Australia at the crossroads?

3 Jul - For today's Throwback Thursday article, we are sharing Max Allen's latest bi-monthly report from Australia, a particularly important one, with everyone.

'It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness ...it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair...' A Tale of Two Cities by Charles Dickens

Here's one view:

'This is the most exciting time to be involved in Australian wine', says Steve Pannell, the McLaren Vale-based winemaker who once oversaw the production of millions of litres at Hardys before leaving to set up his own, eponymous boutique label. 'Quality has never been better;
'We're beginning to break our obsession with the classic wine styles of France; we're making wines we want to drink, that are suited to our climate and way of life, that represent us and who we are.'

Here's another:

'The Australian wine industry is at the bottom of a cycle', says Paul Henry, former head of market development at Wine Australia, now a business consultant. 'And the reason why we're still at the bottom of the cycle is that while the production side might be changing, mainstream retail hasn't changed at all. In fact it's getting worse: there are fewer but larger retailers, and they're only interested in stacking it up and selling it cheap. While that remains the case, I fail to see how Australia can break the cycle.'

And there you have it. The frustrating dichotomy at the heart of Australian wine in 2014.

On one hand, consumers have never had it so good: Australian wine lovers now enjoy more choice, diversity and availability of great wine, both locally produced and imported, than I can remember in my 20 years as a booze hack. As I wrote in Australia's next generation last year, a whole new generation of 'virtual' wine labels - many of them side-projects for canny young assistant winemakers, sommeliers and viticulturists - and an explosion of new wine bars, restaurants and festivals are creating a truly electric wine scene.

On the other hand, producers have never had it so tough: the volume of annual wine exports is roughly the same, 670 million litres, as it was a decade ago (after reaching a high of 768 million in 2007) but the value of those exports has dropped by a staggering $1 billion, fostering a persistent image overseas of Australia as a commodity producer of cheap plonk.

And thanks to high costs, an oversaturated marketplace and retail consolidation at home, the majority of Australia's grape growers and winemakers are making little or no profit. Indeed, most of Australia's 2,500-plus wine producers are viable only because they're propped up by a sales-tax rebate for smaller producers negotiated some years ago with the federal government. Without the rebate, hundreds of companies would probably have gone out of business over the last five years.

And while there is a lot of noise about the exciting new wine scene, in reality it accounts for a tiny proportion of the overall market, which is still dominated by an ocean of bland, discounted booze sold through supermarket chains.
Little wonder that highly talented winemakers such as David Bicknell at Oakridge in the Yarra Valley sound disgruntled. Oakridge is an exemplary modern Australian wine business: the $20-ish Over the Shoulder range of ‘everyday’ cool-climate varietals offer exceptional value for money; the $75 single-vineyard 864 wines are at the pointy end of the new wave of Australian Chardonnay; visitors flock to the glamorous Oakridge cellar door and excellent new restaurant in the middle of the region. Things appear to be going well.

‘Yes, but we're not making any money’, says Bicknell. 'It's so expensive to run a winery in this country. And with domestic wine retail dominated by two seriously big players (supermarkets Coles and Woolworths, who between them control more than 70% of off-premise sales), the route to market is becoming harder and harder.'

Sam Connew has seen many sides of the industry in her roles as chief winemaker at Wirra Wirra in McLaren Vale, working for the Australian Wine Research Institute, and now out on her own with her small label, Stargazer, and as the recently announced chairman of judges at the Sydney Wine Show.

'Profitability's nowhere near what it was in the late 1990s', she admits. 'But that was a bubble - people have a much more realistic view of what the industry is about now. I certainly do. All the winemakers my age have adjusted our expectations: I'm not going to make a fortune; I just want to make a living doing something I love. It's an attitude that is anathema to shareholder-driven corporations.'

Her comment coincides with Australia's largest shareholder-driven wine company, Treasury Wine Estates, announcing a $260 million write-down and splitting its commercial and luxury wine arms - moves that have only increased speculation about an imminent sale of the company.

Until now, most of Australia's smaller producers have, like David Bicknell, viewed the ongoing trials and tribulations at Treasury and other large corporates as 'entertainment' - so far removed from their day-to-day experience of the industry as to be irrelevant.

'But imagine if a private equity firm comes in and carves Treasury up', he says, 'it could change the playing field for the rest of us. You could see great brands like Wynns and Coldstream Hills revert to private hands. Imagine how that would look to the rest of the world. It could reboot the whole industry.'

A reboot might also turn out to be what happened yesterday (Tuesday 1 July) when the industry's statutory bodies, Wine Australia and the Grape and Wine Research and Development Council, merged to form the new Australian Grape and Wine Authority (AGWA).

Many are quietly optimistic about this development. On one hand, it's a long overdue acknowledgement that the grape-growing and winemaking sides of the industry need to leave their traditional suspicions and animosities behind if they are to have a sustainable future. And on the other, the new body may provide the leadership that so many in the industry feel has been lacking for too long.

'Everyone's been so busy just keeping their businesses going that their engagement with industry politics has taken a step back', says Sam Connew. 'And we paid the price in the form of a leadership vacuum. Now this new body can hopefully provide some direction and be public, too, about what they’re doing. This is a really critical time in terms of setting the program of where we go over next 10 to 15 years.'
A spring of hope after the winter of despair, perhaps?

Photographs by Max Allen.