and security of water supply varies widely across the State. Some regions are facing serious challenges in managing their viticulture as well as other agricultural sectors, as each year brings periods of drought and there are competing demands on the water stocks. The Barossa Valley is one such region and some producers are looking at changing crop varieties to adjust to changing water conditions. Other areas may be less adversely affected, such as the McLaren Vale region which is currently sustainable due to its use of reclaimed water, if the wine industry retains its call on the reclaimed water – this is not guaranteed. However, McLaren Vale faces power shortages, for example, during the March 2009 heatwave, respondents reported that the power supply was repeatedly turned off for whole days at a time which meant that irrigation drippers could not work, thus affecting the water supply to the grapes. Other regions may become more important wine-producing regions because of the water situation, such as the Adelaide Hills and Fleurieu Peninsula which are less adversely affected by heatwaves and water shortages.

With regard to the temperature, it is now generally accepted that the planet is in a process of global warming. It is the changes in temperature that will have the most influence on grapevines (Anderson et al., 2008). The main influences are on the timing of growth and reproduction cycles, and on the ripening and biochemistry of the berries. For example, an increase in temperature will quicken the ripening of the grapes, and bring forward the harvest time into a warmer part of the season. This has knock-on effects for winery logistics in processing the grapes and in impact on grape quality as picking has to occur during warmer periods,

as well as the shortened ripening period impacting on grape quality. Furthermore, the impact of rising temperatures is evident in the upward trend in alcohol content (averaging 1 per cent per decade) and an increasing concentration in residual sugars in Australian red wines, as reported by Godden and Gishen (2005).

The 2008 vintage provided a natural experiment of how wineries would cope in South Australia as high March temperatures in cooler parts of the State brought forward harvest dates and there was a surge in demand for labour and machinery. This impacted on winery operations and quality suffered.

In addition, the forecast increased volatility in temperature may increase the frequency of extremely hot days. (GWRDC is currently funding a study by the South Australian Research and Development Institute and collaborators into this issue.)

With changes in temperature and water availability, there are other impacts on proliferance of disease and pests, on grape yield and quality, on soil structure and salinity, and so on, all of which need to be researched. As Anderson et al. (2008) state, "These investments in R&D have to be prioritised and that in itself is a research project of interest."

The interviewees said that there is no way to guard against heatwaves and drought, but there are strategies that can be employed such as adapting canopy management and watering methods. It is feasible that in years to come, cool climate areas may become warm climate areas, such as the Eden Valley. Similarly, warm climate areas like the Barossa Valley may become hot climates. This may require strategies to include planting different grape varieties which can cope with higher temperatures and reduced or no irrigation, such as Italian and Spanish grape varieties to suit warmer zones. It may be that grapes are grown in cooler parts of the State and at higher altitudes. There are a range of options for adaptation at the regional level, within regions, at the winery, in the vineyard and the vine itself.

Marketing and the product

As discussed above, the nature of the wine product itself and the marketing of that product have been central to the growth and the sustained success of the South Australian wine sector. These two key areas encompass a number of issues and challenges if the South Australian wine industry is to continue to prosper.

The standard of winemaking is given as one of the factors contributing to the success of the wine sector to date, but this is not without caveats. The respondents said that while the South Australian wine consumer probably thinks that we have the best winemaking methods and facilities in the world, the trend towards the more technical, clinical winemakers is combined with a lack of passion for the product. There was a call for the return of traditional winemaking, and to move away from the "chemical winemakers". Furthermore, the approach to winemaking was said to be

focused on wine for immediate or almost immediate consumption and for winning medals, rather than for longevity. There was the view that wines made currently are mostly not made to keep long term and this was seen as a sad loss to the industry.

... understanding trends in consumer preferences to further develop markets ...

Related to the previous point, there was also a strong belief that South Australia needs to be more concerned about the styles of wine it is producing and take greater notice of global trends in styles and demand for those styles. For example, many consumers are growing tired of the higher alcohol, ripe, fleshy, oaked, 'big' wines, and turning to the more elegant wines produced by other countries. This is reflected in the increasing quantities of imported wines. The biggest growth in Australia now is in imported wines, particularly from Italy, France and Argentina, and these wines are often competitive on price. The challenge is to adapt styles to suit future preferences, for example, to move to cool style shiraz away from the large ripe, high alcohol shirazes that are currently a common sight in wine shops in Australia. Examples of switches in style preferences include the growth in the popularity of New Zealand sauvignon blanc at the expense of the Australian chardonnay market. Sauvignon blanc was reported to have overtaken chardonnay in March 2009 as the top selling bottled white variety in Australia, for which New Zealand accounted for about 70 per cent.[9] The increase in purchases of New Zealand sauvignon blanc is having a significant impact on the demand for Australian chardonnay to the point where growers of Australian chardonnay grapes in the 2009/2010 vintage were being offered less than the cost of growing the grapes.

