

**THE WINSTON CHURCHILL MEMORIAL
TRUST OF AUSTRALIA**

Report by

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2002 CHURCHILL FELLOW

**THE CONTRACTUAL ARRANGEMENTS BETWEEN
GRAPEGROWERS AND WINERIES IN A GLOBAL CONTEXT**

INTRODUCTION

This report sets out my findings from visits made to wine grape growing areas in USA and Europe.

The main objective was to study the various forms of contracts between growers and winemakers in different countries and to see if there were any ideas which could be incorporated into future agreements which would benefit the “Wine Industry” in general. My trip was most enjoyable and without major mishap. I hope that the information in this report will vindicate the extraordinary amount of help I have received from the following:-

- The Winston Churchill Memorial Trust both for the financial assistance and the undoubted help its prestige reputation had on my ability to see the people and companies that were important for the success of the assignment.
- The individual growers and small winemakers as well as companies, both public and private who have been generous with their time and frank and honest with the information given – much of it confidential in a specific sense but made available for general information.
- Those Australians who helped with invaluable introductions to overseas contacts, especially:-

Brian Croser	Petaluma
Angus Kennedy	BRL Hardy
Terry Lee	E.J. Gallo, USA
Daryl Groom	Geysler Peak, USA
Brenton Fry	Negociants Australia
Peter Bright	Ehrmanns, UK
David Baverstock	Esporao, Portugal
Vic Patrick	Beringer Blass, Barossa
Robert Hesketh & James Herrick	Narbonne, France
Andrew Hamilton	A.H. Wines, UK
- The lawyers and accountants in private practice who dotted a few i’s and crossed a few t’s in helping me understand the complex nature of contracts!
- Qantas, British Rail (yes!), Eurail, TGV, BA, Hertz and all other “people movers” whose service was impeccable and timetables adhered to almost without blemish!
- Many relations and friends without whose generosity my hotel bills would have been astronomical!
- Last and not least my family, especially my wife Di, for their love and support and for “holding the fort” for nine long weeks.

EXECUTIVE SUMMARY

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FELLOWSHIP OBJECTIVE

To study and evaluate the contractual arrangements between grape growers and winemakers in a global context.

HIGHLIGHTS

Impossible to single out companies or individuals but see “Programme” for a full list of all my contacts. However, for the record some personal highlights.

BEST MEAL	Restaurant Buca Lapi, Florence, Italy
BEST WINE	Palacios Remondo 1999, Logrono, Rioja, Spain
BEST JOURNEY	Eurail, Barcelona – Milan
BEST STAY	Chateau de Loriol, Maçon, France
BEST BED	The one at the end of every day!

FINDINGS

There are huge differences between the European (old world) and the Australian/USA (new world) contract systems. Not surprisingly many of the differences are as a result of tradition and socio-economic factors. There is merit in both systems with some helpful and useful points that could be adopted in both camps should it be possible to persuade both that flexibilities and communication are essential to improve both systems.

DISSEMINATION OF FINDINGS

Articles in grape growing and winemaking publications will appear, in particular

Aust. Grapegrowers & Winemaker

Aust. & NZ Wine Industry Journal
Australian Viticulture
National Grapegrowers
Statutory Authorities – Wine & Brandy Corporation & Phylloxera Board etc.

Presentations to interested parties including
ANZ Seminar at Royal Farm Expo 2002 Adelaide Show
Grape grower regional groups

Discussions with individuals responsible for purchasing grapes for companies and growers.

RESEARCH & IMPLEMENTATION

There will be an ongoing commitment to follow all available leads to try and introduce and implement those ideas that will make new and existing contracts more transparent, workable, equitable, understandable and by no means at least sustainable for the future prosperity of Australia's wine industry.

Several initiatives are already underway with grower groups and major companies to introduce changes for the better.

PROGRAMME

My trip lasted just over eight weeks and covered eight countries. Owing to political unrest I did not visit South America. Listed below are the people and organisations I contacted.

