Submission
No 40

INQUIRY INTO WINE GRAPE MARKET AND PRICES

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Joint submission to the New South Wales Legislative Council Standing Committee on State Development Inquiry into wine and grape market prices

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Executive Summary (1)

Introduction

In September 2010 researchers from the Centre for Local Government, University of New England and School of Accounting, Economics and Finance at the University of Southern Queensland were approached by several grape growers and wine makers in the New England Australia wine region and alerted to the Standing Committee on State Development's Inquiry into wine grape and market prices ('the Inquiry').

These researchers have had a long standing interest in wine and grape prices and the role of regulatory authorities in contributing to the facilitation of accurate market signals (see, for example, Gow, et al., 1991; Gow and Grant, 2010) and more recently wine production and wine and food tourism as a key driver of economic development and cultural and civic development is the state's disparate regions (see, for example Grant, Dollery and Hearfield, 2009).

While time constraints have proscribed us addressing the Terms of Reference (TORs) of the Inquiry fully, by way of the submission of two recent publications (below) and more particularly this Executive Summary, we hope to provide information for the consideration of the Inquiry. This Executive Summary is henceforth comprised of two sections, some Background Notes on the formation of the Inquiry and some Observations and Recommendations which address the TORs.

The Submission then comprises the two research papers which buttress the observations made, namely, Grant, B., Gow J. and Dollery, B. E. (2010), 'The proposed Wine Restructuring Action Agenda and alternative policy options for the Australian wine industry' and Grant, B., Dollery, B. E. and Hearfield, C. (2009), 'New England Australia: What Follows from regional status? A comparative, political economy approach' for the members of the Committee, should they choose to consult them. Both these research papers build upon recent work undertaken by the Australian Bureau of Agricultural and Resource Economics (ABARE) and industry associations as well as the researchers' considerable histories in the field.

Background notes and general observations

- Despite recent, unfavourable conditions inclusive of a decline in export volume and price, worsening terms of trade and a worrying backlog of inventory, wine and wine tourism continue to provide an important conduit for regional tourism and economic development in NSW.

- The current Inquiry by the Standing Committee forms one element of the recommendations of the 'Wine Restructuring Action Agenda' (WRAA) jointly released on 10 November 2009 by four industry organisations, the Winemakers' Federation of Australia (WFA), the Wine Grape Growers' Association (WGGA), the Australian Wine and Brandy Corporation (AWBC) and the Grape and Wine Research and Development Corporation (GWRDC).

- According to research presented in Grant, Gow and Dollery (2010; paper 1 of this submission, also Gow and Grant, 2010) the analysis of the financial sustainability of certain regions, based on the identification of four grades of fruit quality (A, B, C, D) is questionable, to the extent that its conclusions and recommendations ought to be revisited.

- Despite the conjecture and refutation surrounding the WRAA, previous intervention into the wine grape market suggests that any government intervention into ought to be very carefully considered. W point to the first paper of this submission in this regard.

- In particular, due the cost structure inherent to the industry and the divergent comparative profitability of the industry across the state, government ought not to conflate welfare objectives and structural adjustment objectives of intervention.

- Moreover, any proposed intervention ought to be considered on a regional, then case-by-case basis, rather than looking to apply regulatory mechanisms to the industry across the state.

Executive Summary (2)

Addressing the Terms of Reference for the Inquiry

The standing Committee was directed to inquire into and report on the factors affecting the wine grape market and prices, and in particular:

a. **Price formation, including factors affecting demand and supply:**

As is clearly documented in the research below and elsewhere, downward pressure is being exerted on wine grape prices for a number of internationally derived and domestically derived reasons, inclusive of changes in consumption trends, declining terms of trade and a worrying backlog in inventory. Nevertheless, it is important to emphasise [i] that this downward pressure is extremely divergent across the state, depending on the types of market conditions that predominate across disparate regions and [ii] there is evidence that price signals are already leading to market changes, inclusive of a decrease in supply.

b. **The role of the wine Grapes Marketing Board has [sic] played in the use of facilitating the use of voluntary codes of conduct and sale contracts**

This submission will not address the role of the Marketing Board.

c. **The potential for collective bargaining and/or codes of conduct to contribute to an efficient Market**

This submission would like to point out the different forms of collective production described in Grant, B., Dollery, B. E. and Hearfield, C. (2009) 'New England Australia: What follows from regional status? A political economy approach (i.e.: paper 2 of this submission). Namely, [i] collective forms of ownership of winery equipment (in France, for example) which serve to defray production and inventory storage costs amongst growers pooling resources to produce wine (as opposed to selling grapes) and [ii[to the role that leadership can play in the branding of regions and the galvanising of those regions to meet market challenges.

d. **Whether there are any measures which could improve market signals which would be consistent with competition principles and law**

This submission concludes that current price signals are working to effectively impact upon demand and supply.

e. **Any other related matter**

The research presented below demonstrates that current market signals are producing changes in patterns of wine grape production. It also demonstrates the disparity with which current, general market conditions vary across the State due to different relationships between grape growers and wine producers. In regions where growing and wine production are horizontally integrated, pressure on business is not nearly as adverse as otherwise.

As such, any response must recognise the radical variation between regions across the State.

The Inquiry ought to recognise the role that both grape growing and wine production and wine tourism have come to occupy in the regeneration of regions across the State. Any attempt to assist producers severely adversely affected by current market conditions ought to be accompanied by efforts to further strengthen these burgeoning industries in other regions, through already existing mechanisms such as I & I NSW and local government.

The authors would like to thank members of the Inquiry for the opportunity to make this submission.

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The Proposed 'Wine Restructuring Action Agenda' and Alternative Policy Options for the Australian Wine Industry

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The Proposed ‘Wine Restructuring Action Agenda’ and Alternative Policy Options for the Australian Wine Industry

ABSTRACT

The Australian grape-growing and wine producing industry has enjoyed meteoric growth from the early 1990s onwards, with wine sales forming an increasingly important element of both national export earnings and farm income. Despite this success, a recent downward slump in industry profitability and a dampening of demand for wine has resulted in a call for Commonwealth Government intervention, which would include a national ‘vine-pull’. This paper examines the proposed vine-pull policy option in light of its predecessor, the vine-pull scheme of 1985-87. We argue that past experience suggests that the Commonwealth and the industry itself ought to explore other options when attempting to address the long-term sustainability of the Australian wine industry.

Keywords: Regional development; vine-pull scheme; wine industry.

1. INTRODUCTION

It is difficult to over-state the expansion of Australian wine industry in the last two decades. This illustrated by Table 1:

Table 1: The Australian wine industry, 1990/91 to 2010/11

	1990-91	1995-96	2000-01	2004-05	2007-08	2010-11
Total bearing vine area (ha)	61 362	80 574	148 269	166 666	166 197	171 000
No. of wineries crushing > 50t	--	222	351	413	384	--
Total production (million litres)	346	606	1 035	1 442	1 257	--
Export volume (million litres)	57	130	339	661	714.7	740
Export value (A$ million)	180	472	1 614	2 748	2 680	2 570
Average export unit value: $/litre	--	3.63	5.17	4.05	3.75	3.51
Domestic consumption (litres/capita)	17.8	18.3	20.5	21.8	29.0	--

Sources: Grant, Dollery and Hearfield (2009: 168); ABS, 1329.0 – Australian Wine and Grape Industry, various years; Jackson, et al., 2009).

Note: Projections to 2010-11 are derived from ABARE (Jackson, et al, 2009) which provides forward estimates of total crush, not total production in million litres, nor the number of wineries or domestic consumption in litres per capita.

Table 1 demonstrates that the value of wine exports in 1990-91 represented a mere 6.5 per cent of what they had reached by 2004-05. Furthermore, the number of wineries crushing more than 50 tonnes increased from 222 in 1995-96 to 384 in 2007-08, with an alternative count of wineries (i.e.: inclusive of those crushing less than 50 tonnes) estimating the number rose from 617 in 1990-91 to 1,899 in 2004-05 (Banks, et al., 2007: 17). Moreover, both grape growing and wine production are now throughout Australia, with the Australian Bureau of Agricultural and Resource Economics (ABARE, 2009) listing eighty six producing regions and as many subregions. This suggest that it could be argued that grape cultivation and wine production have proved immensely beneficial to many struggling parts of rural and regional

Australia, especially smaller farm holdings (see, for example, Davidson and Grant, 2001: 296).

However, an alternative – and negative – portrait of the grape-cultivating and wine-making industries began to emerge in the course of 2007-08. Alongside the increase in crush from 2006-07 to 2007-08, the value of Australian wine sold domestically declined by 4 per cent in that financial year (Jackson, et al., 2009: 2). With regard to exports, the quantity of wine exported dropped 9.2 per cent to 714.7 million litres, and the unit value of wine exported also decreased by 6.9 per cent. Table 1 demonstrates that the unit value of exported wine has declined since 2000-01, from $5.17 per litre to an estimated $3.51 per litre in 2010-11. Perhaps most alarmingly for local producers, the value of wine imported to Australia in 2007-08 increased by 40.8 per cent from 2006-07 to $431.4 million (ABS, 2009). This represented 16.5 per cent of the value of exports for the same year and 11 per cent of total domestic consumption, up from 7 per cent in the previous year (ABS, 2009). Moreover, imported wine is expected to represent 18 per cent of domestic consumption by 2013-14 (Jackson, et al, 2009: 2).

A more worrying aspect of financial sustainability in the industry is gleaned from recent forward projections. ABARE has forecast production continuing to increase by 14 per cent to 1.8 million tonnes for 2009-10 (Jackson, 2009: 8-11). Over-supply is by no means the only problem. The same Report concluded that global consumption of wine is stagnant (principally due to demographic changes in the major wine drinking nations of the world), yet global production continues to increase, with fierce competition in export markets for Australian products. This has been amplified by lower production costs in many of Australia's New World competitors. Moreover, recent market trends have seen Australian exports shifting to lower-end, off-premise sales in its two main markets of the United Kingdom and the United States. In real terms, 'wine grape prices in 2004-05 were only one-third of their level in 1997-89' (Sheales, et al., 2006: 3). Looming behind this decline in real prices is the fact that stocks of wine in Australia have continued to increase – to somewhere between 1.9 and 2.3 years worth of sales, 'with the current surplus stockpile calculated at more than 100 million cases [set] to double in two years if current levels of production and demand persist' (Gent, 2010: 2).

While ABARE (see, for example, Sheales, et al., 2006) has recognised the multi-dimensional nature of the problem, the Australian wine industry has focused on the specific issue of over-supply and the policy option of a vine pull scheme (VPS) as a mechanism to address this problem. For example, Doug Lehmann, Managing Director of Peter Lehmann Wines, has called for 20,000-40,000 hectares of vines, equating to 270,000 to 500,000 tonnes of grapes (or amounting to 20-40 million cases of wine) to be pulled (Greenblat, 2010a), with others in the industry echoing this call (see, for instance, Greenblat, 2010b). On 10 November 2009 a *Joint Statement* and *Supporting Report* were released by four industry organisations, the Winemakers' Federation of Australia (WFA), the Wine Grape Growers' Association (WGGA), the Australian Wine and Brandy Corporation (AWBC) and the Grape and Wine Research and Development Corporation (GWRDC). The statement called for a range of measures to be introduced by government, including 'improved exit packages for growers and small wineries seeking to leave the industry along the lines of drought and small block irrigator exit packages' (WFA, 2009a: 3). In effect, a government-sponsored exit strategy conforming to the calls for a VPS.

