

Speech by Stuart Smith
Chair NZ Winegrowers
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Rt Hon Helen Clark, Prime Minister

Colleagues

Ladies and Gentlemen

Good morning and welcome to the 2007 Bragato Conference.

What a year we have had since we last met at Bragato in Queenstown:

- One billion glasses of New Zealand wine sold in 95 countries around the world.
- 36% growth in total export value.
- \$700 million in exports
- \$1.2 billion of total sales.
- New Zealand's 5th most valuable goods export to Australia, our 5th most valuable export to the EU, our second most valuable export to the UK.
- And, in the coming year it seems likely wine exports will surpass the export value of wool. Think about that. Overtaking wool - one of the products on which this country's prosperity was built.

The momentum to achieve our goal of \$1 billion of exports by 2010 is in place. The vines are planted, the wineries are established or are being built, the marketing plans are in place ... all we need now are the grapes.

In short the big picture for New Zealand wine is looking good: our wine styles are in demand globally.

So we are looking beyond 2010. We are now eyeing 2015 and exports approaching \$2 billion ...that is serious export business in any terms. That is going to place us very much amongst the major export players in New Zealand

This is all good news very, very good news.

But just because the big picture looks great, this does not mean everything is rosy in our industry. There are issues we need to address. Challenges to meet.

I would like to talk briefly about two of the most important of those – sustainability and profitability.

The environment is the hot (pardon the pun) international issue of our time. Like the government we rightly reject the specious arguments around “food miles”. But this catchphrase underlines the hold environmental issues have on consumer thinking in key markets. In short, the importance of sustainability has never been greater or clearer.

I believe we are well placed to meet the sustainability challenge:

- Over the past 13 years we have brought Sustainable Winegrowing New Zealand to the point where today over 60% of the total vineyard area and 70% of wines are produced in wineries covered by SWNZ accreditation.
- We know of course SWNZ is not perfect. A major review in the past year confirmed its world leading credentials, but identified areas for improvement. We have acted on that and major changes are underway in the programme.
- We have a confirmed organic standard in place.
- Our research programme is aimed at finding ‘green’ solutions to the challenges we face. Our project using the endangered New Zealand falcon to control bird damage in vineyards being just one stand out example.

Now we have adopted our sustainability policy – our goal 100% of the industry operating under independently audited sustainability schemes by 2012. If we succeed with this we will be right at the leading edge of global innovation and sustainability in the wine industry.

I am very pleased to advise that since we adopted the policy in late June we have seen a surge in interest in SWNZ. Since then:

- the number of member vineyards has risen by another 66
- the area of vineyards under the auspices of the scheme has increased 1,700 ha
- and another 7 wineries processing 5,500 tonnes off grapes have also joined.

That is great progress, and congratulations to those new members of SWNZ.

As an industry, I believe we can say we are facing up to the environmental challenge. I believe we have a good story to tell, one that will resonate well in the

market place. We have in place the practical measures to enable third party verification of our compliance with international environmental standards.

Backing us up also is our country's environmental record – nuclear free, Kyoto member, leading the global antiwhaling campaign ... I could go on.

But ... and this is a big but ... how big is the commitment of our individual growers and wineries to being 'clean & green'. For some, the record is outstanding – Doug Bell of Gisborne a founder member of SWNZ for example, CJ Pask and Jim Hamilton from Hawkes Bay, Palliser Estate from Martinborough, Pernod Ricard, Chris Symonds in Marlborough and there are plenty of others.

However I have the sense that a few industry members wish the whole environmental issue would just go away.

Well ... Wake up – it won't.

Food miles may be the modern Y2K, but sustainability and a green approach are far, far too important to go away. They should be a core part of all our businesses. They are our business. They are here to stay.

As a couple of examples, can I get down to specifics.

First spraying.

All vineyards owners spray at some stage. In the last 20 years we have made huge advances – we have moved from calendar spraying – spray every 14 days come what may - to spraying based on need. We also have softer technologies.

The next spraying advance is simple – moving to biological or natural spray solutions rather than artificial or inorganic solutions.

That technology is here now, but many in the industry seem reluctant to embrace it. They are comfortable with the past, with what they know to the point that it does not seem to matter whether it works or not. Old habits die hard so they say.

As an organisation we have funded the research that has brought you the biological Botryzen for early season control, and now that company has brought you Armour-Zen as well. There are other products available also.

You should be using these products, at very least trialing them in your vineyard. Why – because one day, and I believe that day is not too far away, the market will say no residues. No residues!

When that happens it will be no use looking round for solutions then. It will be far too late. Your grapes, your wine will be out of the marketplace: you will be out of business.

So get smart, adopt new technology early and you will be ahead of the game.

As another example, and I will be brief on this, water.