USA – 2nd to 10th April

John Fisher	Fisher & Co.	San Francisco
David Hayman	Blacktone Co.	Graton
Bob Steinhauer	Beringer Blass	St. Helena
Vic Motto	Motto Kryla Fisher	St. Helena
Joe Phelps } Craig Williams }	Joseph Phelps Wines	St. Helena
Phil Bava	E.J. Gallo	Modesto
Andy Beckstoffer	Beckstoffer Vineyards	Rutherford
Mark Couchman	Silverado Vineyards	Napa
Frank Cabral	Trinchero	St. Helena
Frank Farella	Farella Braun & Martel	St. Helena
Rick Shoenstein	Allied Grape Growers	Healdsburg
Larry Brooks	L.M. Brooks	Napa
Joe Ciatti	Joseph Ciatti & Co	San Rafael

UK – 12th to 20th April

Chartwell } War Rooms }	Churchill sites
Family & friends	
Peter Dauthieu	Ehrmanns
Andrew Hamilton	A.H. Wines
Andrew Charney	German Wine Information Centre
Sophie Raggett	South African Wine Centre

FRANCE - 21st to 27th April and 13th to 19th May

Tim Bouffard	Bureau Ripert	Bordeaux
Sylvie Dulong	Dulong & Co.	Bordeaux
Thomas Drouineau	CVBG	Bordeaux
James Herrick	Wine Prophet	Narbonne
Stephane Kab	Giroud & Co.	Beaune
Olivier Leflaive	Leflaive	Puligny Montrachet

Franck Duboef	Georges Duboef & Co.	Romaneche – Thorins
Bernard Bichot	Albert Bichot & Co.	Beaune
Denis Fetzmann	Louis Latour	Beaune
Philippe Tolleret	Vins Skalli	Sete
CIVB		Bordeaux

SPAIN – 29th April to 1st May

Carmelo Bernedo	ARCO	Rioja
Tom Perry	Wine Exporters Group	Rioja
Luis Canellas	Torres	Penedes

PORTUGAL – 2nd to 5th May

David Guimaraens	Taylor's	Oporto
David Baverstock	Esparao	Lisbon
Peter Bright	Consultant	Estoril

ITALY – 6th to 9th May

Piero Antinori	Antinori	Florence
David Gaeta	Unione Italiana Vini	Milan
Quirico Delordi	Vinicola Delordi	Baluffi

GERMANY/SOUTH AFRICA

Nickolaus Schritz	Reh Kenderman	Germany
Linley Schulz	Distell	South Africa

LONDON WINE TRADE FAIR – 20th – 22nd May

Too numerous to mention!

REPORT AND FINDINGS

Before setting out I had no real idea of what I may find that may benefit the grape growing farmers and the wine making and marketing businesses. I have used the terms “farmers” and “marketing businesses” expressly as it is those groups who have totally different needs, expectations and importantly, risks within their operations. On the one hand the “agricultural risks associated with farming an annual crop that is highly perishable, a single use, and a very narrow window of harvest opportunity. In addition it cannot be stored or stockpiled unless transformed into wine. To quote one of my contacts “unless growers can find a way of not having a perishable product they will always be at the mercy of goodwill of wineries!”

On the other hand the winemaking/marketing companies have different but nevertheless onerous and important risks. Vintage and seasonal variations, inventory costs, capital growth costs and all other manufacturing, distribution and marketing risks “enjoyed” by all businesses! But in addition they have to endure the ever changing and fickle market place when consumers can change brand allegiance, style and varietal preference between the time the wine is made and matured prior to release.

From these rather simplistic observations it is not hard to see that growers need to maximise their returns to make their 30-50 year investment worthwhile and that wineries need to minimise their costs including and perhaps specifically their raw materials (grapes).

Not surprisingly this dilemma is common to all wine producing countries and is always bound to lead to adversarial and sometimes confrontational situations. But wherever I have been it is always the “market” that dictates the level of satisfaction between the two “sides”. Inevitably the oversupply of grapes will mean a price reduction and conversely an undersupply will lead to a ‘bidding war’ to secure the fruit. It is often said that it is not the growers “fault” that prices rise but that it only takes two wineries who both want the same grapes to drive prices to sometimes unsustainable levels.

It is because of these cyclic fluctuations in the market place that both growers and wineries have sought security by means of contracts, agreements or other “mechanisms”!

How it is tackled in other parts of the world can be roughly divided into the “New” and “Old” world.

It should be pointed out that in all countries there is a major difference between grapes grown for “commercial” products (jugs, casks, plastic or bulk) and those grown for “premium” bottled products. There is a market chasm between the two types. In the

last couple of years a third category has developed – the “luxury” and “icon” (I hate that word!) brands and vineyards.