Yet how tenable is the argument that a VPS – whatever its eventual form – would alleviate the problems of the Australian wine industry? Is not pursuing such a policy turning back the clock to what Lloyd (2003) described as a 'regime' of protectionism, thereby dismissing the contribution of market reforms of the 1980s-2000s? More importantly, what alternative policy directions are available for the grape-growing and wine-making industries and the regions in which they are now embedded? The present paper considers these questions.

The paper is divided in to five main parts. Section two examines in detail the argument for a VPS as part of the 'Wine Restructuring Action Agenda'. Section three provides an account of the last time a VPS was implemented in Australia, over the period 1985-87, by way of an exposition of Gow et al. (1991) noting the direction of the policy and the outcomes, which in some instances, proved perverse. Section four argues that while there are some limits to the validity of the comparison between the VPS of 1985-87 on the one hand and any scheme launched in the foreseeable future on the other hand, the experience of the previous VPS ought to inform the debate surrounding calls for a similar scheme today. With this in mind, the paper reiterates the relevance of options for the industry canvassed elsewhere. The paper concludes in section five with some brief general observations for future research.

2. THE WINE RESTRUCTURING ACTION AGENDA (WRAA)

The two documents were released by the four industry organisations: a *Joint Statement* entitled 'Wine industry must confront the reality of oversupply' (WFA, 2009a) and a *Supporting Report* 'Wine Restructuring Action Agenda' (WRAA) (WFA, 2009b). The *Supporting Report* identified what it referred to as 'key drivers' behind the WRAA:

- Australia's wine oversupply exceeds 100 million cases and at the current production rate this will more than double in three years.

- The scale of the problem is such that we cannot expect normal market forces or external factors to solve it.

- Even ambitious sales growth ambitions in new markets would eliminate less than a quarter of the oversupply.

- The combined impact of drought, water shortages and climate change would over time eliminate less than one-tenth of the oversupply.

- Too much current activity is not viable in terms of competitiveness, margins and target market demand.

- The problems relate both to demand and supply.

(WFA, 2009b: 1).

Moreover, the *Supporting Report* claimed that a number of factors, including multi-year set price contracts, the continued demand for bulk wine and unrealistic expectations about the increasing value of export market growth 'are distorting market signals and allowing uneconomic supply to continue. (WFA, 2009b: 1).

While the *Supporting Report* conceded that the problems of the industry 'relate to both demand and supply', the overall thrust of both documents suggests that government intervention is necessary to alleviate the problem of oversupply. Thus, 'we cannot expect normal market forces or external factors to solve it'; 'even ambitious sales growth in new markets would eliminate less than a quarter of the oversupply', and 'the combined impact of drought, water shortages and [even] climate change' will not address the problem, with significant 'market distortions' embedded in the industry (WFA, 2009b).

Moreover, unviable activity was identified, in particular a 'significant number of smaller "lifestyle" producers who can tolerate unprofitable businesses due to off-farm income'. In this context, the two methods by which economic viability was assessed are worthy of examination in more detail. The most straightforward, a report prepared by the AWBC, entitled *Winegrape Purchases: Price Dispersion Report 2009* (AWBC, 2009), collected data on the purchasing price of tonnages of wine grapes. The data was comprehensive, recording more than 36,000 transactions or 80 per cent of all purchases in the year 2009. It found that the average price for the 'just over one million tonnes surveyed was \$527 per tonne compared with \$717 per tonne in 2008' (WFA, 2009b: 5). The alternative study, by industry analyst Gaetjens

Langley, first developed a benchmarking system for grading fruit (from A to E), then defined the fruit as uneconomic 'if it was too costly for the quality achieved' (WFA, 2009b: 5). The results are shown in Table 2 and Table 3 reproduced here:

Table 2: Australian wine industry: Costs of production, indicative prices and tonnage by grape grade in 2008

Wine grape grade	Indicative yield (Tonnes/ha)	Vineyard cost/ha	Direct cost/tonne	Wholesale price FOB/litre packaged	Indicative Domestic retail price/litre	Tonnes
A (Speciality)	5	$9,500	$1,900	>$10	>25	180,850
B (Super Premium)	7	$8,000	$1,143	$7.50-$9.99	$15-$25	
C (Premium)	12	$6,750	$563	$5.00-$7.50	$8-$15	409,552
D (Popular Premium)	16	$6,250	$391	$2.50-$4.99	$5-$8	553,211
E (Basic)	25	$5,750	$230	<$2.50	<$5	652,116
Not classified, balancing item to 2008 crush total						35,794

Source: Gaetjens Langley, quoted in WFA (2009b: 5).

Table 3: Australian wine industry: Uneconomic grapes (cost factors only) in 2008

Quality Classification	Total Tonnage	Noneconomic Tonnage	% Noneconomic
A & B	180,850	n/a	n/a
C	409,552	147,241	36.0
D	553,211	134,517	24.3
E	652,116	25,592	3.9
F	1,795,729	307,350	17.1

1. Uneconomic defined by cost of production only, no allowance for lack of demand.
2. All A & B assumed economic irrespective of production costs.

Source: Gaetjens Langley, quoted in WFA (2009b: 5).

In Table 2, Gaetjens Langley estimated that the industry is particularly vulnerable at quality classifications C and D (where direct costs per tonne are estimated to be $6,750/tonne and $6,250/tonne respectively and the yield per hectare is significantly greater than both grades A and B). Moreover, the sum of these two categories in terms of tonnage – 962,763 – outweighs the sum of categories A, B and E together – 868,760 – and herein, according to Gaetjens Langley, lies the core of the problem: too much middle-grade fruit with too high a cost structure of production.

There are significant questions that could be asked of this analysis. For example, data in Table 3 are based on 'cost of production only' and, strangely, 'all A and B [grade fruit] is *assumed* economic irrespective of production costs' (Table 3, Note 2; emphasis added). This raises questions about of how categories C, D and E were assessed, and more importantly, why this assessment was not applied to categories A and B.[1] In any event, the *Supporting Report* has a story to tell about the necessity of culling middle-grade fruit production in Australia due to its inefficient nature, and the malign contribution that 'small' and 'lifestyle' producers make to profitability. As such, the *Supporting Report* seeks a rationalisation in favour of large players, at the expense of smaller growers and winemakers for which involvement in grapes and wine may be a secondary economic activity, or an example of 'on-farm horizontal diversification'.

The resultant four-pronged 'Wine Restructuring Action Agenda (WRAA) is cited here *in to*:

> 1. *From 23 November 2009, detailed and confidential supply data summaries will be provided to regional associations. These will examine each region in isolation and in relation to the national picture, with a focus on levels and patterns of viability.*
>
> 2. *From 30 January 2010, a package of tools will be available to help individual vineyard operators assess their performance and viability. This will include: a checklist; an upgraded* Deloitte Ready Reckoner *to assess winery profitability by market, channel and price point; and an upgraded* Vinebiz *program to assess vineyard profitability.*
>
> 3. *From early next year, briefings will be held in 14 regional centres (covering all states) to discuss regional data and*

[1] An attempt to obtain the original benchmarking report from Gaetjens Langley in order that its methodology be more rigorously examined was met with a polite refusal to provide the document (Grant, 2010, pers. com).

issues and offer business stress testing to assist with decision making. The Federal Government has been approached to help facilitate this initiative, and State input is being sought.

4. *WFA and WGGA will hold discussions with the Federal Government about improved exit packages for growers and small wineries seeking to leave the industry along the lines of drought and small block irrigator exit packages. Discussions also will be held with State Government agencies with regard to alternative land use options in wine regions.*

(WFA, 2009b: 3).

Initially, it would appear that only the fourth point, whereby the WFA and WGGA take a leadership role alongside Commonwealth Government in developing 'improved exit packages for growers and small wineries seeking to leave the industry along the lines of drought or small-block irrigator exit packages' signals a VPS – or at least the beginnings thereof. However, examination of the first three items suggests otherwise. Point 1 sees confidential data on the viability of specific regions being provided to regional organisations, 'exam[ining] each region in isolation and in relation to the national picture'. Point 2 sees the dissemination of two audit instruments – the *Deloitte Ready Reckoner* and *Vinebiz* – 'to help individual vineyard operators assess their performance and viability'. Point 3 prescribes a follow-up to the two self-assessment exercises, organising growers/winemakers into '14 regional centres' to 'discuss regional data and issues and [to] offer business stress testing to assist with decision making'. In the absence of significant capital inside the industry as a mechanism by which more economically sustainable producers could buy out others, these recommendations amount to a VPS similar to the one touted in the media by large industry players.

To be fair, WRAA also asserts that other initiatives ought to be undertaken by the peak industry bodies, including working with the Commonwealth to revisit the WET Rebate so that it is not deployed to keep 'unviable' businesses afloat, and refocussing research and development to include a marketing plan based in Northeast Asia and China. Nevertheless, the broad thrust of reforms falls squarely on the four immediate responses listed above.

The level of government intervention into agricultural commodity production proposed in the WRAA is by no means without precedent (for an historical overview see Lloyd, 2003; for more specific account of Rural Adjustment

Schemes, see Cockfield and Botterill, 2006 and Gow and Davidson, 1996). Yet this has been increasingly less the case under what some (see, for example, Davidson and Grant, 2001) have referred to as the 'neo-liberal' agenda of successive Commonwealth Governments from 1983. The broad theoretical reasons as to why such approaches to market intervention have been expunged from the armoury of policy options are well rehearsed, and have been examined in a number of contexts, including the Keating Government's drought relief policies of the mid-1990s (Gow, 1994). Setting aside these theoretical arguments, what evidence is at hand to support the idea that the proposed scheme would contribute to the desired result – namely, a financially sustainable, globally competitive industry which nevertheless offers wine consumers – the people who are going to pay for the implementation of such a scheme – choice and value for money when purchasing their wine? It is to an assessment of the 1985-87 VPS that we now turn.

3. THE 1985-87 VPS

Originally intended exclusively for the dried fruit vine industry following from an Industry Assistance Commission (IAC) Inquiry in 1983, the 1985-87 VPS nevertheless spilled over into the wine grape growing industry following the McKay Inquiry that commenced in the same year. In announcing the Scheme on 26 March 1985, the (then) Commonwealth Minister for Primary Industry stated that there was a need for structural adjustment 'because of a massive over-supply on world markets and high domestic production' (Gow et al., 1991: 31) – the same core reasons identified by the WRAA.

Over a period of two years, approximately \$8.8 million was spent by the Commonwealth and the three state governments that decided to implement the scheme (South Australia, Victoria and Queensland), with the vast majority (\$6.2 million) being spent on wine grape removal in South Australia. With the completion of the Scheme, 2,700 ha (or 8 per cent of annual winery intake) was removed from the national crush. By contrast, 802 ha (a mere 3 per cent) of dried fruit vine was removed from production.

