

## Croser's answer to Oz travails

10 Feb 2010 by Brian Croser

*Here is the text of a speech given very recently by Brian Croser, leading light of the Australian wine business, to Australia's Agricultural and Resource Economics Society in conjunction with Adelaide University's initiative Australian Wine 2030 and the American Association of Wine Economists. It has stirred up the [Australian media](#) with headlines such as 'Wine Giants Under Fire' and 'Croser Blasts Big Wine Companies'. There is of course much more to it all than that. This is really, really worth a read by any wine lover. Comments welcome.*

There are two distinct and separate segments of Australian wine, the fine wine community of more than 2,000 committed and regionally diverse producers and the branded commodity wine industry dominated by fewer than 10 very large, multi-region operators. Both have commercial legitimacy but the past success, the dimension and the political and financial gravitas and the highly visible current tragedies of the latter dominate and obscure the former in world wine trade.

The biggest problem for the fine wine community of Australia is the negative and deteriorating image problem created for all Australian wine by the behaviour and travails of the branded commodity wine industry. The biggest challenge for the Australian fine wine community is to bridge the gap between the increasingly poor external perception of Australian wine and the realities of Australia's vibrant fine wine community as it exists in the more than 60 fine wine regions of Australia, 24 of which are as cool or cooler than Bordeaux in France.

The establishment of the authenticity and relevance of Australian fine wine in the global wine trade would unlock potential competitive advantages which would feed into price, profit and investment in quality improvement, most urgently into the quality of Australia's fine wine vineyards and viticultural practices.

Both domestic and global fine wine markets are likely to continue to grow with increasing population, affluence and wine knowledge around the globe. The traditional fine wine suppliers of Europe are a finite resource with population pressures imposing costs on production. Unlocking Australia's fine wine potential is the challenge for the Australian wine community for the next decades leading to 2030.

### **The Journey**

I have been a member of the Australian wine community for more than four decades. Dramatic transformations of the Australian wine community have occurred over that time and before but none as potentially dramatic as the current crisis will precipitate.

To devise an effective transformation strategy that will create a successful fine wine community towards 2030, it is important to understand where we have been and why we are where we are. This not motivated by blame-laying but unavoidably the identification of the causes of Australia's wine demise is a consequence of an interrogation of the past. The aim of this historical summary is to elucidate where destructive behaviours have been at work and to devise effective community strategies for future success.

Australia's wine community burst into life on the efforts of a brilliant group of 19th-century pioneers. Kelly, Busby and de Castella were foremost among the pioneers but there were others, leaving a well-documented trail of scientific selection of site, variety and management which underwrote the pre-eminence of Australia's traditional fine wine regions of today such as McLaren Vale and the Barossa, Yarra and Hunter Valleys.

The pioneers had disappeared by the turn of the century, as nearly did their vineyards in the face of depressions and world wars. For more than half a century the remnants of their plantings were caught up with the waves of development of Australia's hot inland river valley, irrigation-dependent high-productivity vineyards grown for the production of cheap fortified wine and brandy spirit.

This dark age of Australia's wine endeavour began to enlighten when a group of inspired renaissance vigneronns of the post Second World War era rediscovered the remnant vineyards of the pioneers and began turning the grapes of these centenarian vines into possibly Australia's greatest wines ever.

Schubert, Preece, Haselgrove, Warren, Redman, Knappstein and other renaissance vigneronns established the foundations of the first wave of development of the modern era of Australian fine wine endeavour, initiated as the 'red table wine boom' of the 1960s and early 1970s. The red table wine boom faltered and foundered due to overplanting, inferior young vine wine quality and consumer disenchantment.

The red wine boom gave way to 'the varietal wine boom' of the 1970s and 1980s with Chardonnay leading the charge. Varietal labelling completely displaced the traditional wine style labelling borrowed from the Europeans and terms such as Hock, Moselle, Chablis, Burgundy and Claret, ubiquitous for one and a half centuries, became commercially irrelevant long before the bilateral treaty enforced their disappearance in the early 1990s. The discovery of new 'exotic' varietal flavours - including Gewurztraminer, Sauvignon Blanc, Merlot and Pinot Noir - excited an era of planting all of these varieties side by side in the same fruit salad vineyards, regardless of the suitability of the terroir.