New Zealanders for years seem to have taken the view that water is ours to do with as we like. Well it's not yours, nor is it mine – its ours, it is all New Zealanders, and as such we need to respect the rights of others.

In the past 20 years we have made huge advances in water management and control. But we still have a long way to go. We must continue to progress particularly as we grow and expand. The industry commitment is there. So let's keep moving forward.

But occasionally I still hear the same old issues over and over again. In particular there are some people in the industry who seem to think that even small steps such as measuring the level of water take from bores, rivers and lakes is an infringement on their rights. Well its not. How can you be serious about being efficient in your water use – or for that matter power, fuel, spray whatever – if you do not measure how much you use.

So let's make sure we do our best to protect and preserve one of the most important resources available to us as an industry and New Zealand as a whole – our water supply.

Can I turn now to the issue I know is of vital interest to every person in this audience. Profit.

Without profit the future for this industry will be bleak. To invest in research, to invest in marketing, to invest in people we need to be profitable. Profitability is the driver of growth. Profitability is the driver of sustainability, and sustainability will drive profit

I started off by commenting on the successes of our industry in the past year. As noted they were many.

However, profitability was not in that list, and is unlikely to be so this coming year either.

There are many reasons for this.

The current value of the New Zealand dollar – even reduced from its highs against the \$US, makes export a very difficult business. But as an industry we

have to stick in there – ride out the ups and down, because there is no way we can afford to step out of the market. Step out, and it is very difficult to get back in. Exports are our future – we have no alternative available to us, not when 60% of our sales already are offshore.

The issue I see with the dollar is not the level itself, but the massive and rapid changes in its value. Those changes seem to have nothing to do with the inherent strength or otherwise of the New Zealand economy. Rather it appears to fluctuate at the whim of the international financial markets, which make massive profits out of the rises and falls, while we suffer the consequences.

The current situation with the dollar makes building a sustainable and profitable export business very difficult – I do not believe that it is in New Zealand's long terms interests. Surely there is a better way.

Agricultural risk is also one of the key confounding issues in terms of industry profitability. In 2001 and 2003 the industry lost a substantial part of the crop due to frost and other weather events. This past year was no different with some regions hard hits by frosts and a very cool December.

As growers we can not make money without grapes to sell. As wineries there is not money to be made without wine to sell. This is the issue that has faced some growers and wineries this year. Agriculture is not for the fainthearted as we all know.

Regionally it is clear there are differences in industry profitability. Growers in Gisborne are concerned about the prices paid for grapes in that region, compared with Marlborough. Some red wine producers appear to struggle with the high production costs inherent in their product mix. And the more intensive the production system - such as for red and sparkling wine specialists – the longer it takes to reach profitability, in some cases over ten years according to accountants I have spoken with.

These issues are all in the hands of the industry, to a greater or lesser extent.

However, some issues are not.

Increasing compliance costs are a never ending frustration for the industry. Despite the best endeavours of successive governments, compliance costs just seem to grow and grow.

I am sure that from a government perspective the measures that give rise to the compliance costs are well intended; however they often seem to have little to do with the reality of running a small or medium sized business in New Zealand.

Without SMEs this economy will fail. The current approach from governments seems to be this – design the optimum system from a government perspective and then see if some special exemptions can be made for SMEs.

This philosophy needs to be turned on its head. Systems need to be designed specifically with SMEs in mind, and then if necessary added to, to meet government needs. That is difficult to do for existing policies, but needs to be put in place for the future.

If it is not we will all be ground down under the weight of ever increasing government requirements. Government should be a platform for growth, not a suffocating deadweight.

That brings me to the issue of excise, long a thorn in the side of government industry relations.

Can I simply state as follows. In Australia, in the United States and in Canada there are systems the aims of which, to a greater or lesser extent, are to rebate back to small and medium sized wineries part of alcohol taxes they pay to government.

In New Zealand excise tax strikes hardest at small and medium sized wineries. They have little ability to pass on the annual increase in taxes given their lack of market place power. The result is excise has become a direct tax on wineries, rather than being passed on to consumers as it was designed to be.

The result - as shown in the Deloitte survey of winery profitability – small wineries are not profitable, they do not make money, they lose it.

This situation is intolerable. It is not sustainable. It needs to be changed. Please remove at least some of the deadweight of the excise tax burden on small and medium sized wineries.

Ladies and gentlemen, I could talk about many other issues facing the industry –

- about the need for continuing industry cooperation,
- about the need to recognise market place realities and not to believe too much of our own back labels
- about the need for ongoing market place investment.

But in the end of future is really about building sustainable and profitable businesses. If we do that \$2 billion in exports by 2015 is definitely within our reach.

Thank you and have a great conference.