In their overall assessment, Gow et al. (1991) were highly critical of the impacts of the scheme. They argued that after taking into account normal removal of grapes (or 'grubbing', due to vine age, changes in demand, etc.), 'the net effect of the scheme was at most to increase grubbings by only 400 hectares' or approximately 1.5% of annual winery intake. Further, they argued that 'it seems difficult to avoid drawing the conclusion that the primary impact of the scheme was to bring forward intended grubbings of aged vines which were nearing the end of their productive life' (Gow et al., 1991: 40). Moreover, while the VPS was originally designed to assist the dried fruit industry, eventually only 22 per cent of funds were directed to this goal, principally due to an upswing in global demand for dried fruits at the commencement of the implementation of the Scheme.

In the current context, the question of relevance is: To what extent are the reasons for the poor policy outcomes particular to the 1985-87 VPS, or alternatively, are there systemic problems with vine-pulling as a mechanism to adjust supply? The answer to this question lays in both the details and the unforseen policy outcomes of the Scheme. The 1985-87 VPS had two distinct policy goals: one to restructure both grape industries such that they were profitable and sustainable, the other to provide for the welfare of marginal farm populations through the implementation of rural adjustment assistance – ostensibly, precisely the same goals of the current proposal. However, at the time, both the South Australian and NSW Departments of Agriculture were highly critical of any attempt to achieve these two policy goals through a VPS. For example, in its submission to the McKay Inquiry, the NSW Department of Agriculture stated:

> *Neither a Vine Pull Scheme nor the RAS* [Rural Adjustment Scheme] *is considered appropriate for distributing welfare payments. Welfare assistance would be provided more efficiently through direct income grants (unemployment benefits are a good example) rather than resource-based schemes. Apart from the problems of distorting the use of resources in favour of the underwritten resource, there is no guarantee that assistance distributed on the basis of resource-use will correspond to the welfare objectives of the Government...*

(McKay, *et al.* 1985, 34-35, quoted in Gow et al., 1991: 32)

Nor was it was merely the conflagration of the two policy goals that were of concern. Both State Departments asserted that there was a lack of suitable alternative crops to grapes in their respective states and that the problem of over-supply might well be transferred to another industry. NSW Department of Agriculture argued that the problem of oversupply may well be short-lived. South Australia argued that a regional focus, rather than a state-based approach, was more suited to the problem (Gow et al., 1991: 35-37).

In addressing the question of why the Scheme faltered, particularly in relation to the dried fruit vines that it initially attempted to target, Gow et al., (1991 offered several observations. First, they noted that fruit production by vines is inherently unresponsive to market signals (despite the fickle nature of the market) because the planning horizon of production is thirty to forty years – the producing life of a vine. As such, producers are better off taking a reduced price – even a price that falls well below the cost of production – for several consecutive years because the term of investment is so long.

Second, this structure of unresponsiveness was exacerbated in the case of dried fruit vine production due to government regulation at the time. This included an exemption from Section 45 of the *Trade Practices Act (1974)* (the Section prohibiting price fixing, monopolisation and exclusive dealing) such that a sophisticated equalisation scheme, in effect a two-price scheme, could be in place (Gow et al., 1991: 17). In addition, the two markets were also overseen by separate bureaucracies (the Australian Dried Vine Fruits Association (ADFA) domestically, and the Australian Dried Fruits Corporation (ADFC) for export sales and marketing (in a 'single desk' mode). Further, sultana producers also benefited from Commonwealth Government underwriting, which guaranteed a minimum return on dried sultana production equal to 80 per cent of an estimated average of equalised returns over the previous three seasons' (Gow et al., 1991: 19). These extreme levels of protection significantly insulated growers from price signals.

Third, Gow et al., (1991: 56) noted that, in contrast to the ineffectual result with respect to dried fruit, the Scheme did result in some multi-purpose wine grapes being pulled that were used for wines that 'certainly appear [ed] to be in long term decline', namely 'those varieties used in fortified *and* table red wines' (Gow et al., 1991: 58; emphasis added). However, with greater hindsight, even this measured level of success is subject to qualification. The decline of demand for fortified wines has indeed decreased. While it may now appear inevitable that this has occurred, this is not necessarily the case. Moreover, the red table wines that were pulled under the scheme were old vines – the mainstay of quality wine in the industry today – and a fact often now lamented (see, for example, Hughson, 2010). One of the main points to be derived from the analysis of Gow et al., (1991) is that in 'picking losers' by way of a VPS necessarily confines the industry to the winners that are left, rather than taking the more considered approach of attrition (grubbing) over time.

In turning their attention to the adjustment (or welfare) objective of the 1985-87 VPS, Gow et al., (1991: 62-70) found that while many grape-growing enterprises were 'uneconomic' when assessed from the perspective of grape-growing only, this was a surprisingly small percentage of producers. Moreover, while there was a small proportion – approximately 10 per cent - of grape farmers that could be assessed as marginal (based upon relative small-scale, aged plants, poor market prospects, accumulated debt and low off-farm earnings) the VPS did not target this group exclusively. On the contrary: for the first year of its operation in South Australia, the scheme was available without restriction, i. e.: neither means-tested, nor prescribed as clear fell (as opposed to partial pull). In Victoria, the Scheme was initially restricted to multi-purpose grape producers for clear felling only; but it was undersubscribed to the extent that both these restrictions were removed. Gow et al., (1991: 68) concluded that not only was assistance offered to financially successful grape-growers (who were in a position to adjust slowly) it was also offered to what they referred to as ‘lifestyle’ producers and ‘hobby farmers’ – hardly an equitable outcome.

In examining possible improvements to the 1985-87 VPS, Gow et al., (1991: 71-77) first reiterated Stiglitz’s (1986) observations of government programs generally; that the details of provisions are paramount, and that these may be more difficult than defining the original problem. Moreover, there is often a trade-off between the formulation of criteria on the one hand and the ease of their implementation on the other hand (see, Wallis and Dollery 1999, for a detailed analysis of the phenomenon of government failure). They also illustrated how the VPS tripped up on its own methodology: A foundational element of the application of the Scheme was land area – assistance payments were acreage-based. Yet two variables immediately confounded this seemingly obvious choice of definition so as to render it simplistic. The first was that yield per acre is variable by variety of grape: Gow et al. pointed to the example of the multi-purpose Muscat Gordo Blanco yielding approximately 40 tonnes per hectare compared to Shiraz yielding some 6 tonnes per hectare. While as a varietal in its own right shiraz will bring a higher price per tonne, this price premium would rarely exceed 50 per cent. As such, ‘the attractiveness provided through the Scheme was substantially lower for multi-purpose varieties than for dryland wine grape varieties’ (Gow, et al., 1991: 72).

We are thus faced with not merely Stiglitz’s insistence of the intrinsic difficulties of designing a well-targeted government program but with the perverse policy outcome that Shiraz – one of the stalwarts of the ensuing and growing Australian wine industry – became devalued against Muscat Gordo Blanco – grapes used to make sherry. In the face of a mooted VPS in 2010, it is worth bringing unintended policy outcomes of the 1985-87 VPS to the fore. Gow et al. (1991: 56) summed up the Scheme as ‘prompted by a temporary, albeit prolonged, decline in world prices’, resultant in destruction of long term assets such as vine stocks’, with ‘the low participation rate in the Scheme perhaps being fortuitous (Gow et al., 1991: 56).

Nevertheless, a sudden recovery in export prices for Australian wine is remote in the present global market. The Australian industry does face a systemic oversupply problem from which many other negative impacts are derived. It is to the alleviation of this problem that we now turn.

4 LESSONS LEARNED

The immediate objection to comparing the experience of the 1985-87 VPS and the one now proposed is that the situations are so different. In particular, both the welfare component of the 1985-87 VPS and the radical change in the regulatory framework mark significant change. Yet these differences may be more apparent than real. In the first instance, there is, in fact, a welfare component attached to the structural adjustment process envisioned in the WRAA. The agenda clearly advocates government-assisted exit of small players for the benefit of larger players. As such, it may not be a particularly defensible welfare outcome, but it is an outcome nonetheless. Second, with regard to the differences in regulatory environments, the then regime of industry protection was a bureaucratic edifice when seen alongside the minimal tariff regime for wines imported into Australia and the occasional tax concession to the industry. However, to implement the WRAA in its proposed form would immediately negate the principle that has underlain the growth of the industry for the last twenty years, namely, that of minimal government interference. Under the scenario of VPS proposed by the WRAA, the very least problem would be those identified by Stiglitz (1986) and reiterated by Gow et al., (1991) – that assistance programs are notoriously difficult to design, and that the trade-off between successfully designing criteria and ease of implementation has to be taken into consideration. Rather, as the account of the 1985-87 VPS clearly demonstrates, it is the unintended, and in some instances perverse consequences of policy that prove most problematic. Indeed the negative outcomes of adjustment/welfare policy which amply demonstrate in favour of the general principle that, in the case of grape-growing and wine making, government ought to let supply and production correct itself in accordance with demand.

If the proposed WRAA is as problematic as this paper has argued, the most pressing question is that of what steps can be taken – by the industry and those that decide the regulatory framework – to improve the outlook, not just for the industry itself or a sectional interest therein (*a la* the WRAA), but more generally, and in particular for those disparate regions of Australia that now enjoy the benefits of a wine industry as part of their milieu. In fact, ABARE considered this question in some depth in a recent research report based on a comparative study of the McLaren Vale and Riverina wine regions as well as national and international data (Sheales et al., 2006). The Report did recognise that scale economies would be achieved from an increase in the average size of grower operations due to smaller operators exiting. However, it was adamant that this occur through competitive market forces, 'because it allows the most efficient and forward-looking businesses to keep up with the pace of change' (Sheales, et al., 2006: 46). Further, it added the caveat that there 'would be significant variation across regions' (Sheales et al., 2006: 38).

The Report contained five additional broad recommendations. First, exploring the relevance of different business models such as 'contracting, leasing, share-farming and cooperative arrangements designed to achieve better financial performance for growers and the industry as a whole'. Second, investment into research and development, both at the farm level and in terms of product innovation. Third, it urged that relationships between growers and wineries be examined, with the goal of achieving clearer information about markets. Fourth, it recommended a general increased awareness of global market trends and finally, it directed traditional businesses to look for opportunities to add value in a context where consumer demand was changing rapidly (Sheales et al., 2006: 5). Also, in common with the WRAA, it identified potential in new international markets (China, Russia, Germany and Southeast Asian countries) recommending in-country promotion, and argued, unlike the the WRAA and *Supporting Report*, that the Australian grape-growing industry has responded to the contraction in demand, with total new plantings falling considerably since 1997 (Sheales, (2006: 31).

However, the most striking element of the (2006) ABARE Research Report is the underlying principle change:

> *Allowing the market to work, in Australia as well as in other 'new' and 'old' world producing countries, will provide the most efficient and effective solution to both the stocks overhang and low prices... Regulatory interventions will be costly, both financially and in terms of economic efficiency; they will not result in improved prices to growers as Australia is too small to influence the world market; and other competing suppliers to the world market will benefit less from Australian competition.*
>
> (Sheales et al., 2006: 5).