THE NEW WORLD

The New World is still in the kindergarten of development. New plantings abound. New areas are being found and experimentation is rife – in viticulture, winemaking and branding. The effect of new plantings has led to a requirement by lending institutions to demand a contract to act as security for their risk. This in turn has required the involvement of lawyers which has inevitably led to a “legalistic” approach in drawing up a “bankable” document. Both growers and wineries have seized this opportunity to create a model that is well intentioned but only workable whilst there are “good times”. As soon as serious issues appear it is referred to lawyers and it becomes a litigious process.

Australia

Most growers and wineries have some form of contractual agreement and much is being made of the fact that those growers without contracts are “in trouble”. This is less evident in those areas producing “premium” grapes for branded products but a reality in “commercial” wine grape producing regions.

Although this report is mainly for the benefit of Australians it will be accessible for everyone with internet capability and therefore I will briefly outline the Australian contract systems.

Main Types of Contract in Australia

1. “Per Hectare” agreements
 These are usually for “luxury” brands where the winery wants to control yield/quality parameters. These are usually “old vine” blocks with proven history (minimal agricultural risk for winery). However, there are some new plantings in proven areas where wineries are prepared to enter into per hectare contracts at vine maturity (5th vintage) and a “district” price for the preceding 4 vintages. These contracts are also subject to C.P.I. annual increases and are typically very long term (10 years with “evergreen” options to the winery). When these types of contract work they are very beneficial to both parties.
2. “Variety/Price”
 These contracts are for a fixed period usually 5 years + 5 year option. They set out the actual “base” price per tonne for each variety for each year of the contract. They also have a built in bonus system for year and variety based on a wine quality grading. This style of contract has been mainly used for new developments when bank security has been needed. They have given price and term security with safeguards for the winery in terms of yield limits and quality levels before bonus application. The downside, of course, has been the market fluctuations and supply and demand pressures that have led to prices being higher in the contract than the “real” market. This style of contract is now rarely entered into because of these shortcomings.

3. “Market Price” contracts
As the name suggests the price per tonne is based on market price for an area and variety with a bonus structure. Bonuses may be paid on sugar levels, assessment of wine quality or “end use”. These contracts are usually for a term (5-8 years) or evergreen annual arrangements.
4. “End Use” contracts
Growers get paid according to the brand or label of the wineries product range. These prices are predetermined prior to each vintage. There is normally some sort of “safety net” base in the “premium” areas.
5. “Open ended” contract
Certainty of sale is guaranteed but price is negotiated each year prior to vintage taking all factors that affect the market into consideration.
6. “Vineyard Assessment” contracts
This is a contract that involves an assessment of the fruit 7 – 10 days prior to vintage. A price is set at the time accordingly. This system works well in situations where the winery has had considerable (say 5 years minimum) experience with the fruit.

There are many variations of all of the above systems and probably a considerable number of “handshake” and individualistic agreements, such as a set price for **all** varieties or a property for a fixed period. Of course there are also many types of lease and operated contracts.

Most of the contracts in Australia are drawn up by lawyers and consequently involve as many “contingency” clauses as they can dream up. Some of these include:-

- Force Majeure
- Sale of vineyard
- Termination
- Waiver
- Severance
- Interpretation
- Assignment etc. etc.

In addition a large number of Quality Control Standards and penalties.

All of the legal issues are important but they have almost become the *raison d’être* of a contract, and do not really address the two major issues – certainty of sale and price.

U.S.A.

As one would expect the USA has a very capitalistic attitude to most primary produced products. If you grow grapes that don't have a market – you go broke! Simple, pragmatic, hard but realistic. The USA is the ultimate supply/demand model. As with other parts of the world there is a commodity contract/pricing structure based on supply/demand and a premium area system which is much more flexible and variable in accordance with individual and company parameters. The great advantage of the USA “system” is their access to statistical information regarding yields and prices within 4 months of the vintage. This information is gathered by the Californian Agricultural Stats. Service and gives detailed information on each region by variety and price as well as every delivery. Having early and accurate information allows planning with confidence for the next season with all interested parties in full possession of the real facts.