Pinot gris is widely expected to be the next grape to be embraced and sparkling wine is also a growth sector in Australia and offshore. With the red wines, the lighter Italian-style reds are expected to take a growing share of the market and South Australia is already seeing increased plantings in these varieties, such as sangiovese and barbera.

Other future challenges facing Australian winemakers are to keep abreast of trends in consumer preferences for biodynamic wines, organic wines and those associated with pristine environments. Another key market opportunity exists for low alcohol and for de-alcoholised wine. For example, the United Kingdom market is seeing strong demand for these low alcohol or non-alcoholic wines.

The marketing of any product is always a challenge and this is true for wine. There have been marketing campaigns for Australian wine which have been good for some players but bad for others. One success story mentioned by several respondents was that of one winery giving away a free magnum with a dozen of their wines. This offer worked well for the winery and attracted consumer loyalty but the knock-on effect was that people started to associate the varietal being promoted with that one winery and if they did not like it they stayed away from that grape altogether.

The respondents cited a number of advertising campaigns that had helped some and hindered others, including the cheap high volume promotions that have given Australian wine across the board the perception of being cheap. It was agreed that the 'critter' labels had done damage with regard to the reputation of Australian wine and there had possibly been a knock-on effect with the wine critics being less in favour of Australian wines than they had been, due to the reputation having been sullied by large volumes of cheap Australian wine.

Continuity was seen as an issue with some marketing promotions. People in marketing roles may want to make their mark on a company and therefore set about changing images and labels and creating promotions. However, marketing personnel tend to move relatively frequently between companies and may therefore not stay around long enough to see the success (or otherwise) of their promotions.

Consumer perception is the key to marketing and in the competitive global market for wine, South Australian producers need to emphasise their points of difference, whether these are style, variety, or having a story to tell about the wines. While the wine market is also highly price sensitive, consumer perception is the key challenge for wine marketers. Related to this is the concern that the Australian wine market is currently too fragmented in its approach to selling both domestically and abroad. For example, while Australia has established the GI system and it is becoming known in Australia, it is not as well appreciated overseas. However, its development is being undermined when most wines sold overseas display 'South-east Australia' on the label as the wine area, which allows companies to buy grapes from almost anywhere they want to make their wines. There is no defined region or GI of South-east Australia. The challenge is to promote Australian wines with points of difference, not solely resorting to low prices and high volumes, and to change the perception of Australian wine overseas.

As well as promoting the GI system overseas so that the wine regions of Australia become better known (and in particular, the specialist wine regions in South Australia), there is further potential in sub-zoning of GIs. The established zoning and sub-zoning in 'Old World' producing countries such as France and Italy, and more recent trends in New World producers such as the sub-zoning of the Napa Valley wine region in California, point to a trend and opportunities in South Australia. Sub-zoning could occur in the wine regions of South Australia such as the Barossa, the Clare Valley, McLaren Vale and the Adelaide Hills, where this process has potential and has started in some areas. For example in the Clare Valley, there is already differentiation between Polish Hill, Watervale, Prospect Hill and Mintaro, and this could be made official and promoted as part of sub-zoning in the GI system.

Challenges arise from the wine show system which it was said "can put you on the map or kill you off". The impact of show medals on wine bottles varies widely between destination countries. For example, it was believed to have far greater impact on consumers in China than those in

Australia or New Zealand, and was believed to be least influential in the United Kingdom and the United States.

On the domestic market, there are challenges for wineries regarding the face it gives to the consumer. It was widely agreed among the respondents that resources should be put into training personnel to be knowledgeable about the product and to "work the consumer". In South Australia, the cellar door is a very important tool, which can be a key component of any winery's marketing strategy. It is the touchstone of the winery and with more and more people visiting cellar doors, its importance is not to be underrated.

An additional marketing challenge is coming from the online marketing companies who are taking a large and growing share of sales.

There are potential external impacts on the wine industry coming from the anti-alcohol lobby and potentially affecting the tax structure. An emerging and ongoing marketing issue which presents some challenges to the South Australian wine sector is the impact of the anti-alcohol lobby affecting people's perceptions and preferences for wines. In addition, the potential of increased wine-related taxes may adversely affect the domestic and international markets.