In sum, the recommendations of ABARE in 2006 look like a lot of hard work for the industry, alongside some farms -- though not necessarily the smaller and less efficient ones -- exiting the industry. Nevertheless, ABARE is clear that a VPS, or indeed any significant intervention by government, ought not to be entertained.

5. CONCLUDING REMARKS

The arguments marshalled in this paper have alerted us to some important questions for future research. Perhaps the most of pressing of these is a critical exposition of the two accounting instruments – Deloitte's *Ready Reckoner* and *Vinebiz* – that under the WRAA plan these will be comprehensively distributed to industry participants. They currently circulate widely throughout the industry (Reddaway, 2009) and are freely available. What are their methodologies, are there alternatives and to what extent are these instruments suitable? Secondly, the authors of the WRAA have presented the case for a rationalisation of the industry through expunging smaller 'inefficient' players. But it is possible that there is a *contra* argument. The investigation of the 1985-87 VPS demonstrated that, when assessed from the perspective of viticulture and winemaking alone, many businesses in South Australia were not financially viable. However, viewed as mixed enterprises (inclusive of off-farm income) only 10 per cent were assessed as marginal. To what extent do enterprises of this kind form a constitutive element of wine regions – both in terms of grape-farming, but also in terms of their contribution through other economic activity -- constitutive of a resurgence of these regional areas? In the face of such an organised *putsch* – including the sponsorship of two Commonwealth Government corporations -- in favour of larger producers, empirical investigation of these and related questions would provide a useful antidote to the view of the future of the industry implied by the WRAA. Nevertheless, the underlying lesson of our examination of the last government-sponsored VPS, is that 'the game wasn't worth the candle' and that its unintended, negative policy outcomes far outweighed the meagre benefits gained.

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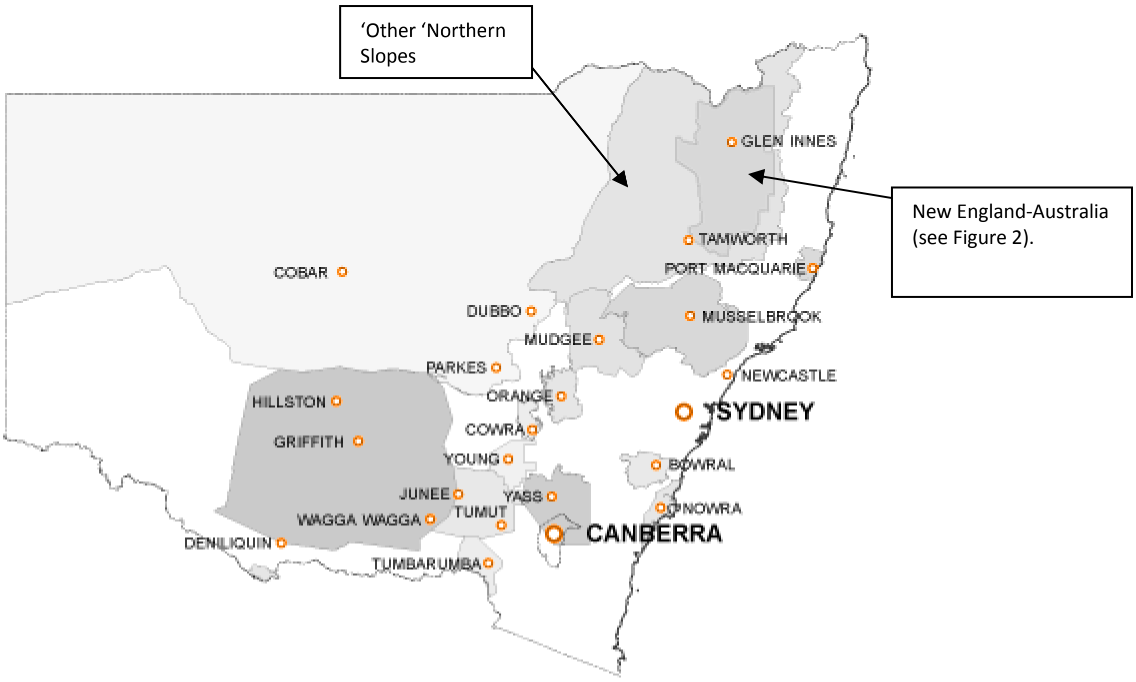
NEW ENGLAND-AUSTRALIA WINE REGION: WHAT FOLLOWS FROM REGIONAL STATUS? A COMPARATIVE, POLITICAL ECONOMY APPROACH.



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NEW ENGLAND-AUSTRALIA: WHAT FOLLOWS FROM REGIONAL STATUS? A COMPARATIVE, POLITICAL ECONOMY APPROACH.

ABSTRACT: The 'New England–Australia' wine region was formally defined on the basis of geographical indicators (GIs) in May 2008. To date, the region has pursued a marketing strategy built principally on its GI-defined regional status, emphasising cool climate diurnal variation, as well as some markers of cultural and political identity, such as 'family' and 'artisan' production. This general marketing profile fits 'hand in glove' with that of a region 'presenting an image of quality and tradition' (Chang et al, 2006: 6). Yet, as Garcia-Parpet (2007) has reminded us, marketing is not merely about product promotion. It is also about the strategies that businesses adopt to achieve market entry, both legal and cultural, and the mechanisms for circumventing possible barriers. With this in mind, we contrast the marketing strategies of the New England wine-producing region in Australia with that of the Languedoc-Roussillon region in France. While the two occupy similar market positions, they nonetheless reveal diametrically opposed marketing strategies. Against the background of this comparative discussion, we seek to propose methods to enhance the development of the New England wine region so that it becomes a more complete example of successful rural restructuring.

1. Introduction

Writing in the *Oxford Companion to Wine*, Jancis Robison (1999) used the concept of nature to describe the diametrically opposed approaches to wine making of the Old World and the New World. According to Robison, for the Old World, nature is 'the determinative driving force' of wine, exemplified in the phrase *vin de terrior*. By contrast, for the New World, 'nature is the enemy that must be controlled and dominated by science', as exemplified by the term *vins technologiques.* Moreover, while complex webs of regulation preside over the production and supply of wine in the Old World, in the New World 'there are no limitations imposed on supply other than concern for consumer's health' (Garcia-Parpet, 2008: 238).

Beyond the inaccuracies that these stylized accounts of 'wine worlds' provide, and beyond the heady domain of sensory critique that is wine consumption, wine is big business. Australia is no exception to this, as illustrated by Table 1:

Table 1: The Australian wine industry, 1990-2004

	1990-91	1995-96	2000-01	2004-05
Total vine area (ha)	61 362	80 574	148 269	166 666
Wineries	617	812	1318	1899
Total production (million litres)	346	606	1035	1442
Export volume (million litres)	57	130	339	661
Export value (A$ million)	180	472	1614	2748
Domestic consumption (litres/capita)	17.8	18.3	20.5	21.8

Source: Adapted from Banks, *et al*. (2007: 17).

The most striking statistic in Table 1 is that the value of wine exports in 1990-91 represented a mere 6.5 per cent of what they had reached in 2004-05. Also significant is that the number of wineries increased by a factor of over 3 (from 617 to 1899) in the same time period, representing significant capital investment. While there are some signs of a dampening of both demand and production in the Australian Bureau of Agricultural and Resource Economics' (ABARE) projections for the Australian wine industry for 2010-11 (ABARE, 2009), the tonnage of grapes crushed in 2007-08 nevertheless rose by 31.1 per cent from 2006-07 (ABS, 2009a). Domestically, total sales of wine in 2007-8 reached $2.096.2 billion, with exports valued at $2.608.4 billion. However, alarmingly for local producers, the value of wine imported to Australia increased by 40.8 per cent from 2006/07 or $431.4 million (Australian Bureau of Statistics (ABS), 2009a).

Both grape cultivation and wine production are now widespread economic activities throughout Australia, with ABARE (2009) currently listing approximately seventy wine producing regions and as many subregions. Thus, wine production has significantly disrupted long term-trends indicative of the marginality of rural and regional Australia, in particular smaller farm holdings. For example, between 1970 and 1996, the number of farms in Australia decreased from 250,389 to approximately 150,000. Further, the mean size of the remaining farms has increased from approximately 1,858 hectares in 1960 to 2,834 hectares in 1996 (Davidson and Grant, 2001: 296). Moreover, over 2007-2008 alone, the number of agricultural businesses operating in Australia fell 6 per cent to 141,000 (ABS, 2009b).

In many ways, the New England North-West region of New South Wales (NSW) is indicative of these national trends. For example, net tonnage of grapes crushed for wine has increased from 14,893 tonnes in 2000-1 to 17,953 tonnes in 2006-7, with a concurrent increase in businesses from 91 to 104 across the same time period (ABS, 2008). These kinds of increases in production stand in contrast to other statistics for the same region, such as stagnant or dwindling population bases (see, for example, Conway, Dollery and Grant, 2009). In addition, as the recent work of some geographers has served to remind us, issues of regional economic regeneration are as much about notions of identity and rescaling as they are about avoiding rural malaise (see, for example, Banks, *et al*., 2007; O'Riordan, 2001).

Indeed, much rides on the success of the wine industry for Australia generally and in particular for its regions. With this in mind, this paper undertakes an analysis of the development of a marketing strategy by the New England region, as pursued by the two growers associations; the New England Wine Growers Association and the Southern New England Vignerons Association (SNEEVA)[*]. This strategy has been supported by the New South Wales Government's Department of State and Regional Development through its New England Regional Development Board, located in Armidale, NSW (as illustrated in Figure 2), as well as the Armidale-Dumaresq Council. By way of these producer groups, and in conjunction with the New England Regional Development Board, the region has pursued what Banks and Sharpe (2006) refer to as 'the geographic imperative'; namely the awarding of regional status on the basis of GIs by the Australian Wine and Brandy Corporation to conform with many of Australia's famous wine producing regions and sub-regions such as the Coonawarra in South Australia, Margaret River in Western Australia and the Hunter Valley, immediately adjacent to the south of New England–Australia region.

The achievement of the status of a certified region – 'New England–Australia' in May 2008 was hailed as a significant milestone by both producers and the community more generally, and was officially launched twice in the one week by the Member for Northern Tablelands and Speaker of the NSW Legislative assembly, the Rt. Hon. Richard Torbay (Food and Wine News, 2008). This geographic approach to product branding has been augmented by the efforts of individual producers, notably by developing 'certified organic' products (Blickling Estate 2009;Wright Robertson, 2009), and 'certified biodynamic' products in another (Walden Woods, 2009), as well as particular marketing efforts like food and wine events (such as the annual Guyra 'Lamb and Potato Festival'; 'Gourmet on the Glenn'; Nundle's 'Picnic at Hanging Rock' – see 'Events', nd).

Nevertheless, a series of pertinent questions may at be asked at this juncture concerning the marketing of New England–Australia. For example, is the focus on the achievement of regional status (the 'geographical imperative' identified by Banks and Sharpe, 2006)) enough to ensure the vibrancy and growth of the region's wine industry? Further, alongside the efforts of individual producers, how may this approach to marketing the region's wines – and the region more generally – be augmented and improved, given the region's market position? Moreover, what can be learned from other regions – not just in Australia, but globally?

