

**Submission  
No 43**

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

**Organisation:** NSW Farmers' Association

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## **Submission to the NSW Legislative Council**

**~ Standing Committee on State Development -  
Inquiry into the wine grape market and prices ~**

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## EXECUTIVE SUMMARY

NSW Farmers' Association believes that the Inquiry into the wine grape market and prices must result in solutions to benefit all wine grape producers and that a more transparent and fair market for wine grape sales is created. Key points include:

- *Wine grape growers are price takers and have little bargaining power due to the perishable nature of their product and the threat of having contracts reduced or not renewed.*
- *Base prices or a price indication needs to be set in reasonable time for growers to alter their input costs or cease production for the season so that their costs of production are not greater than prices received.*
- *There is little potential for collective bargaining.*
- *The need for an industry mandated Code of Conduct which specifies the timing of price notification for contracted growers.*
- *Growers will be able to plan their business operations more effectively if they receive early price notification.*

## **1 INTRODUCTION**

The NSW Farmers' Association (the Association) is Australia's largest state farming organisation representing the interests of the majority of commercial farm operations throughout the farming community in NSW. Through its commercial, policy and apolitical lobbying activities it provides a powerful and positive link between farmers, the Government and the general public.

The Association welcomes the opportunity to provide input to the NSW Legislative Council Standing Committee on State Development - Inquiry into the wine grape market and prices. It is hoped that solutions will be found to assist wine grape growers in NSW. The Association has long supported transparency and equitable business practices in the marketplace as shown by the Association's undertaking to have the mandatory Horticulture Code of Conduct introduced in 2007. The Horticulture Code of Conduct sought to improve clarity and transparency in transactions between horticulture producers and traders and to provide a fair and equitable dispute resolution process.

The Terms of Reference for the Inquiry are addressed below. The Association supports the detailed submission by the Wine Grapes Marketing Board.

## **2 PRICE FORMATION, INCLUDING FACTORS AFFECTING SUPPLY AND DEMAND**

Wine grape growers are price takers in the market. Prices are set by wine processors, regardless of the supply and demand factors within the industry. In seasons of undersupply growers may be able to negotiate a higher price, but even in such seasons they do not set prices. It has been reported that if growers do not like a price that is offered to them they can simply not deliver the grapes or are threatened with a discontinuation of their contract.

Most of the time growers do not know what price they will receive for their wine grapes until they deliver and in some cases growers will not know until well after delivery. Being told what price they receive only at the weighbridge leaves growers with little option for price negotiation as wine grapes are highly perishable and need to be processed as promptly as possible. Producing a perishable product diminishes the bargaining power of growers.

In some instances wine quality is taken into account when paying growers and while grape quality impacts on wine quality growers do not have control of the winemaking process. It is not reasonable for growers to have something which is not in their control impact on the prices paid to them.

Wine grapes in the Riverina region of NSW are, in the majority of cases, planted at the request or suggestion of a winery based on their forecast of market requirements. However this is done generally without a formal contract, with only verbal agreements between growers and wineries. Growers carry the entire risk and wear the cost of establishment and production without certainty in a market or price.

There is considerable price variation between wineries. It is difficult for growers to understand the rationale behind pricing when the price per tonne can vary from winery to winery by as much as 200% for the same quality of grape and the wine produced is destined for the same market and at approximately the same price point.

Because there is no point in the season at which prices have to be set, and because end prices can be lower than early indicative prices, growers can end up receiving a price that is lower than the cost of production. Growers without a base price contract have no indication of the price until it is too late to alter their input costs for the season or to halt production for the season.

Solutions need to be found to provide a greater level of market transparency than which currently exists. Growers should not be expected to produce with no knowledge of likely returns or losses, given the high input costs of production. They currently have little bargaining power as wine grapes are perishable and individuals do not have the high cost infrastructure required to process the grapes themselves. A pricing structure is needed which offers growers a base price or price indication by an agreed date each season.

### **3 THE ROLE OF THE WINE GRAPES MARKETING BOARD HAS PLAYED IN FACILITATING THE USE OF VOLUNTARY CODES OF CONDUCT AND SALE CONTRACTS**

The Wine Grapes Marketing Board:

- Has educated growers in the Riverina region in relation to the voluntary Wine Industry Code of Conduct (the Code);
- Partially funds the management of the Australian Wine Industry Code Administration Committee through its agricultural industry services;
- Has developed a pro-forma contract for growers to use when negotiating with wineries (however the majority of growers in the Riverina have been unable to negotiate the Code's terms into existing supply and contractual arrangements);
- Has been used by some of the wineries in the Riverina to review draft contracts and seek contract approval and Board staff have provided advice to wineries based on their contracts' adherence to the principles of the Code;
- Has encouraged regional wineries to amend existing contracts to comply with the basic provisions of dispute resolution as contained in the Code.

The majority of the Riverina's wineries have not signed the Code; only one is a signatory.

### **4 THE POTENTIAL FOR COLLECTIVE BARGAINING AND/OR CODES OF CONDUCT TO CONTRIBUTE TO AN EFFICIENT MARKET**

The potential for collective bargaining is restricted because growers historically have not worked together closely on common issues. Additionally collective bargaining is difficult for non-homogenous products such as grapes. There are multiple varieties of grapes and within each variety there is a range of quality.

The best outcome for the wine grape industry would be an industry wide mandated Australian Wine Industry Code of Conduct. The Association's support for a mandated Code is in line with the work it has done in the past to have a mandatory Horticulture Code of Conduct introduced. The Association has long supported a strong and enforceable Horticulture Code of Conduct which requires transparency and equitable business practices in the marketplace, enabling growers to deal with any differential in market power in the knowledge that disputes will be resolved through fair and legally binding independent arbitration.

The current voluntary Code specifies the timing of price notification for contracted growers but does not prescribe how prices are formulated. The timing of price notification is designed to enable growers to dispute and negotiate variations should they feel that the market warrants it. The Code should be extended and include mandated terms and conditions of payment.

In the Riverina region there is only one winery that is a signatory to the Code.

## **5 WHETHER THERE ARE ANY MEASURES WHICH COULD IMPROVE MARKET SIGNALS WHICH WOULD BE CONSISTENT WITH COMPETITION PRINCIPLES AND LAW**

Growers will be able to plan their business operations more effectively if they receive early price notification. If growers are notified of a true base price early enough in a season then they can match input costs to expected returns or cease production for the season if losses will be unacceptable.

At present the majority of wine grapes grown in the Riverina are not covered by the wine grape industry's voluntary Code. Signatories to the Code are required to provide indications of the price well before harvest and then offer firmer prices at harvest time. The Code allows time for any formal disputes on pricing if needed. Unless all wineries are required to issue a price schedule at the same time and to pay no less than the price issued this can be ineffective.

## **6 CONCLUSION**

The Association welcomes the opportunity to provide input to the NSW Legislative Council Standing Committee on State Development - Inquiry into the wine grape market and prices. It is hoped that the Inquiry will result in solutions to benefit all wine grape producers and that a more transparent and fair market for wine grape sales is created.