Market structure

The market structure of the wine industry throughout Australia was a recurring area of concern for the interviewees. The wine industry mostly consisted of family-owned businesses until the mid-1970s, when corporates and multinationals started buying brands. Interviewees thought in some cases that the corporates had been more interested in buying than promoting, and had treated brands as being dispensable. However, they did not expect any more takeovers to happen for many years.

... a role for "the big, the medium and the small"

According to the respondents, the larger companies had had some positive and some negative influence on the South Australian wine sector. They said that the larger companies would sometimes "give these wines a beer face", i.e. aim simply to sell large quantities by heavily discounting and aggressively marketing. People get to know the bulk names and this can build consumer loyalty but also builds in an expectation of the brand as being a cheap, high volume product. There was also recognition that larger companies had opened up markets to Australian wines in general, paving the way for smaller organisations to compete.

The sustaining strengths cited for the South Australian wine sector included family-owned businesses keeping in touch with their client base, and building relationships and bonds. The respondents lamented the move away from this and said there was the need to return to the values of relationships and goodwill being built up from grassroots level. It was widely believed that there are two concurrent wine markets in Australia – the commodity wines market and the 'fine wine' market – the size of the

company was not necessarily indicative of the marketing approach, with both large and small enterprises belonging to both categories. With the fine wine market there was said to be more association with marketing in the traditional way, i.e., here is our story and this is why our wine is good.

The advent of the corporates has also impacted on the distribution of wine around Australia to the consumer. Growing volumes of product are competing for fewer distribution channels because of corporate takeovers and independent bases shrinking due to amalgamation and consolidation. With large companies such as Coles and Woolworths buying up independent liquor outlets, the retail chain has narrowed, some said by up to 60 per cent. This has had, and continues to have, a significant effect on the smaller producer who has fewer outlet options.

Furthermore, there was concern about liquor licensing laws in South Australia in particular, making it extremely difficult for newcomers to obtain a retail liquor licence. One observation was that the large organisations such as Coles and Woolworths can submit objections to applications for outlets and have an influence on applications being approved, thus limiting competition in this area.

... oversupply and the path to equilibrium ...

A major challenge currently facing the South Australian wine sector, despite drought and other climactic factors affecting production in recent years, is an oversupply of grapes, with a lot of wine not having been sold. In early 2010, some wineries still had wine sitting in tanks from the 2004, 2005 and 2006 vintages and with a shortage of buyers for it, it may not be bottled. While the oversupply of wine will be at least partially corrected by the water supply problem in the longer term, it is widely believed in the industry that something more drastic needs to be done to bring the industry supply and demand more into line.

In the statement to industry in November 2009 by the WFA, AWBC, GWWA and GWRDC, the oversupply was to the tune of more than a fifth of vines:

> at least 20 per cent of bearing vines in Australia are surplus to requirements, with few long-term prospects. On cost of production alone, at least 17 per cent of vineyard capacity is uneconomic.

The key to the solution as put forward in the statement was to restructure and to focus on the market requirements:

> The industry must restructure both to reduce capacity and to change its product mix to focus on sales that earn viable margins. Bailouts are not an option and neither governments nor industry bodies should be expected to provide the answers; tough, informed decisions must be made by individual growers and wineries, from as early as the 2010 vintage.
>
> The problems are national – although some regions are more adversely affected – and are not restricted to specific varieties or price points.

A further complication adding to the Australia's oversupply of wine is the appearance of wine on the domestic market that would previously have been sold on the export market. Those Australian wineries which had relied on exports and previously had no 'face' in Australia, and are experiencing problems exporting their wine, are now looking for distributors in Australia. If this includes some high quality South Australian wine, as believed by the interviewees, this may lead them to offer this high quality wine at relatively low prices, which will have knock-on effects on the prices of other wines on the market.

Recommendations/suggestions

... challenges, ideas and recommendations ...

The interviews with industry representatives highlighted the main areas of success of the South Australian wine sector, and there were strong views put forward about the areas in which the main challenges lie. This section provides a number of recommendations supplied by the respondents to maintain the success and to respond to, or anticipate, challenges to the sector's sustainability, some of which are targeted at the national level, some more so at the state level. (The following are the views of the respondents and not necessarily the views or recommendations of the author.)

It should also be noted that the Wine Restructuring Action Agenda addresses many of the issues and recommendations presented in this paper. The recommendations are not detailed here, but can be found at www.wfa.org.au.