By way of an initial response to the questions posed above, this paper seeks to demonstrate that useful lessons can be learnt through comparing of the New England–Australia wine region with that of Languedoc-Roussillon in France. Despite obvious dissimilarities, the two regions share a number of characteristics, particularly with respect to their market position, and more specifically in relation to older, more firmly entrenched competitors. We argue that the novel ways that Languedoc-Roussillon structured its response to its market position can be instructive for New England–Australia.

The paper itself is divided into five main parts. Section 2 provides an account of the emergence of the New England wine region derived principally from the work of Chang, et al. (2006) Section 3 of the paper notes that despite the achievement of Regional Status, when viewed through Porter's (1998) 'Diamond Model' of market advantage, New England-Australia can be assessed as occupying a precarious position in terms of its prospects for sustainability and growth in face of a nationally and internationally competitive industry. Section 4 considers both the market position and strategies of the Languedoc-Roussillon region in France through reference to the work of Garcia-Parpet (2008), focussing on the fact that that this region has adopted decidedly 'new world' strategies in the face of a rigorous and systemic mechanism of 'old world' market closure. Section 5 of the paper engages in some comparative observations, notably that many of the marketing strategies, in particular the development of new wine varieties, the targeting of a price point which is neither exclusive, nor budget-based and the valorisation of 'place' and in particular 'region' are also applicable to the emerging, and important, New England–Australia wine region. The paper ends with some brief concluding remarks in section 6.

2. New England-Australia

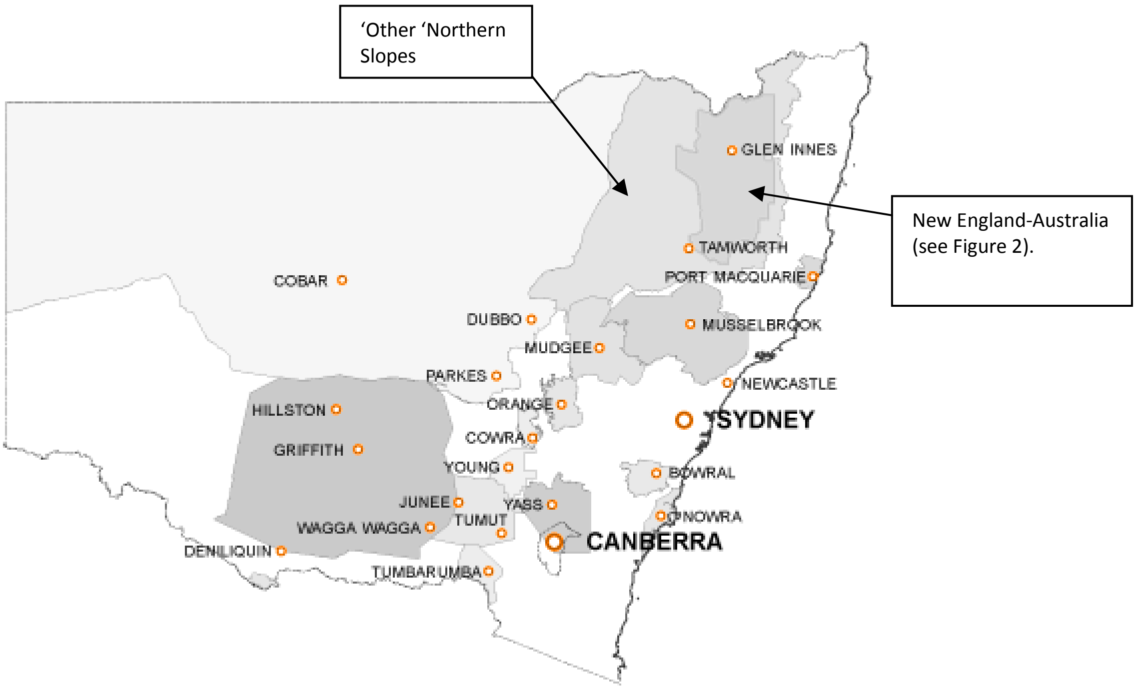
The New England-Australia wine region is located approximately 650 kilometres north-north west of Sydney. Encompassing some 27,000 square kilometres, it is one of the largest wine regions in Australia (Food and Wine, 2008). In their discussion of the region immediately prior to its official recognition as a wine region based on geographic indicators, Chang et al. (2006: 6) provide a useful array of general information about the New England as a wine-producing region. Firstly, in common with some other areas in Australia, commercial wine production commenced in the 1850s alongside the establishment of broad-acre farming and grazing. However, this production generally waned until the last of the vines were left to die out just prior to WWII. Again, as with many other areas in the country, it was only in the 1970s that interest in the industry was renewed. However, in the case of the New England, the vast majority of its currently productive vineyards were planted between ten and fifteen years ago.

Secondly, the New England–Australia region was hewn out of a pre-existing 'Northern Slopes' region as classified by the AWBC[2]. This is represented in Figure 1. It is evident that the former Northern Slopes region was considerably larger than New England–Australia. Yet, the New England-Australia region is still geologically and climatically diverse: The plateau

[2] At the time of writing, despite awarding regional status to New England-Australia, the AWBC did not provide statistics on New England – Australia as a region distinct from the Northern Slopes. See AWBC (2009).

from Tenterfield in the north to Armidale and Walcha in the south is characterized by a height of approximately 1000 meters, with rainfall of 800-900 millilitres per annum and constituted by yellow Podzolic soils. On the other hand, the west and south of the region, around respectively the towns of Delungra and Kootingal, are approximately 600 metres above sea level, have significantly lower rainfall, and are constituted by black-earth Euchrozem soils (Chang et al., 2006: 7)[3].

Figure 1: The Northern Slopes and New England-Australia wine regions



Source: ABARE (2009).

Thirdly, Chang et al. (2006: 8-9) provide a synoptic 'snapshot' of the industry based largely on an audit of the region conducted by the NSW Department of State and Regional

[3] Chang, Campbell and Snickers (2006: 7) noted that the differences in climatic conditions were expected to be problematic in the context of achieving recognition as a region defined on the basis of GIs, and that the issue was raised 'in communication with the AWBC GI Committee'. However, the Committee assessed that a wine region could be inclusive of a variety of wine styles and could be named on the basis of other points of similarity such as land use and naming tradition. While the Committee may have viewed the issue of climate and soil variation as relatively uncontentious, personal communication with a number of vignerons and oenologists over a number of years confirmed that the issue of inclusion was indeed highly contentious.

Development in 2002-03. Table 2 provides a comparative portrait of the New England–Australia wine producing region as an element of the former Northern Slopes region:

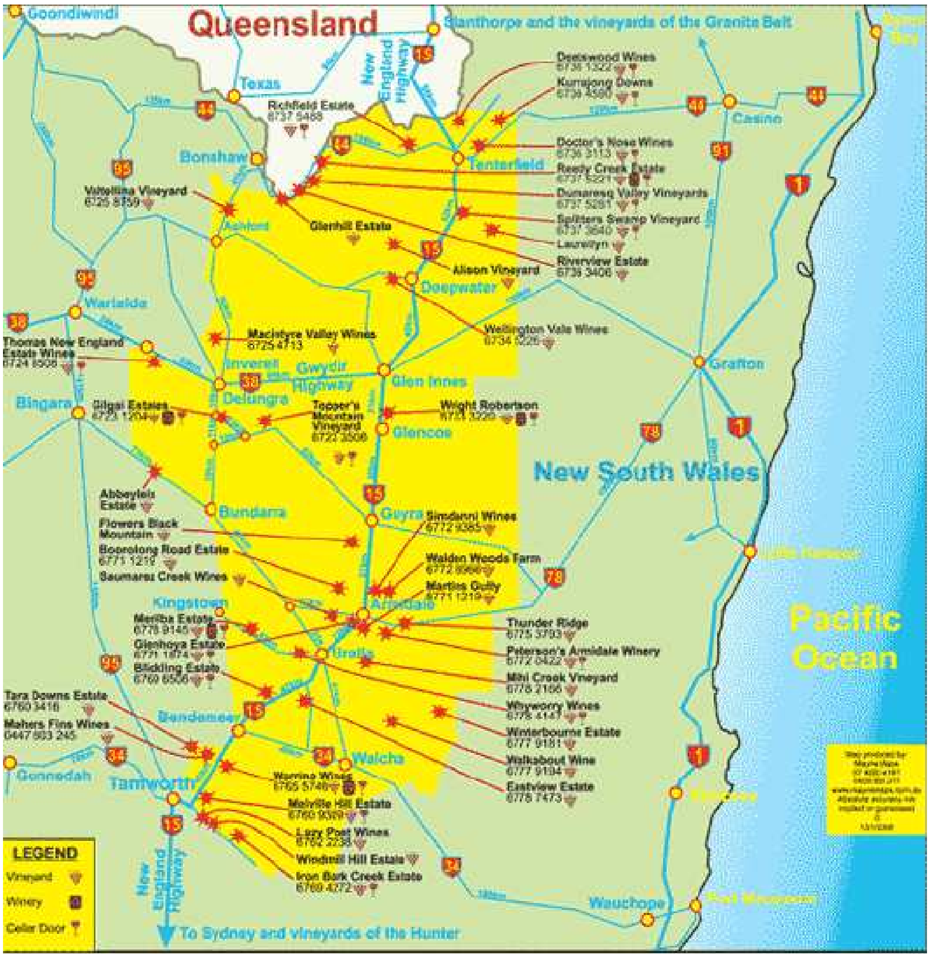
Table 2: Grape Cultivation in Northern Slopes and New England, September 2005

	Northern Slopes	New England	New England as a % of Northern Slopes
Vineyards	52	41	79
Area (hectares)	409	291	71
Grape production (tonnes/year)	2,529	1,852	73
Litres/bottles	1,580,734/2,107645	1,157,750/1,543,666	73/73
On-farm oenology as %	9.6	12.1	n/a
Value	$29.5 million	$21.6 million	73

Source: Adapted from Chang, Campbell and Snickers (2006: 8).

From Table 2 we can see that the New England–Australia wine region constituted approximately 75 percent of the 'embryonic' wine industry of the Northern Slopes at the time. Chang et al. (2006: 9) also note that there were five wineries in the (former) Northern Slopes region. All of these – Reedy Creek Winery, Wright-Robertson, Merilba Estate Winery, Gilgai Estate and Warrina Wines are now to be found in the New England – Australia GI designated region (see Figure 2).

Figure 2: New England-Australia wine region



Source: Food and Wine (2008b).