Contracts are very similar to those in Australia, with base prices based on the statistical information from the previous year with variations based on quality assessment by the winemakers. There is a great deal of discussion taking place as to the format of future contracts but in light of the oversupply situation the ball is firmly in the court of the winemakers. Much rhetoric is used to put forward ideas for the ideal contract! Some are suggesting a much more tight and rigid legal document in very explicit language with clearly defined inputs and explanations. This is the “zero tolerance” for mistakes approach and in theory overcomes the problems of “misunderstandings” within the English language of a verbal arrangement.

Many larger companies are moving towards a larger dependence of their own vineyards (75-80%) and away from growers. There seems to be a much more professional approach in California towards “brand” identification of grapes and only doing contracts (say for 3 years but “evergreen”) for “premium” grapes. There is a greater awareness in the USA of risk and reward and both winemakers and growers are beginning to realise the importance of having confidence in each other and that this requires a special relationship based on trust – “if you have no trust you have the wrong client”. There is awareness that to have a successful partnership it is necessary that each party has a better understanding of each other's business as well as needs and expectations. Growers tend not to put any store in “marketing” but it is marketing that sells bottles and that “nothing happens until something is sold and paid for”.

There is never going to be a model contract because each winery and grower are different. Some will be flexible, sophisticated, knowledgeable and well financed and able to absorb the good and bad cycles. But many growers need more protection as they have less in common with wineries, especially large corporations. A miss match may well tolerate each other until the tough times and then it is not going to be a piece of paper (contract) that will solve their problems. So a contract that is too tight from a legal point of view will not deal with the unanticipated “what if” events.

It has become a realisation that it is necessary for viticulture to be profitable and “turn the assets” (as opposed to inventory). If not their vineyards will surely become Housing Estates!

If I may paraphrase a leading lawyer in California specialising in wine grape contracts.

“There is no ideal contract – the best solution is a genuine joint venture or partnership to protect both parties from the inevitable cycles that occur. However, a contract should be short, simple and flexible and should cover the essential obligations and intentions of each party, but not get bogged down in too much detail. Overall there must be communication and a trusting relationship which gives a better understanding of the different businesses in which both parties are involved – for one is dependent upon the other for long term sustainable success.”

There is more emphasis being placed on objective measurement of grape quality for base price and a bonus for end use or wine assessment. There is also some discussion at the moment about a scheme that links retail price per bottle to price per tonne of grapes but this concept is only really aimed at the “luxury” end of the market.

The Americans, like others in the new world are struggling with the options to try and produce an equitable and sustainable contract. They have all types and this in itself is not a bad thing as it allows growers and wineries to explore every avenue before making a decision. The risks of agriculture have to carry the same opportunities as the risks of business, but growers have to understand why and what they are growing.

One leading American industry identity told me he thought there would be no major new contracts for the foreseeable future until the oversupply cycle changed. Grower relations with wineries will be the worst they have ever been in the US until they stabilise supply.

SUMMARY – USA

There are many similarities with Australia. There are no fundamental differences in the grape contract system. They have probably learnt as much from Australia as we can learn from them, however, they are taking a more “businesslike” approach to the problems in line with their litigious and capitalistic social structure. There are certainly some major problems looming with oversupply in the “commodity” areas (Central Valley), similar to our situation in the MIA and Riverland. They are adopting a fixed minimum price structure to sustain growers who have appropriate varieties and quality but as for the rest, probably their fruit will be downgraded to a point where it is not profitable and vineyards will be pulled out. In the premium/luxury areas traditional contracts – those based on “district average” plus bonus is still the preferred option. Nothing much is going to change in the short term.