Again consumer disappointment abounded and wine surpluses accumulated.

The oversupply generated by the fruit salad vineyard era gave birth to Australia's sustained export boom from the mid 1980s to 2005 based on well-made varietal wine largely from the hot irrigation-dependent vineyards of Australia's inland river systems. These wines provided a competitive quality advantage on global supermarket shelves and gave rise to the very successful commodity wine brands that are the cause and victims of Australia's image, sales and profit reversal currently.

In the 1980s, fuelled by greater consumer knowledge and expectations, the movement to grow the best varieties in their best-suited terroirs began. Australia's cool climate wine industry began to emerge and included Margaret River, Mt Barker, the Adelaide Hills, Coonawarra, Central Victoria, the Yarra Valley, Geelong, the Mornington Peninsula, the Victorian Alps, New South Wales Highlands and Tasmania.

The late 1980s and early 1990s saw a push back against Australia's emerging cool climate fine wine repertoire as the old-vine Shiraz wine of the warm-to-hot traditional vineyard regions of Australia gained the support of wine commentators as allegedly Australia's only unique and legitimate offering to the global fine wine trade. The strength and myopia of the consequent 'plush red wine' movement eclipsed the emergence of Australia's cool climate credentials.

Australia's reputation as a hot viticultural country only suited to big ripe Shiraz red wines was reinforced by the birth of new plush red wine virtual brands invented for export shelves, mainly in the US. The success of these wines also excited the biggest planting boom ever as Australia doubled its vineyard area between 1996 and 2004 by largely planting Shiraz in the warm-to-hot traditional viticultural regions. This myopic planting boom was a disservice to the consumers who have rejected the young-vine, acid-adjusted, high alcohol, sweet red wines over the first decade of the 21st century. It was a disservice to the established and emerging cool climate fine wine community of Australia struggling to establish Australia's legitimacy as a provider of cool climate fine wine.

The plush red wine planting boom in Australia has been a disservice to Shiraz as a variety globally as consumers abandon the varietal style both in its fine wine and branded commodity dimensions. It has been a disservice to the

branded commodity wine producers of Australia who have been damaged by the surplus and the increased diversity, quality and competition from other countries.

The desperation of hot inland grape producers and branded commodity wine producers to retain relevance in the very competitive global market has dominated policy, publicity and the image of Australian wine for the past decade.

The large branded commodity producers also have a fine wine dimension. Australia's most respected fine wine is Grange and there are many examples of very good cool climate fine wine being produced by the handful of successful branded commodity wine producers.

In an apparent bid to dominate the profitable fine wine sector these companies planted at their own expense and instigated, through contracts, extensive plantings in most of Australia's fine wine regions. In fact the major proportion of fine wine plantings in Australia are either owned by or have been contracted to these large companies. Much of Margaret River and the Great Southern, much of the Barossa Valley, Clare and McLaren Vale, the majority of the Limestone Coast, much of the Adelaide Hills, the majority of Langhorne Creek, much of the Yarra Valley and Central Victoria are owned by, or have been planted against pledges from, the large companies.

Unfortunately and inevitably their appetite for fine wine grapes has not been matched with their ability to sell the wine. This is a case of systemic failure too complex to be explored here but it relates to corporate culture, other priorities, the failure to recognise the essential differences between branded commodity wine and fine wine, the lack of patience, management stability and detailed focus required for the fine wine endeavour and the perception in the market place that corporate is the antithesis of authentic and unique, the essential hallmarks of fine wine. Their misdirected competitive urge to dominate the fine wine arena as they rightly dominate the commodity wine arena has precipitated a transfer of potential fine wine grapes to the commodity wine endeavour.