Important questions are raised by the data presented in Table 2 and associated evidence presented in Figure 2. First, trends since this time, such as business failure rates and capital concentration, as well as the opening of new wineries and vineyards, are not represented. Second, the extent to which the five wineries in the region have been contracted by local grape growers to produce wine from the grapes of the region is particularly significant, not just in terms of the rank retention of investment in the region, but more significantly for the prospects of developing a regional style based on the expertise and artisanship of these local wine makers. Whereas the regional wine makers and those responsible for marketing the region overall may reach for the slogan of ‘cool climate’ (see, for example Northern Inland Regional Development Board, 2009), this is a far cry from developing a regional style of wine that can make claims to both distinctiveness and quality that coincide with the awarding of regional status. Third, given that there are only five wineries in the region, what is the value of the crush and winemaking that takes place *outside* the region? And what is the marketing trajectory of those producers that now lie outside the GI-defined New England–Australia, yet are still part of what ABARE (2009) now refers to as ‘other Northern Slopes’? In short, Table 2, combined with Figure 2, raises doubts about the cogency, and overall financial sustainability of New-England-Australia as a viable wine region.

3. Prospects for New England Australia: Porter’s (1998) ‘Diamond Model’

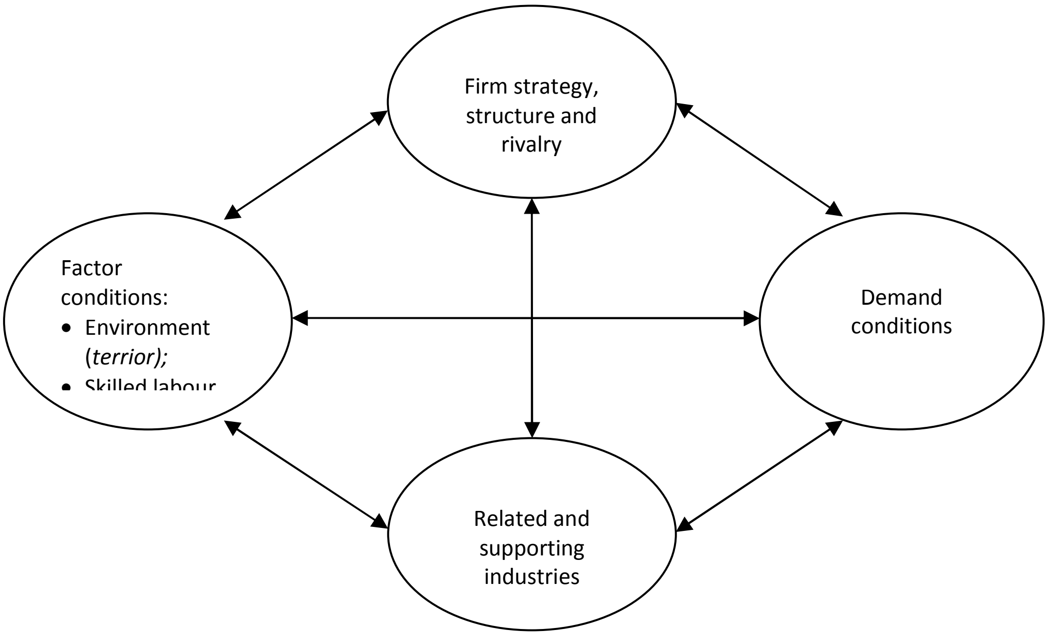
In their diagnosis of prospects for the wine region, Chang et al. (2006: 10-11) applied Porter’s ‘Diamond Model’ to the data uncovered by Vanzella (2003) in his auditing of the region for the NSW Department of State and Regional Development. The Diamond Model considers four determinants of national marketing advantage, namely:

- *Factor Conditions* -- the factors of production (levels of skilled labour, infrastructure, physical and knowledge resources) necessary to compete in what is a highly competitive market;
- *Demand conditions* – the nature of domestic/local demand; the model identifying, in particular, ‘sophisticated consumers [who] can pressure firms to innovate faster and to produce superior products than otherwise’;
- *Related and supporting industries* – namely, whether or not there are nationally and internationally competitive related industries with which a particular industry can enjoy reciprocal relationships;

- *Firm strategy, structure and rivalry* – namely, 'the presence of fierce rivalry' in the domestic market and the governance of this market such that this fierce firm rivalry is encouraged.

Chang et al. (2006), following Porter (1998), represented the model diagrammatically as presented in Figure 3.

Figure 3: The Diamond Model of Industry Strength



Source: Chang, Campbell, and Snickers (2006: 11).

In their analysis, Chang et al. (2006: 10) identified the infant nature of the wine industry in the New England as the principle reason for claiming that the region's prospects were 'not encouraging'. The *factor conditions* of the region were assessed using data from Vanzella (2003). Chang, et al (2006: 10) noted that land for viticulture had been chosen on the basis of pre-existing ownership rather than technical site selection. Significant doubts were also expressed about the continuing availability of skilled labour, and variable product quality was mooted as a potential problem. Moreover, two of the factors that Chang et al. (2006) found encouraging at the time have been significantly mitigated by recent events. Firstly, the continued support of the New England Regional Development Board has been dissolved with the abolition of Regional Development Boards generally and their amalgamation with the Federal government's Area Consultative Committees to form the new Regional Development Australia Committees. The final structures and remits of these committees are as yet unclear (Albanese, 2008). Secondly, while the potential support of the University of New England as a 'knowledge resource' under the general category of factor conditions was identified by the authors, this has yet to eventuate.

Moving away from the analysis of Chang, et al. (2006), yet still deploying Porter's Diamond Model, we can observe that the *demand conditions* for New England-Australia wines will be heavily influenced by the situation in the highly competitive Australian wine market. Moreover, we can speculate that, while it is possible to conceive of a situation where quality consumer demand shapes product innovation, this would rely upon both clear market signals and the capacity of the region's producers to adapt to these demands – something which is brought into question by the nascent nature of the industry. Further, while there may be anecdotal evidence that other industries in the region, such as quality produce and tourism, can assist wine consumption analogous to the way suggested in the model under the category *related and supporting industries* overall market conditions, wherein New England-Australia produces a very small proportion of the national crush, again tend to mitigate against these positive elements.

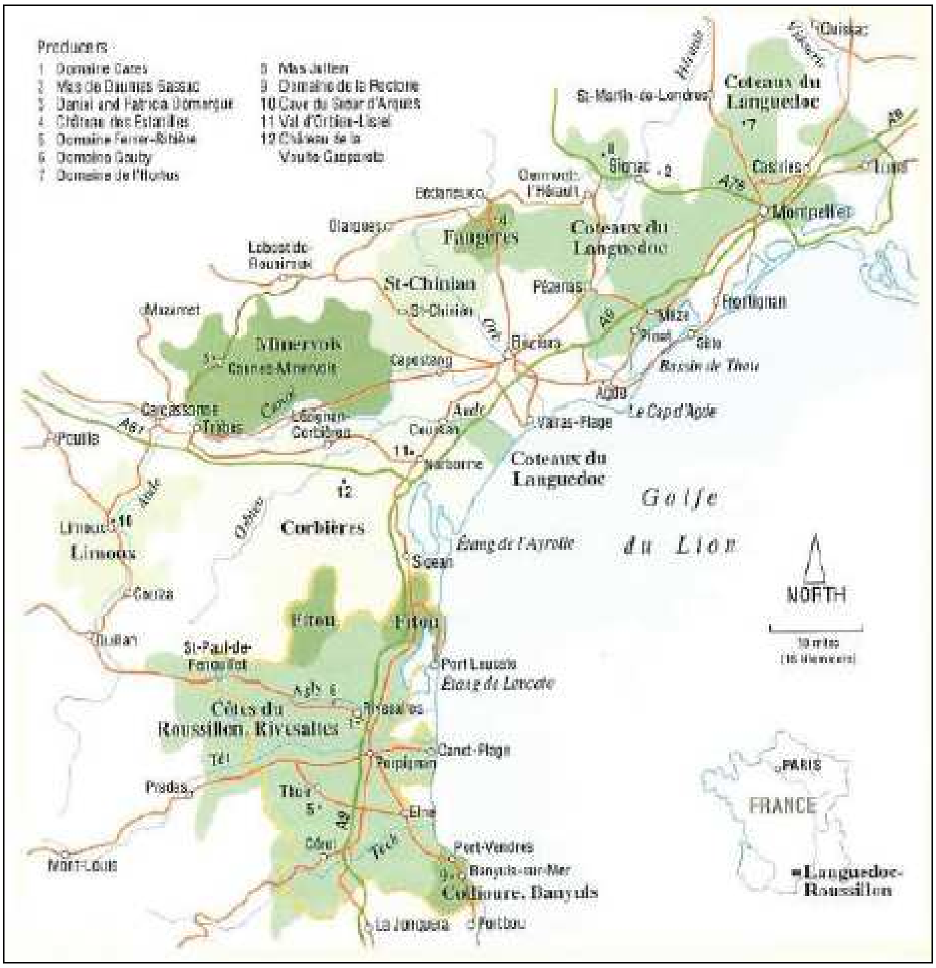
Moreover, while there is indeed fierce competition in the Australian market overall, Porter's requirement that there be 'fierce firm rivalry' between the businesses of the New-England itself is in fact mitigated by the structure of the industry. Thus, while New England-Australia may now be constituted by numerous vineyards backed by two producer groups, the fact is that there are only five wineries (all of which have their own vineyards). As such, there is a high degree of discrepancy between those businesses which produce wine and those that merely grow grapes, with the potential that the latter will be reduced to contract growers for the wineries – either within the region or beyond. In the conditions of overall declining demand projected by ABARE (2009), contract growing of any agricultural product is not an enviable position to be in. And the kind of firm competition advocated by Porter's Diamond Model would appear to be diametrically opposed to the actuality of regional cooperation that has been essential to achieve recognition as a geographic region, along with other more subtle forms of cooperation typical of rural communities, such as informal information exchanges concerning farming techniques, as well as market information.

Of course, individual producers – and their loyal consumers – may have every reason to feel positive about the immediate and long term prospects for their relationships. However, viewed structurally, we have seen that the wine industry of New England has the potential to play an important role in revitalising the sustainability of the New England region. It is thus imperative that, alongside mainstream approaches to market analysis and prescription, alternative forms of analysis and prescription are pursued. It is with this in mind that the paper now moves to an account of Languedoc Roussillon region in France.

4. Languedoc-Roussillon: From 'wine factory' to 'pioneer'

At first glance, Languedoc-Roussillon in the south of France (see Figure 3) would appear to be the diametric opposite of New England-Australia for a number of reasons. Writing in the *Global Encyclopaedia of Wine* (2000: 138-140), Jim Budd stated that at 620,000 ha in area with 250,000 ha under vine cultivation, it was then the world's largest wine region, and constituted over double the total area of Australian vineyards. Moreover, along with Provence, it has the oldest vineyards in France. While in the 18th and early 19th century the region had a reputation for high quality wine, with the industrialisation of the French economy, inclusive of a rail link to Paris opening in 1850, Languedoc came to specialise in what became known as *le gros rouge* for the industrial proletariat. However, the slow decline of this wine-swilling class, led to a decline in demand for cheap red wine that Budd (2000: 139) describes as ‘terminal’ leading into the 1980s.

Figure 3: Languedoc-Roussillon, France



Source: *Global Encyclopaedia of Wine* (2000: 139).