EUROPE

As expected the commerce of grapes and wine is steeped in tradition with methods of supply, pricing and control having evolved over centuries. Each country I visited had small variations but relied to a large extent on a central theme – the Co-op winery. There is a slow emergence of different ways to handle grape supply but it still sits within the regulatory control of the regional areas and the co-op system which is itself changing to a more appropriate and professional way of handling quality issues. The recent advent of the Euro as a common currency is accelerating the change. In most European wine producing countries approximately 50-60% of wine is made in Co-ops. The wine produced was in the past bought by the “shippers” and “marketers” often called “negociants” who created their own brands for both domestic and export markets. However, many co-ops are now making wine and marketing it under their own brands in direct competition with the traditional “trade”. This has led to a situation where the negociant brand owners have to secure quality supply by other means – planting their own vineyards, creating a grower base or entering into contracts with co-ops to secure supply of quality wine. With the advent of the “varietal” wine phenomena and changing consumer attitudes all wine producers and growers have to change their strategies to remain viable. This consumer led shift in the market place has brought grower and marketer closer together and to realise that they need to co-operate and communicate better to achieve a common goal. Various contract mechanisms are starting to emerge to allow this to occur. Nowhere is this better illustrated than on the Iberian Peninsula and Italy. France has been less flexible and slower to realise that change was needed and despite many reports, notably the Berthoumeau Report, the French cling to the “old” systems. However, despite the lack of haste, they will remain a dominant player in world markets and perhaps find a solution within the rigidity of the A.C. system. It is beginning to happen already in Bordeaux where at least two major companies have built “wineries” and purchase grapes as they realise that they can have better control of quality and style required for their brands instead of relying on the “spot” market for finished wine through the bulk wine brokerage system.

FRANCE – BORDEAUX

As with other parts of Europe the rigid structure of reporting every transaction of bulk wine sales have led to a weekly “average price” per litre (expressed as a “per tonneau” – the local measurement (900 litres)). This moving price becomes the basis upon which all negotiations take place to establish current and future pricing. There is some variation depending on quality and volume but these variations are not great and by and large the “average” price is “the” price. In addition to this reporting system the average “costs” of running an hectare of vineyard are known for each region (appellation) and recorded by the “Gestion Agricole”. Hence a huge amount of

information is available to both growers and marketers upon which to base their business decisions.

In Bordeaux vintage variations are a major factor and prices can fluctuate considerably depending on whether the vintage is good or poor. Much is made of this perception by both the growers, negociants and administration (CIVB) to try and control supply and demand to reduce these fluctuations to a minimum. The new players are adopting a policy of viticulture “Raisonné” (rational, intelligent and supported by proof) to insist on a strict specification of vineyard operations which will, in their opinion, optimise the fruit quality for their end use. This benchmarking is the basis of an offer to purchase grapes at a premium (as high as 25%) over the average market. The performance of the grower is verified throughout the year and any deviation from the agreed specification is penalised. The contracts are usually for three years and for a fixed price. Payments are better than the co-operative system and can be spread over several months. These contracts are absolutely NOT based on wine quality but a strict adherence to the viticultural practice specifications. The rationale for this is that if the specifications have been followed it is not the growers fault if the wine quality is not up to expectations. Obviously in these circumstances site selection, age of vines, variety etc. is most important. In addition there is an obligation on the grower to insure against hail, frost etc. This reduces the “agricultural” risk factor. One company is able to tell its growers what the price will be six months before vintage based on the previous year’s performance. Growers are visited at least once a month to verify the performance in the vineyard and if they have been diligent in their work they will get their reward – “objective analysis at the weighbridge is TOO LATE.”

It is widely expected that these types of contractual arrangements will increase as the mechanisms of TRACEABILITY become more important to buyers and consumers.

FRANCE – LANGUEDOC

In the South of France there are really no grape sales (less than 10,000 tonnes). The administration and legislative systems are all based in Hectolitres of wine per Hectare – all taxes and commerce is based on that system so to sell grapes is all too hard! Even those grapes that are sold are still usually made into wine and it is the price of the wine which dictates the per tonne equivalent. The price the co-ops pay is usually the same for everybody so there is “peace in the village”! However, the co-op system tends to depress bulk wine prices, which in turn depresses grape prices. It is almost impossible to write contracts that reflect the changing face of the market, however, there is now emerging the “Per Hectare” contract similar in outcome to the system in Bordeaux but with more of a Mediterranean mentality! These new style of contracts are a very small percentage of the total commerce but it is the beginning of the realisation that to produce quality it must begin in the vineyard. The Per Hectare contract is normally for 3-5 years and a fixed price for the term of the contract. It includes “full technical” backup for the growers to assist them to carry out the obligatory procedures required by the company. There are also training sessions, study trips, tastings and a weekly technical report offered by the company. Some objective measurements are included in the specifications – sugar, acid pH and polyphenols and a minimum standard of 13% potential alcohol.

There is also an increasing amount of wine being made in the co-ops for buyer's own brands to specifications including specific vineyards. The co-op and thus the grower benefit from a better added value price structure.