The diminishing image and market opportunity for Australian branded commodity wine in the face of more cost and quality-competitive products from other countries have exposed the cost disadvantage of this practice. Long term contracts are being dismantled, large corporate vineyards and facilities in fine wine regions are being sold for a song or abandoned, and the blame for overplanting is being transferred from the failing branded commodity wine industry of Australia to the struggling fine wine community and regions. The exit of the large corporations from their cool climate and fine wine contracts and assets undermines the capital structure of the community of smaller fine wine producers. The values of vineyard, winery and inventory assets have plummeted, seriously impeding the availability of working capital available to smaller fine wine businesses. The predatory purchasers of these cheap assets start with a much lower cost base to potentially undermine the price positions and image of established fine wine producers and regions.

The politics and commercial agony of the demise of Australia's branded commodity wine business has generated hostilities and policies antithetical to the support of the emerging Australian fine wine community.

The support of the notion that the grapes from Australia's hot inland irrigation-dependent corporate vineyards are of the same quality as those from cooler fine wine regions, the rejection of the notions of the importance of regionality and terroir to differentiation of wine style and quality, the ridiculing of the dimension of the global fine wine opportunity and Australia's ability to be competitive in it have undermined the Australian wine community's approach to fine wine promotion and research for the last decade.

The research focus on supply chain economies and new wine consumer cohort preferences at the expense of elucidating the unique qualities of Australia's fine wine terroirs and how to optimise quality from them has undermined Australia's potential to be a successful supplier of fine wine around the globe.

The result of the failure to appreciate the inherent differences between the branded commodity and fine wine businesses

has created a debacle for Australia's fine wine image and trade opportunities overseas.

Meanwhile at home the image-tainted and neglected Australian fine wine community face increasing competition from imports starting on the fine wine lists of Australia's best restaurants. From less than 5% of all wine sold, imports have grown over the past decade to represent 12.5% by volume and 20% in value and growing. Some of this is natural reversal of age-old parochialism driven by greater consumer knowledge and interest, but some is also because of the disfavour attached to Australian wine and the systematic failure properly to develop and promote Australia's fine wine credentials.

Australian fine wine is rapidly becoming an oxymoron in the global wine trade. That's where we are today. What's to be optimistic about?

### **Deadly perceptions (Oenomyths)**

Perceptions are suffocating the Australian fine wine opportunity in global market places. Australia is rapidly losing its credibility as a supplier of fine wine in competition with not only the best from Europe but also fine wines from Chile, Argentina, South Africa and of course the domestically oriented fine wines of the West Coast of the United States. The perceptions of Australia as a fine wine producer are very different to the realities but we have done little to reverse them.

*'Australia is a nation of large industrial winemakers and vineyards!'*

That perception is true of the branded commodity wine industry, but quite separately and independently there are more than 2,000 mostly small and some medium sized, committed fine wine producers in 72 diverse wine regions of Australia. Their existence attracts little international recognition.

*'Australia is a hot viticultural country totally dependent on irrigation and incapable of producing wines of finesse and fine quality!'*

This is a perception Australia's competitors love to foster and it is true again of the branded commodity wine industry. The truth is that Australia has the same range of viticultural environments as France, New Zealand and any other self-proclaimed cool climate fine wine producer. Of the more than 60 fine wine regions of Australia, 24 are true cool climate and as cool and cooler than Bordeaux measured by the Winkler heat summation, the Huglin index or the mean January temperature (MJT < 19.5deg C) method or any other method of temperature measurement. Tasmania is included as just one of those 24 'true' cool climate regions.

In total area the potential 'true' cool climate viticultural area of Australia far exceeds that of the cool climate plantings of France.

In the 2005 harvest (little has changed since),

- Hot inland irrigation-dependent production was 1,100,000 tonnes - 61% of total Australian production
- Warm-to-hot traditional fine wine region production was 310,000 tonnes - 18%
- 'True' cool climate production was 370,000 tonnes - 21%.

