

**Submission  
No 25**

## **INQUIRY INTO WINE GRAPE MARKET AND PRICES**

**Organisation:** Perricoota Grape Growers Association

**Date received:** 27/09/2010

---



## **Perricoota Grape Growers Association's submission: Inquiry into the wine grape market and prices**

This following document has been produced on behalf of members of the Perricoota Grape Growers Association (PGGA) for the NSW Legislative Council's Standing Committee on State Development's, 'Inquiry into wine grape market and prices'.

### a. Price formation, including factors affecting supply and demand

Price formation in recent years has been affected by an oversupply of grapes. This oversupply has largely been borne through large wine companies encouraging plantings of varieties that were popular at the time, based on predictions of sustaining the rapid sales growth Australian wine experienced during the boom years of the nineties. In hindsight, these predictions have proven to be very ambitious, due to factors such as:

- the strong Australian dollar;
- the global financial crises;
- retail consolidation;
- strong competition with other wine producing countries, and
- changes in consumer preference

Unfortunately, the errors in these market predictions have had dire consequences for winegrowers, who are left selling fruit at unsustainable prices until their contracts lapse. Since these are rarely renewed, this then leaves growers with three options:

1. Try and sell grapes on the open market at even more unsustainable prices;
2. Mothball or rework vines waiting for demand for winegrapes to return; or
3. Exit the industry.

While PGGA members understand that the wine market is a difficult environment at present, we feel it pertinent to make the point that we did not make the predictions for the growth of these wine brands, yet seem to be paying the ultimate price. Most of our members have run their own successful businesses, prior to growing grapes, and therefore find the following points difficult to comprehend;

- The release of prices just before vintage, leaving no time to negotiate with their contracted wineries or other parties;
- The continual purchase of grapes from cooler regions at unsustainable prices, while congruently allowing contracts from warm irrigated regions to lapse. This is done despite the knowledge that these warm regions can supply fruit for commercial wines sustainably. Please refer to the Wine Restructuring Action Agenda (WRAA).
- The low prices received for fruit destined for highly popular and profitable commercial brands; and
- The purchase of fruit from overseas to be placed into 'Australian brands'.



Perricoota  
Wine Region

b. The role the Wine Grapes Marketing Board has played in facilitating the use of voluntary codes of conduct and sales contracts

Members of the PGGA acknowledge that the voluntary code of conduct is an excellent initiative. However, the code has taken a long time to implement, making it too late for the majority of our members, whose contracts have now lapsed. Furthermore, companies that are members of these voluntary codes have still been sluggish to release prices, leaving no time to negotiate or find alternative sales.

Sales contracts in our region have all been tied to market price, which has offered little security for growers, who must then sell grapes below production costs. There are a number of examples across the country of pressure being put on growers to be bought out of current contracts. While this is yet to occur in our region, PGGA members whose contracts have expired, have not had them renewed, despite producing quality fruit for many years.

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

Difficult conditions have seen growers try to get together and collective bargain. Unfortunately, since most large wineries are offloading fruit rather than buying, bargaining is often done with opportunist buyers. However, as the market improves collective bargaining and codes of conduct are likely to be important to ensure fair and efficient market prices.

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

From a growers perspective, there is clearly a need to improve market signals to prevent similar mistakes being made in the future. A vineyard register, detailing what area of each variety is in the ground along with independent market analysis would be a useful tool for any grower deciding what and indeed whether to plant. This would need to be completed by an industry body and presented to growers in a way which is simple, accessible and relevant. To some extent this has been recently done with WGGGA presenting WRAA. However, had this information been available earlier, it could have prevented a lot of pain. The challenge for the industry in the future is to predict future trends, rather than commentate on ones that are occurring at present.

e. Any other related matter

*Taxation*

External pressures, like the introduction of a volumetric tax for alcohol, would put further pressure on the price of grapes. Therefore our members are strongly opposed to the introduction of the volumetric or changes to the WET tax, at a time when the wine industry is struggling.

*Exit strategies*

Encouraging growers to exit the industry through financial incentives should also be investigated. The government's purchase of permanent water may allow many growers to leave the industry while still remaining on their property. Growers that do exit the



Perricoota  
Wine Region

industry are directly benefiting those that remain, and perhaps should be rewarded financially.

*General versus High Security Water Allocations*

The Perricoota wine region is still relatively young, with the first vines only being planted 15 years ago. Our industry is the first, and is still the only permanent horticultural crop in the area, due to a strong history of annual cropping. This has meant that due to a low availability of high security licences, over 90% of Perricoota's plantings are now on general allocation licences. At the time of planting our members were informed by various organizations that general allocation water was adequate for viticulture, as long as your allocation contained double your water requirements. This information was based on historical data of past irrigation allocations. Allowing our members to trade their general security water for high security would reduce their cost of production, putting Perricoota on an equal playing field with other inland irrigated wine regions.