Climate and water

The Commonwealth and state governments need to look into research and funding to prepare for changes brought about by climate change and water issues:

- Climate change – growers can respond to changes in temperature and water availability resulting from climate change with a range of strategies such as alternative canopy management, trellising and water usage, which would need funding and education and maybe training. Also constructive would be support for research into adjusting the mix of grape varieties, root stocks, yeast varieties, dealing with the ongoing threats from pests and diseases, and so on to adapt to the changing circumstances.
- Water – research is required to look at economic issues facing growers and winemakers. This might include modelling water supply going out say to 2030 and 2050, and the expected demand for water by industry, residential consumers and specifically growers and winemakers. As well as water availability, there is also the need to understand the causes and effects of drought and saline water usage on soil structure and salinity of soil. Research should address what will be the situation in each major area – Coonawarra, McLaren Vale, Riverland, Barossa, Clare, Adelaide Hills, etc. and on a state-wide scale, to see where assistance may be appropriate – for example, will reclaimed water always be

sufficient for the McLaren Vale growers and winemakers? A related issue requiring further research is what are the long-term power problems and what can be done to safeguard the wine industry?

Dealing with oversupply

- It was recommended that the industry and government work together to plan how to deal with oversupply of grapes and wine "without damaging the industry". There have been rumours of the government considering a vine pull scheme like they did in the early 1980s when growers were paid $2,500 per hectare to pull out vines – respondents said that while this addressed oversupply, it did mean that some rare and irreplaceable vines were pulled out too. Furthermore, the 1980s scheme was followed quickly by a shortage. The respondents recommended that the industry research the possibilities and to explicitly choose to allow the market to correct itself.

Marketing

The image of Australian wine overseas and domestically must be addressed and the GI system promoted:

- State and local management of targeted promotion is vital to educate both international and domestic markets about the GI system, and the strengths of Australian wines.
- Both international and domestic markets need to be educated about the Australian GIs – what varieties, blends and styles are good and from where. This includes further promotion of the regions, and coordination of promotion at the regional and national level, such as through regional road shows, providing a collective image, as opposed to disparate promotion providing inconsistent messages to the consumer. Designing a plan for each area would assist individual wineries and give them a platform to promote the family-owned businesses. There is opportunity to build on wineries with this kind of image and approach (i.e. family-owned businesses). Many existing good quality brands could become stronger icons for South Australia to present to the world. It was believed that this should be a key area and primary target for research, consultation and policy development.
- Commodity wine sellers were believed to have contributed to downgrading the image of Australian wine overseas, giving it an image of being cheap, fruity, bulk wine, often by dropping the price. This can undermine efforts to promote GIs and to promote the quality wines and different styles and varieties according to GIs. By contrast, other distributors promote wines by showing the awards it has won or relating the family history or promoting it as a good wine, maybe helping the promotion with a small price drop but not using the price as the main attraction. The promotion activities of these companies promoting the commodity wine sales

were considered to be detrimental to the wine industry domestically. This is an industry issue.

- There was support for targeted promotions to growth markets like China, Hong Kong and Japan, as well as reviewing the style and approach to promotion in established markets such as the UK and US. These are the key routes to increasing or maintaining volume, but also to maximise the unit value of sales, to improve the profitability of the wine sector.

Distribution networks

- A significant problem voiced by many wineries over the years is the limitation on the number and range of outlets that they can sell through. This is in part due to the prevalence of corporates in the retail and hotel sector, but also a lack of hotels and restaurants taking their wines. In addition, the number of independent wine shops has shrunk dramatically and are now the exception rather than the norm. This issue may be tackled as part of an industry tourism, holiday destination and regional strategy, possibly with government support. Wineries would then have more access to markets and more opportunity to come into contact with consumers, bringing education and familiarity with their brands. This requires further research.

New technologies

- The wine industry needs to embrace technological changes while retaining traditional methods where appropriate. The South Australian wine industry has been successful in keeping up with technological advances, but the interviewees considered that there has been too much of a move away from traditional winemaking methods. The solution may be consultation with industry to see how they think the industry should head before considering any strategies.

Wine education

- Establishing a sommelier course in Adelaide would fill a gap that would enhance the fine wine and fine dining expertise and reputation of Adelaide and the State generally. It may then have knock-on effects in establishments providing these kinds of services, adding to the attraction for visitors to the region, enriching the education of the South Australian people and visitors, and increasing the range and number of outlets for South Australian wine – including opening up more channels for the finer South Australian wines, not only the cheaper wines. This would help support the family winery as well as the corporates, and the wines may be judged primarily on merit rather than the emphasis being on price.