There is no doubt that the wheels of change are turning very slowly in this region but it still has the potential to become a very competitive supplier when it takes heed of the market place, but any area that distils nearly 5.0 million hectolitres (500 million litres) of its production has a problem!

FRANCE – RHONE, BEAUJOLAIS, BURGUNDY, ARDECHE

Most of the commerce is dealt with by co-ops or small grower farmers who make their own wine. Almost all of the pricing is based on “average” district price with minor variations for “quality”. Some very well known brands still rely on the purchase (99%) of wine to satisfy their needs but there are some changes happening. For example, a need for credibility (of being a winemaker) is required. By building a winery consumers can be exposed to a real production that legitimises the brand. In addition some growers who have experienced difficulties in the making process can bring grapes to a central location for processing. This is a win/win situation and moves these companies closer to the new world model. The larger companies arrange contracts with growers through the co-op – so the co-op structure is maintained but there can be specifications introduced to the growers who will be monitored by representatives from the co-op, grower representative and company rep. The report is formalised for the growers to make sure they adhere to the specified requirements, but again the pricing is based on the “average” plus bonus (up to approximately 10-15%).

Some companies have a parity pricing formula that basically sets a price minimum (based on local average) and adjusts for inflation every year but the price shall not rise by a percentage greater than the same commodity in another area. So, for example, the price for Chardonnay in Region “A” cannot go above, say 25% greater than Region “X” (lesser quality) Chardonnay.

Some super premium producers have contracts “for life” for the supply of grapes, must or wine. These contracts are verbal agreements and providing the quality is maintained they are “evergreen” and small bonuses are paid on exceptional quality but generally the A.C. rules are such that quality is guaranteed by small yields and obligatory viticultural practices.

SPAIN

Spain has had massive restructuring of its viticultural industry in the last ten years. The varietal mix is shifting toward the current varietals in demand by the consumer – Cabernet Sauvignon and Chardonnay, but the individual holdings are still small by “new world” standards and the co-op system remains at the heart of grower/winery relations. In addition the strict regulations in the D.O. areas restrict yields and major competition. For example, in Rioja the Regulatory Council restricts yields and puts great store in ratio of “Inventory to Sales” and they try and average about three years sales in stock but like most of Europe this manipulation of the market cannot overcome the huge oversupply problems faced by all growers. For example, of 40 million hectolitres produced in Spain 10 million is distilled. The Spanish government is trying to find solutions to protect the socio-economic position and to produce a stable and dignified income structure. Contracts between growers and wineries,

except verbal agreements, are almost non-existent and most trade is conducted as wine. Those grapes that are sold are normally handled through the co-operative system and the price of fruit based on average district price for wine at a nominal extraction rate (700 litres per tonne).

PORTUGAL

Portugal is really divided into two parts in so far as the wine industry is concerned – the fortified Port sector and the table wine sector. In the Douro the growers have the opportunity to produce grapes for both table wine and Port and since the growing of grapes for Port is on a quota system there is a “fall back” position. In an area steeped in tradition it is not surprising that there is total control of supply and even sales! All vineyards are graded A – F and registered. Quotas are issued every year and “A” grade vineyards generally get a larger quota than “F”. Every litre of Port produced has to be registered with the Port Institute and companies are not allowed to sell more than one third of their inventory in any one year! The Institute will also only allow enough Port to be produced to replace the previous year’s sales. Traditionally prices were “negotiated” by the growers and shippers for each grade but this has now changed to a “base” price and “bonus” system. Growers are reluctant to enter into contracts, as they like to take advantage of the highly competitive nature of the market for Port grapes. Whilst the quote system has been good for growers it has produced the demise and rationalisation of the shippers so that there are now only four main players who control 80% of shipments. In the longer term this cannot be to the growers advantage. Contracts are still basically verbal agreements on an annual basis. The pricing is based on controlled supply and demand with considerable bonuses paid later to secure the supply for the following year! One shipper told me that they would like to enter into “agreements” for at least three years so as to compensate for vintage variations and to obtain a “commitment” to supply by the grower without feeling that they are missing out on the market price!