At this point we leave Budd’s account of Languedoc-Roussillon to turn to one that is of more interest in this more recent economic context. Published in the *International Review of*

Sociology, Garcia-Parpet's (2008) investigation 'Markets, prices and symbolic value: grands crus and the challenges of global markets' is grounded in political economy. It adopted a critical stance in relation to the construction of markets by recognising that as well as competing for consumers on the basis of indices such as price and quality, 'competition between businesses has taken the form of competition for power over regulation and the imposition of a particular style of production' (2008: 237). This critical political economy approach to markets and their legal definitions immediately renders contestable what, in our discussion of GIs above, is uncritically valorised, namely the epistemic reality of a defined geo-temporal place. While this critical perspective may be levelled against any marketed wine region, Garcia-Parpet (2008: 237) nonetheless asserts that the wine market in France is thoroughly embedded in what Banks and Sharpe (2006) have labelled 'the geographic imperative'. However, Garcia-Parpet also points out that what underscores this regional marketability are the 'valorisation of "traditional methods" and the delimitation of certain privileged zones of production' through attributing 'the principle of non-reproducibility to history and nature'. In France, then, these forms of production control not only serve to limit supply but further enhance the unique appeal of a particular region; and this in turn shapes the marketing strategies of the region and becomes a principle determinant of price.

In her account of the development of the institutional framework of the *Appellations d'Origine Contrôlée* (AOC), Garcia-Parpet (2008: 238) noted that the system developed in the 1930s as a mechanism to deliver the producers from the sophistry of the dealers, was developed on the basis of the smallest French administrative area, the *commune*. However, what it also meant was that after 1935, a small fraction of wine producers in France were given legal sanction to name and privilege their own wine, thereby excluding the vast majority of their countryman's produce from the label of excellence and thus creating the qualitative distinction between AOC wine on the one hand and *vins de table* on the other – a distinction that was to last up until 1968. This is by no means to suggest that there has been no change to the system of AOC classification. On the contrary, Garcia-Parpet points out that the number of appellations has risen from approximately 40 in 1935 to some 400 at the present time. However, there can be no doubt that the official process of classification itself instituted a new form of closure and so too new modes of marketing and distribution[4]. Garcia-Parpet (2008: 239) observed that:

> Independently from the actual quality of the wine, wine professionals, experts and consumers traditionally tend to attribute greater value to AOC wines. This distinction is maintained in France by a literature which has been reinforced by the importance of large-scale distribution, which has acquired a dominant role in wine retail. These large-scale operators make extensive use of this literature in the promotion of their business.

We are thus alerted to the fact that while the achievement of GI status, whether it be for the New England-Australia region, or for one of many that have struggled on the fringe of the AOC matrix for decades, classification is at once both political and social, as well as being temporal and viscerally economic. Further, while the institutional barriers to market entry

[4] In this context it is worth citing in detail the process of entry into the AOC as documented by Garcia-Parpet. As the author discovered in an interview with the president of the union of the Cheverny appellation:

> We worked for ten years, trying several different blends. The commission came three times. The second time, they made a report saying that we had made a great deal of effort but not enough. They found that the viticultural landscape was not homogenous . . .We presented the vineyard and they tasted the wines ... There was an agricultural engineer from the [regional] INAO of Tours, one from the regional INAO of Angers and one from the national committee. The red Cabernet Sauvignon was not accepted but we managed a blend of Pinot Noir and Gamay. In 1993 we were recognised as an AOC (Garcia-Parpet, 2008: 239).

are by no means as intricate, nor as rigorous in the Australian context as they have been in France from the mid-1930s, the discussion above indicates that while the barrier to regional classification on the basis of GI may have been dismantled for New England-Australia, other barriers to market share, generated by competition from the heavy-weight wine regions of Mudgee to the southwest and the historically embedded region of the Hunter Valley to the immediate South (see Figure 1) are indeed political and social. It is these barriers, in the context of Languedoc-Roussillon (and with an eye to New England-Australia), to which we now turn.

While the AOC system has evolved, it has not undergone reform to any significant extent. However, it has been threatened by the actions of Languedoc-Roussillon. To take up the historical narrative derived from Budd, above, Languedoc-Roussillon was facing dire economic consequences due to the radical fall in demand for its *gros rouge*. The way forward lay in taking a number of bold steps. The first was in terms of product. Languedoc-Roussillon adopted New World techniques, to the extent that it was labelled the 'New California' of winemaking in France. Specifically, the AOC versus *vin de table* dichotomy was circumvented with the production of 'international', single variety wines — winemaking impermissible under the AOC. Moreover, the wines were labelled according to variety more prominently than place. This culturally, but not legally heretical circumvention saw eighty percent of this product exported to the United States, with an increase in price 'by a factor of 2 to 3 depending on the grape' (Garcia-Parpet, 2008: 242).

The second product innovation was to re-valorise the wine produced using grapes traditionally associated with the region – initially carignan – which was snubbed as being of average quality due to high yields (Budd, 2000: 138). Garcia-Parpet (2008: 247-248) pointed out that the process of elevating these local wines (based also on cinsault and picpoul de pinet) took place later in the re-valorisation of the region generally (from approximately 2000 onwards) wherein 'the heretical could be transformed into the *avant-garde*'.

These changes in the marketing and production of Languedoc-Roussillon wines were due, as Garcia-Parpet points out, to the strong leadership displayed by Aimé Guibert and Robert Skalli. Fleeing bankruptcy from his leather business in Paris, Guibert was blessed with site selection when purchasing a vineyard in the region and serendipitously employed Bordeaux's leading oenologist to assist him in his endeavours. While his wines quickly achieved international success (principally through the use of his upper-class contacts in London), initially they garnered praise in France only when presented *en chaussette* (i.e. blind tasted), with wine professionals simply refusing to taste any labelled product. Nonetheless, while cultivating a band of loyal local consumers, 'the wines consumed in official ceremonies or in the meals of the local elite on special occasions were not the local wines'[5]. (Garcia-Parpet, 2008: 241). Guibert was then joined by another maverick, Robert Skalli, who from 1981 instituted both the single variety wines and their export to the United States, along with strict specifications on these products. Furthermore, Skalli (cited by Garcia-Parpet, 2008: 242-243) made a very deliberate decision not to engage in the sophistry of the AOC system, stating of his single variety wines that the premise of his marketing strategy was to achieve:

> [A] simplicity of understanding the wine product by requiring only a dozen words to be understood and remembered (Chardonnay, Merlot, etc.), a level of standards in production which must ensure, on an international level, quality,

[5] The point of comparison to the New England region in this particular instance is precise. As has been witnessed on many occasions by the first Author of this particular paper during his many years working in restaurants in Armidale, while many of the local elites of the region may often publically pay lip service to the quality of the local wine, when dining discreetly, some often snub, and even deride it.

> productivity, food industry demands and allow for the specific character of the vine (Skalli, cited by Garcia-Parpet, 2008: 242-243).

Moreover, Skalli also insisted that his wine be positioned at a middle price point, thus achieving distance from the stigma of *le gros rouge* and at the same time not competing with AOC wines (Garcia-Parpet, 2008: 243).

This leadership was political as well as commercial. Skalli relied on 120 other producers with 7,000 ha of grapes to service the markets he had created overseas. Moreover, the quasi-feudal cooperatives of the region transformed themselves into rat-cunning marketers. For instance, the *Union des Caves Cooperatives de l'Ouest Audois et du Razes* (UCCOAR), took control of the business that imported wines to the region, then moved to capture the low end of the Bordeaux market as well as forming a joint-venture with a Texan company to import direct to that state. Over time, AOC producers came to acquire vineyards in Languedoc-Roussillon, citing their need for expansion, where in fact the limitations on their own produce due to the AOC had cramped their capacity for profitability. Moreover, companies from the New World began to acquire vineyards in the region. For example BRL Hardy's La Baume vineyards are now based here (Garcia-Parpet, 2008: 243).

According to Garcia-Parpet (2008: 243), this professionalization of producer groups coincided with the reorientation of production toward 'pre-established commercial objectives'. While this may appear a somewhat trite point, it is nonetheless diametrically opposed to method of restricted production as dictated by the in AOC. Moreover, the limited capital base of individual producers meant that partnerships were formed as mechanisms to facilitate the marketing and eventual pre-selling of now valued *vin du pays* wines. In addition, different kinds of partnerships prospered, such as the separation of winegrowing on the one hand and wine production on the other, similar to such arrangements in Australia (Peter Lehman in the Barossa is perhaps the most notable example). This form of partnership also accommodated the need for extra capital required to store wine for more than 5 years so that it can acquire value based on its status as *vin de garde* (Garcia-Parpet, 2008: 244). According to Garcia-Parpet (2008: 245-6), these kinds of relationships have resulted in a significant increase in marketing capacity that was simply not available to individual producers or indeed communes and have coincided with significant increases in prices for the region overall.

Indeed, according to Garcia-Parpet (2008: 246) the dominance of the AOC system has been significantly undermined to the extent that producers in the region classified by AOC prefer the methods of production for *vin du pays*, with one young producer in the region stating that he can 'express himself better' – and achieve a higher price point using *vin du pays*. Moreover, wine made solely on carignan (thereby not eligible for AOC) has regularly attracted a higher price than AOC wine from the same producer. However, perhaps this change to market structure is best exemplified in the highly prestigious industry magazine *Revue des vins de France,* when announcing its '183 best Languedocs, not bothering to make the distinction between AOC and *vin du pays* wines.

In her analysis of these changes, Garcia-Parpet (2008: 248-9) argued that any falling back on the dichotomy of New World versus Old would be far too simple: The artisan model has not been attacked. Rather, the system of classification eroded. Further, this breaking of market closures has led to significant capital, some of it international, being attracted to the region and a general diversification of the wine business. However, most importantly, the author insists that her account emphasises that all markets, as 'social constructions' – namely institutionalised practices that nevertheless necessarily entail cultural and aesthetic, moral and ethical content – are malleable, while not relying on claims concerning the epistemic reality of GI classification.

5. Comparative Observations

In providing an account of the development of the Languedoc-Roussillon wine region, we have travelled some way from our original question; namely, what follows from the attainment of regional status for the New England-Australia wine region in terms of its overall marketing strategy. The dissimilarities between the two wine-producing regions are such that some may argue any attempt at fruitful comparison would have to be contrived. However, we argue that there are useful threads of comparison based on the Weberian/constructivist account of markets provided above. The essential similarity of the two regions is that they face a market situation that is a veritable edifice of competition. As we have seen, in the case of Languedoc-Roussillon, this edifice was the result of AOC classification and the controlled regional restrictions that accompanied this. However, in the case of New England-Australia, it is simply the competitive nature of the market, in which its products could be potentially swamped by other regional and national producers. If under-branded and under-sold, wines from the New England-Australia region could make a less than positive contribution to the economic and cultural sustainability of the New England North-West community.