*'The only legitimate Australian contribution to the global fine wine repertoire is old-vine Shiraz from the warm-to-hot traditional regions, specifically the Barossa Valley and McLaren Vale!'*

International fine wine consumers are tiring of the high alcohol, sweet flavoured 'terroirless' red wines made from super-ripe grapes and especially made from Shiraz and from Australia. Consumers are rapidly becoming more sophisticated and discriminating and are seeking out savoury wines of finesse and complexity where the flavours are

related to the terroir, or place of origin, and faithful to the story of the wine. Pinot Noir is the bell-weather of this shift of fine wine preference in discriminating markets.

Australia has an abundance of fine wine styles that satisfy this emerging market requirement: Cabernet/Merlot from Margaret River; Shiraz and Riesling from the Great Southern; Shiraz and Riesling from Eden Valley; Chardonnay, Sauvignon Blanc and Pinot Noir from the Adelaide Hills; Cabernet and blends from Coonawarra; Shiraz and Riesling from the Grampians, Pyrenees and Central Victoria; Pinot Noir and Chardonnay from Macedon, The Yarra Valley, Mornington Peninsula and Bellarine Peninsula; and off course the potential of Tasmania for those varieties as table wine and for sparkling wine (together with the Piccadilly Valley). Add to this list of established true cool climate fine wine regions the potential of Pemberton WA, Wrattontully, Robe, the Fleurieu Peninsula and Kangaroo Island in South Australia, Gippsland and the Portland regions of Victoria, Tumbarumba and Orange in NSW and of course the many unexploited cool climate terroirs of Tasmania and the potential of Australia's true cool climate fine wine regions reveals a dimension that dwarfs its competitors. The global fine wine community still largely regard Australia as a single-variety, hot viticultural country and we are doing little to change that perception.

*'Australia does not have terroir!'*

Terroir is the combination of environmental factors of a site acting on the grape vine to produce distinctive wines of finesse, complexity and fine quality. The main ingredients of terroir are climate, soil, geology and aspect.

That Australia has a range of unique cool climates has been established. What is unique is that these true cool climates exist at latitudes from 34 deg S to 39 deg S on the Australian mainland whereas in the northern hemisphere latitudes of 40 deg N to 50 deg N are required to achieve these temperature regimes. Thanks to the giant thermal buffer of the Great Southern Ocean, the drier, more benign, longer growing season, and longer day length at ripening, lower latitudes of Australia elicit the best expressions from the range of fine wine varieties compared with the much more fickle weather, higher latitudes of the northern hemisphere.

Two great exponents of the importance of terroir to fine wine are Cornelis van Leeuwen (Bordeaux) and Claude Bourguignon (Burgundy) of France. In a paper entitled, 'The Concept of Terroir in Viticulture', van Leeuwen and Seguin state, 'The best expression of terroir is achieved when the precocity of the grapevine is suited to the local climatic conditions in such a way that full ripeness is reached by the end of the growing season. For the production of high quality red wines, environmental conditions should induce moderate vine vigour, either through moderate water deficit stress or through low nitrogen supply. These conditions are most frequently met on shallow or stony soils, in moderately dry climates.' For all varieties the site terroir should bring the grapes to sugar, phenol, and flavour ripeness 'between 10 Sep (Mar) and 10 Oct (Apr)' where 'the ripening of the grapes occurs in cool conditions, at the end of the summer or in early autumn'. A more perfect description of the soils, climates and ripening window of Australia's cool climate fine wine regions could not have been written.

Claude Bourguignon expounds the superiority of limestone-based soils for fine wine production, chauvinistically noting France's high proportion of soils formed from limestone compared with the 7% global average of this rock type. Nearly 50% of southern South Australia's soils are limestone based and a large proportion of these vine-devigorating, well-structured, quality-inducing soils lie in the south-eastern Australian cool climate wine regions.

The global fine wine markets are not only unaware of Australia's distinct terroir advantages, their perception is the opposite: that Australia is cool climate- and terroir-challenged. We have done nothing to change that perception.