In the South of Portugal there has been rapid expansion but there is not considered to be a surplus particularly in local varieties. Co-operatives have really made progress in the production of premium quality and it is the co-ops that decide price depending on the sale price of the finished wine. Again controls are strict and a planting licence can cost as much as US\$20,000 per acre. However, grape prices are strong but coming down. Once a grower has left a co-op they cannot return and so it is a major decision to supply direct to private wineries, but some growers are beginning to change as they see the advantage of “certainty” of sale. Contracts are not “legal” documents but contain winery specifications and viticultural practices. Yield parameters are still governed by regulations but tend to follow the French model. Yields tend to be 3-5 tonnes per hectare or 40 hectolitres for red and 60 hectolitres for white.

ITALY

There has been huge progress in Italy over the past 10-15 years. In the premium DOC areas much more emphasis on quality. There has been a gradual change of roles between co-ops and brand owners. Brand owners are becoming more self-sufficient by becoming vineyard owners (a change of 20% to 80%) and co-ops are becoming more market orientated and producing wine for their own brands. There are also

amalgamations of co-ops to form marketing groups with more viticultural inputs and specifications for their growers. There is a slow move to embrace the “per hectare” system using a basic price to cover operating costs with a bonus paid for adherence to a schedule of specifications in the vineyard management practices. Leasing vineyards and operating them is also slowly becoming an option. In Italy it is possible to plant varieties that are not traditional in a DOC area but lose the DOC appellation but gain in quality of a particular brand. Higher planting densities are now mandatory and the minimum is now 4,000 vines per hectare so at 1-1½ kilos per vine the quality issue has been addressed. In addition the clonal selection process has led to a much more reliable and quality based viticultural sector. It is a minority of growers who have “legal” contracts and these are mainly for new plantings where finance has to be arranged. Under normal circumstances it is agreed by “letter of intent” with specifications on wine and viticultural practice. The contracts guarantee the market price plus a suitable bonus (up to 10%).

In Italy, as elsewhere in Europe, the co-op’s ability to pay is dependant on their success as a business. Unfortunately, there are big penalties for growers who do not deliver to their co-op (as much as Euros 5,000 per annum) and they cannot buy themselves out of the agreement. This results in poor relationships if a grower happens to belong to a poorly managed co-op. Some private wineries insist on frost, hail etc. insurance in the per hectare agreements to minimise the agricultural risk. One principal of a private company told me that “not having to pay for the land offsets the risk of unacceptably low yields that may occasionally occur!”

GERMANY

There is some movement by the larger companies to buy grapes – the main motivation being the timing of the decision to pick. Some companies are specifying the use of their own company bins so that growers cannot pick until bins are delivered! Wine companies have very little input into the viticulture but some bonuses are paid on sugar levels as you would expect in marginal areas. There is also a large trade in high SO₂ juice for sweetening. The vast majority of wine commerce is based on the trade in bulk wine from co-ops or individual growers through wine brokers working on commission. The pricing of wine tends to be based on commodity trading rather than quality driven.

SOUTH AFRICA

In the past contracts between growers and wineries have been long term verbal agreements but owing to a more volatile global market they see the need to move to a more “Australian” system of legal documentation. There is some grower opposition to this as the older farmers take the attitude “if it works, why change it!” There are still about 100 co-ops in South Africa and pricing is very European and based on a full reporting system of all transactions in bulk wine which determines “market price”. As yet there are no per hectare contracts but it is being talked about, but a “grading” system of finished wine is beginning to be adopted in certain wineries. There are still major problems viticulturally and it is difficult for wineries to have much input into the vineyard management. The whole system is very similar to Australia 15-20 years ago, and they are struggling to adopt systems like the rest of the “new” world in order to lift quality and competitiveness. One major company has a joint venture with a group of growers who own 45% of the business and the company

55%. By and large, however, South Africa has many of the same problems as Australia – how to find an equitable way of sharing prosperity in a rapidly expanding business.

CONCLUSIONS & RECOMMENDATIONS

My conclusions from this trip are basically that Australia is right at the forefront of contractual arrangements between wineries and growers. Despite the omnipresent mistrust and occasional confrontational problems between the two parties the modern legal contract is about as clear as could be reasonably expected. Many new growers are not traditional farmers and are more inclined to be in other businesses or investors. Much of the money for investment in vineyards has been borrowed and consequently the lending institutions have demanded “bankable” documentation to secure their loans. This in turn has led to a legal format in agreements and I use the word “agreements” expressly. By “contract” we assume legality but events and experience have shown that on many occasions these documents have not been enforceable. So why have them? Lawyers themselves admit there is no watertight contract. By their very nature a lawyer will be acting for and show a bias towards his clients point of view when drawing up contracts and in many cases growers are given no option but to agree even after advice from their own legal team. The “contract” is symptomatic of the adversarial nature of the relationship between grower and winery. Without it there would be more communication and less interpretation and better understanding and respect for differing points of view. Compromise can be achieved at the expense of inflexibility and dogmatic attitudes. That is not to say that some formal method of understanding should exist to confirm each parties expectations.