That this dire situation has not eventuated thus far is due to two principle reasons, and it is here that the direct similarities with the trajectory of Languedoc-Roussillon begin. The first is in terms of product differentiation. We have seen that, in the Old World, the producers of Languedoc-Roussillon took the nigh-heretical step of both *specifying* the production and labelling of their wines on the basis of single grape varieties, as well as keeping the wines at a mid-range price point. In the 'New World', the producers of New England took the not heretical, but a-typical step of *generalising* away from the (dominant marker) of grape variety to emphasise the 'cool climate' characteristics of their wines. This was undertaken well before the achievement of regional status on the basis of GIs, and remains a significant feature of the dominant discourse of the region's producers in differentiating their product, as well as some interesting marketing material (see Appendix 1). Moreover, all producers in New England market their wines at a mid-price point ($12-$25). By staying at a mid-range price point, not only does the wine remain accessible while not devaluing the region, it also is not competing with premium, established wines and so becoming subject to the sophistry of evaluation that surrounds these wines. Nevertheless, the possibility of the wines 'punching above their weight', particularly in blind tastings (relatively devoid of the cultural markers that affect consumers) remains open (see, for example, New England North West Wine Awards, 2008).

The conclusion that opinions about the value of wine correlate with social class also holds across the two regions. In the account of the re-branding of Languedoc-Roussillon provided above, Garcia-Parpet noted that it was not merely the wine professionals who initially snubbed the wine (unless it was presented *en chaussette* – although later this same status group played a role in re-classifying the region's wine in the mode designed by – and perhaps beyond the hope of – the region's producers). We will recall that local wine was not presented at the tables of the local elites at official ceremonies. Yet local wines – specifically those of the innovator Aimé Guibert – were initially supported by 'a local market with a clientele constructed through "word of mouth"' (Garcia-Parpet, 2008:241). This general profile of wine consumption conforms with anecdotal (although extensive) observation by the authors of this paper, suggesting that the strongest support for local wines in New England has been from wealthy tradespeople, shopkeepers and service workers – the *petit bourgeoisie*—which the growers themselves are.

Despite these similarities, Languedoc-Roussillon is much further along its trajectory of marketing success than New England-Australia, with impetus for reform coming some 30years ago. It is here that we may discover some future possible directions for New

England, particularly in nationalising its sales and expanding its production. Two points have to be made with respect to the organisation of the industry and its representation to those outside its markers.

The first is the extent to which leadership was both a catalyst for change and a driver of continued success in the case of Languedoc-Roussillon. Indeed, it is difficult to underestimate the overall impact of both Aimé Guibert and Robert Skalli to the prosperity of the region. The extent to which the impact of these individuals can be emulated is initially doubtful. The New England-Australia region can hardly hope for a down-on-their-luck merchant, with the very best of connections to the elite in Southeast and North Asia, to land in the New England with the best viticulture skills from Bordeaux and begin making wine. However, moving away from the extreme serendipity that Languedoc-Roussillon experienced, the role of flamboyant leadership in the wine industry is by no means unprecedented in Australian wine production. Individuals such as Bob Roberts of Mudgee's Huntington Estate, d'Arry Osborne of McLaren Vale, Murray Tyrrell of the Hunter, as well as their progeny, who have become second generation, flagship wine makers in their regions, have played an important role in adding value, not just to their own enterprises, but to their regions by pressing their personalities on the terrain of Australian wine consumption. This leadership role, underscored by strong faith in the quality of their product, has been explicitly recognised by the Australian wine industry, with the aforementioned producers, along with others, joining forces to promote the quality and tradition of Australian wines internationally; and as such mitigating the otherwise predominant 'sunshine in a bottle' reputation of the country's producers (ABC 7.30 Report, 2009). As such, the role of charismatic leadership, backed by quality products, is a marketing tool that ought to be considered by producers of New England-Australia.

Robert Skalli's leadership in Languedoc-Roussillon was of a distinctly different genre. As we have seen, according to Garcia-Parpet, his single-mindedness with respect to the introduction of New World techniques and labelling, while heretical, was ultimately rewarded. There are signs of product differentiation based upon technique, as opposed to the ambit claim of 'cool climate' in New England-Australia. Three of the vineyards, under the leadership of Wright Robertson of Glencoe, have now achieved Certified Australian Organic status (see Blickling, 2009; Walden Woods, 2009; Wright Robertson, 2009). This is an important marker of product differentiation as these wines are not only lower in alcohol content, but also do not use the standard preservative sulphur dioxide (220); rather, minimal quantities of potassium sulphate are used – and occasionally not at all. The health benefits – perceived or real – in the context of an ageing domestic market are appealing indeed.

Nevertheless, Skalli's most significant contribution was at the level of political economy: the strict modernity he imposed on the winegrowers to produce according to pre-ordained benchmarks for the region's export market. It is interesting to contemplate the development of a New England Chardonnay or New England Pinot Noir sourced from multiple vineyards across the region and marketed as such. Yet is it possible? While an experiment in this direction would be daring (as would the region's championing of a particular, 'left-field' grape variety), it is important to recognise that the ground for such an approach in Languedoc-Roussillon lay fundamentally in the dire situation the region's producers found themselves in, and the structure of the French commune system. This is manifestly not the case for New-England Australia, where viticulture is a matter of horizontal agricultural integration (the basis for site selection identified by Vanzella, 2003) and where the tradition of yeomanry is more akin to that of the United States than of Europe (see Byrnes, 2007: 13). Nevertheless, the concept of regional varieties forms an interesting benchmark by which to assess current regional activities.

Other similarities exist. For example, the fact that Petersons Family Winery, originally of the Hunter, then with extensive vineyards in Mudgee, and now on the tablelands in the form of Peterson's Armidale Winery, first harvested grapes in the Armidale region in 2002 (Petersons Wines, 2007), demonstrates that the region is liable to colonisation in the same way that Languedoc Roussillon has been. However, we would note here that the move by Petersons took place at the height of viticultural expansion and overseas sales in Australia. As such, any similar move in the future is likely to be driven by the elevated notoriety of the region.

Concluding remarks

The fruitfulness of the comparison undertaken here lies at a more general level. The principal point is that the achievement of regional status for New England-Australia, rather than being seen as the pinnacle of branding, ought in fact be conceived as just the beginning. Regional status merely entails that New England is positioned within the seventy or so other wine regions in Australia. Moreover, Banks and Sharpe's 'geographic imperative', while being grounded in epistemically realist claims are a mere single marker of product identity. In the case of Languedoc Roussillon, these (negative) markers were overridden by those associated with the broader, cultural milieu. In the context of the New World, it may be that New England-Australia would do well to consider projecting its putatively Old World motifs of artisanship. Whatever the direction taken, the comparative example of Languedoc-Roussillon suggests that product innovation, leadership and solidarity offer the key to continued industry, and regional prosperity.

[*] ENDNOTE

While it would have been more conducive to the paper's overall goals to inquire into the formation of both local producers' organisations – New England Grape Growers Association and SNEEVA – as well as the role of the Regional Development Board by way of semi-structured interviews of key players in these organisations, this proved impracticable for two reasons. First, many of the individuals involved in both producer organisations are well known to the authors of this paper, and proved reluctant to provide any information about the organisations, because, we suspect, this would have involved assuming an unrealistically 'objective' stance with respect to other individuals, all of whom are well known to the authors. Second, at the time of writing,, the New England Regional Development Board was undergoing extensive restructuring, merging with the Federal Government's Area Consultative Committees to form a new type of structure, a Regional Development Australia Committee. This state of institutional flux rendered the key players in this organisation reluctant to discuss matters in depth with the authors.

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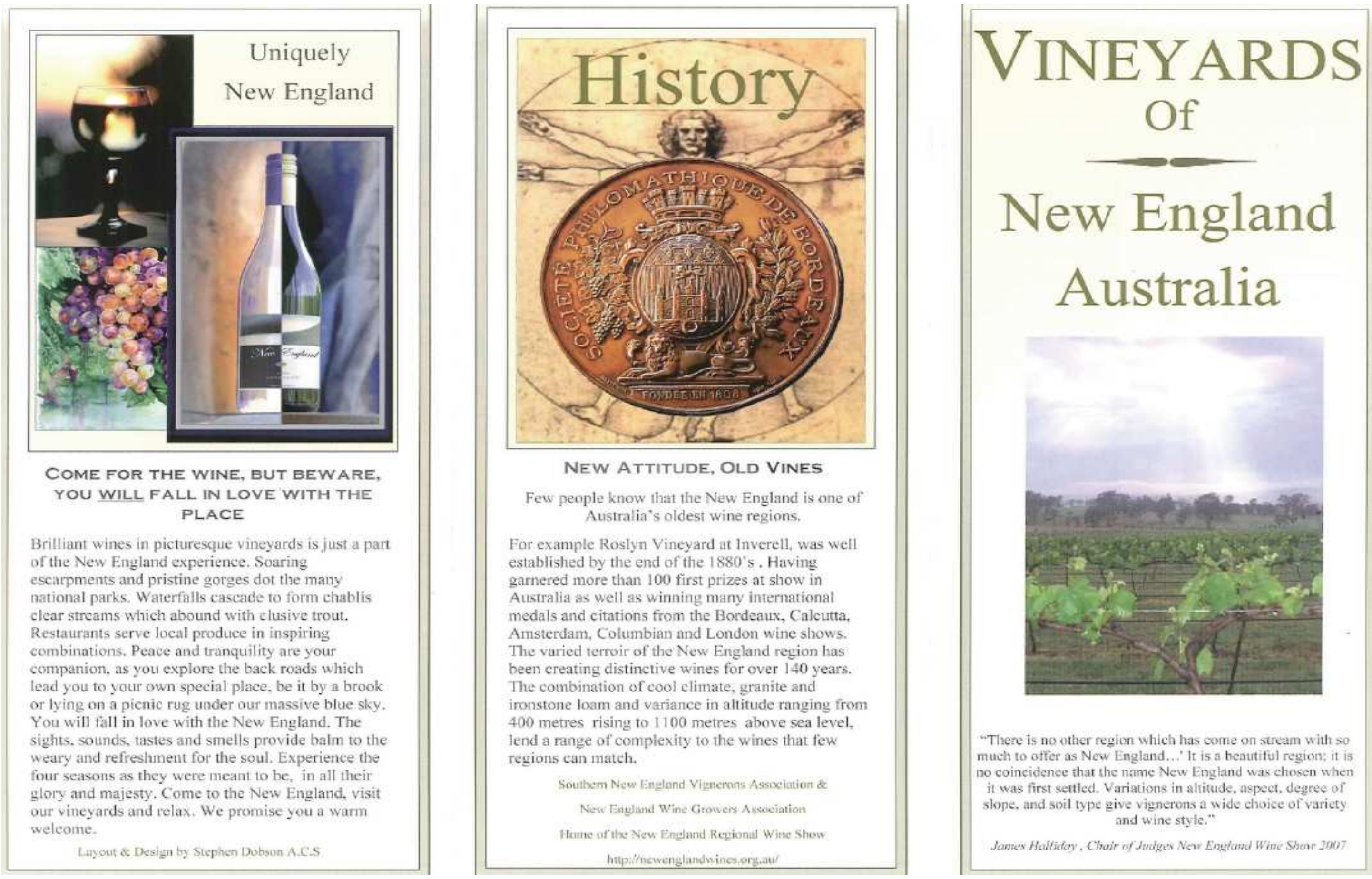
Appendix 1: An example of New England-Australia marketing material emphasising history and regional characteristics



Source: SNEEVA and New England Wine Growers Association.