### **Australia's fine wine community**

Australia's smaller fine winemaker community has the potential to provide the commercial lifeblood of the Australian wine community leading up to 2030 and beyond. But first it has to survive the current Australian wine crisis and transform the

image of Australian wine in global markets - no easy tasks.

The attitude of the large companies and the industry institutions to the more than 2,000 small fine wine producers of Australia is that there are too many, they are proliferating too rapidly, they are largely lifestyle operators that are not economically viable (and don't know it), and that they are the cause of overproduction in the cool climate regions of Australia. This attitude is not only patronising - it is wrong.

Even if the average production of these 2,000+ operators approached 100 tonnes or 6,000 cases, the total contribution to the national grape harvest is 200,000 tonnes, just greater than 50% of the cool climate grape harvest and 11% of the total. Most are growing, processing and selling their own grapes as fine wine and do not contribute to the surplus of low priced or abandoned grapes.

Some are extremely successful. Some have a good day job to cross-subsidise their passion, and others are failing. That is their choice. They collectively constitute the engine room of innovation for the Australian wine industry. The Darwinian concept of survival of the fittest applies as they innovate with new varieties, new regions and new viticultural and winemaking methods, taking the risks to achieve the reward of differentiation, the key to success in the fine wine market place. The big companies are quick to follow when innovation shows promise. Don't feel sorry for those that fail, they will be replaced.

This vibrant, competitive, largely business-educated community is the wellspring of new wine styles and quality. These producers are also, by force of their passion, personalities, novelty of approach and at their best the absolute quality of their wines, the magnet for the international gate keepers of the global fine wine trade. They are essential to the restoration of Australia's credibility as a fine wine producer.

Neither the cool climate regions of Australia nor its vibrant community of 2,000 small vigneronns are responsible for Australia's global wine demise and grape and wine surplus. The branded commodity wine sector is failing for external market environmental reasons. The surplus has been generated by the waning demand and price for Australian branded commodity wine. Over the past 15 years plantings have been instigated in cool, warm and hot regions by the big companies and their expectations of continued success in the branded commodity wine market and their aspirations to dominate the fine wine markets. Only the large wine companies have the dimension to create a problem as large as the one Australia seems to have.

## **The answers**

Surplus is not only the creation of over-planting. It is also a result of under-demand.

While the agony of Australia's branded commodity grape and wine producers dominates the news and institutional policy, the opportunity to foster, support and promote Australia's vibrant fine wine community has been ignored at best and undermined at worst.

Let's re-ignite global interest and trust in Australian wine by promoting Australia's historical and natural advantages in the production of fine wine.

Let's tell the world why our terroirs are different and superior and let's dispel the misperceptions by applying the force of our accomplished researchers to elucidation of the mechanisms of quality acting in those terroirs and how they can be better harnessed. The French, Germans, New Zealanders, South Africans and Chileans are researching their terroirs. The whole Australian wine community should glory in its natural fine wine assets and advantages and in the existence of the dynamic community of small fine wine producers.

Let's make some clear and unequivocal statements to the all-important global fine wine gatekeepers and consumers that the focus of the Australian wine community has changed from a rearguard defence of the branded commodity wine sector to an all-out promotion of its fine wine community.

Choosing fine wine-credible, passionate and knowledgeable leaders of our public wine institutions and providing a specific forum for the discussion of fine wine policy are necessary steps to the second renaissance of Australian fine wine. The Australian Academy of Fine Wine is my suggestion for that forum and its modus operandi and potential role can be explored on the Tapanappa website [www.tapanappawines.com.au](http://www.tapanappawines.com.au)

The advantage we have in this second renaissance is that the fine wine community and quality already exists whereas Schubert *et al.* had to create the product and culture against the tenor of the industry. That much is the same.

For small fine winemakers the future is always uncertain and difficult and none more so than now. As well as being vibrant, the small fine wine community is resilient and patient. For them 2030 is not far away. Twenty years is the length of time that a vine planted now will take to begin to do its best work and the time that a bottle of fine red wine made in vintage 2010 will take to show its best qualities.