The ancient, trusting and honourable “verbal” agreement with a nod and handshake are no longer a solution, as the industry becomes more global and less intimate. Of course, in an ideal world a handshake is a bond and parties respected the undertaking to supply and to be paid, but now in 2002 competition and rationalisation require a more verifiable and legal approach.

Somewhere between this “ideal” and the draconian legal document lies the answer.

Communication is the key – knowledge of each other’s business – an understanding of the needs and expectations of each other and above all a recognition that both growers of wine grapes and marketers of wine have an umbilical link – without each other there is no partnership – without sustainability there is no respect and without vision there is no future.

To put it into Aussie vernacular – both parties need a ‘FAIR GO MATE’!

SUBSIDIES

Much negative comment is heard on the subject of farm subsidies. The recent “Farm Bill” in the US and the ongoing subsidy culture in Europe are certainly not helpful in creating a “level playing field” but when looked at as a method of socio-economic and

cultural preservation the importance of such a structure is plain to see. If the word “subsidy” is replaced by “assistance” or “preservation” it is clear that there is some merit in those policies. I do not condone the subsidy system with mass distillation the result of overproduction but I do believe in the preservation of vineyard land as a way of maintaining social cohesion in the countryside. The alternative is dislocation and political unrest with the far greater costs of unemployment. Land that can prove it can produce premium wine grapes should fall outside the housing estate mentality of an alternative use. If we don’t protect our present, our future is forgone. As one of my contacts told me – “when the French farmers riot it’s not about money, it’s about the right to farm their land!”

Many of the so-called subsidies are in fact “assistance grants”.

- Assistance to pull out inappropriate varieties
- Assistance to replant
- Assistance to young farmers to get started etc.

Some of these ideas have merit and are no different than, say, assistance to the automotive industry in Australia – which is foreign owned!

Obviously subsidies cannot continue at present levels as they make up a huge percentage of the total EU budget and this can only get worse as more Eastern European wine producing countries are joining the EU and expect parity. As the emphasis changes from quantity to quality maybe more vineyards will be profitable and less reliant on support – maybe not! It is not a route Australia should take, or we could end up with similar problems as the EU.

RECOMMENDATIONS

At risk of over simplification and naïve idealism it seems to me that a better understanding of each other’s position must be achieved. Grape growers do not understand how difficult and costly it is to make and market a consistent, good value, branded product and to sell it in a highly competitive international environment, where rules and regulations are highly different from our Australian environment.

Wineries do not really understand what motivates growers who contend with agricultural risk and unpredictable climatic events. To many – “grapes come on trucks”! Winemakers go into vineyards two weeks before vintage and make condescending comments about “quality of fruit” and place “values” on a crop that has had the undivided attention and loving care of the grower for 12 months. Winemakers must change their attitudes – this cannot be achieved with a piece of paper written in legalese.

This really is a partnership not lip service to it.

Greedy growers are as much at risk as mediocre makers – both can benefit by being less greedy and mediocre!

My recommendation is more talk, more understanding less draconian documentation, less fluctuation in pricing but a realisation that we live in a globally competitive market place.

There is also no doubt that the availability of accurate reporting of statistics helps the industry to make decisions based on fact not fiction. We must review our methodology urgently to allow this to happen.

Of all the contracts I have seen in Australia and around the world I believe the PER HECTARE or leasing is the way of the future. This is the only way that winemakers can maximise the quality from a given site and it can be negotiated to give the grower a decent return on his assets. It will lead to stability and less fluctuation in pricing and fewer reasons for conflict between the parties. Wineries often complain that they should not have to bear the agricultural risk but this can be overcome by sensible negotiations and constructive contingency mechanisms that protect both parties in the event of a “poor” year. In a sense the European controls of hectolitres per hectare are agreements with a similar end result particularly the new emphasis on viticultural specifications.