- It was suggested that the training of people in the wine and food industry in Adelaide could be developed further so that expertise becomes more widespread in the South Australian hospitality sector.

Continue in the same vein

South Australia's wine sector is established, successful, and has ongoing expertise and comparative advantage in a number of areas. Part of the challenge for the State's wine sector is to continue in the same vein to retain these advantages, as follows.

- The wine industry must continue to understand that consumer preference and perception is key in the wine industry. Trends need to be understood and seen as an opportunity. This was currently considered to be the case and the South Australian wine industry does adapt. It is important to encourage information flows and coordinated responses and projects to implement responses to changing markets. Future demand growth will be in cooler climate wine styles, possibly in the Italian varieties like sangiovese, barbera, nebbiolo and pinot gris/pinot grigio.
- There is no need to aim to build market share – domestically there is an oversupply of production already, and internationally, earnings would be limited by simply increasing market share with the way the market for Australian wine is currently. Part of the answer is to promote Australian wine as a quality product, differentiating varieties, styles and regions, with the GI system as the central building block. Meanwhile there is value in the commodity wine sector which accounts for the lion's share of Australian wine sales and is highly successful for South Australia. How these two markets interact is an industry issue but there is certainly a place for both and there is already a history of success in both markets.
- Continue to support wine educational facilities in South Australia.
- Keep using the show system to the industry's best advantage.

In summary

It is clear that the South Australian wine industry today is of great significance to the State and to the nation and is well placed to retain this status. So it comes as no surprise that the interviewees agreed that a number of aspects of the approach of the State's wine industry should continue in the same vein – a recommendation of no change where the approach was seen to be working well.

Key recommendations for change revolved around responses to climate change, water issues, the global economy, over-production, marketing and the industry market structure.

... so what's new? ...

While focusing on the challenges facing the South Australian wine industry today and into the future, it is pertinent to reflect on the familiarity of some of the experiences and sentiments faced in past decades in this State. Clearly, some of the challenges are recurring – and are likely to be the focus of future papers for decades to come – while others are peculiar to the day. The current problems resulting from over-production and reduced product prices have been seen on a regular basis for as long as wine has been produced in this State. As stated above, the 1938 article refers to the 1924/25 surplus, and the same problem was revisited 20 years after the article was written, lasting into the mid-1960s, and again 20 years later. With regard to the same concerns today, it is important for all parties involved to understand that this is in some ways an unavoidable pattern, and it will recur in the future. Similarly, the fluctuations in the global economy will continue to occur in future.

Where lessons can be learned is how producers, consumers and governments react. Prices act as a natural correction mechanism, curbing wine production and impacting on grape-growers. The industry would benefit from a coordinated approach to adapt to changing conditions and to plan for the future.

... important role for research and planning ...

Climate change and water issues offer both substantial obstacles and opportunities, which could see some in the industry prosper while others may struggle or leave. The government may have a pivotal role in commissioning and supporting research and implementing the policies and actions to guide the industry through these challenges.

The issues around marketing and market structure will develop partly in simply adjusting to changing conditions and partly in response by the industry to steer developments according to agreed industry sentiment.

Two common themes for the interviewees were firstly that industry organisations have a role in assisting with research and in setting some frameworks for the industry, such as extending and promoting the GI system, and secondly that the industry needs to take a more cooperative, planned and organised approach while retaining the diversity, individuality and broad product reach that exists today. The industry has a strong vested interest in investing in research to prepare and adapt to change due to climate change and water issues, as well as consumer preferences and global trends. However, ultimately the wine industry has been, is, and has the potential to continue long into the future to be, the source of great pride and prosperity for this State.

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End Notes

[1] ABS figures.

[2] Data are not presented for the exact same periods, but are based on data availability and are for roughly comparable periods. This is not a concern since figures in this table are for illustrative purposes only.

[3] Wine grape and wine production do not necessarily correspond closely as grapes may cross borders to be processed, both entering and leaving the State. Also wine production is based on previous stocks of grapes, grape juice and wine in wineries being held and/or aged.

[4] ABS figures.

[5] Examples included Chris Ringland's Three Rivers and Torbreck's Runrig, both South Australian wines.

[6] Dan Murphy's chain and several independents including the Edinburgh Hotel, Melbourne Street Cellars and East End Cellars.

[7] For example, Rockford Wines in the Barossa produces a basket press shiraz.

[8] Detailed recommendations are provided in the Winemakers' Federation of Australia paper.

[9] *The Age*, 19 October 2009, www.theage.com.au.