

Submission
No 28

INQUIRY INTO WINE GRAPE MARKET AND PRICES

Name: Name suppressed

Date received: 28/09/2010

Parts of this submission have been omitted at the request of the author.

Partially Confidential

29 September 2010

The Director
Standing Committee on State Development
Parliament House
Macquarie St
Sydney NSW 2000

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Dear Madam,

Thank you for conducting this inquiry into the wine grape market and prices in NSW. We request that the submission be kept confidential, as wine grape processors look unfavourably to growers who speak out on industry concerns and given the supply of fruit in the industry we can not allow this to jeopardise our relations with current and future wine grape processors.

Our family operates a *[omitted at the request of the author]* vineyard at *[omitted at the request of the author]* NSW, solely producing fresh wine grapes for sale to a local wine grape processor. Our business relies on sustainable wine grape prices received which has not been the case for the past 5 years of production. The low wine grape price return is slowly eroding our business assets and re-investment in the business, reducing our ability to produce changing and more desirable wine grape varieties. *[omitted at the request of the author]*

The vineyard aims to produce good clean quality fruit each year and has maintained or reduced cropping levels to meet winery requirements, due to the industries growth and supply of fruit. This has come at a cost to the business, as the productive capacity has been limited by the wine grape purchaser to levels less than the average production levels.

This submission will address the terms of reference that have been set by the Legislative Council Standing Committee on State Development.

1. Price formation, including factors affecting supply and demand

Previously legislation held by the Wine Grapes Marketing Board required wine grape purchasers to furnish price guides for the coming vintage prior to the commencement of harvest. This allowed producers to have price information available prior to harvest and assess the options to sell the fruit or find another buyer if possible. It was withdrawn because it was being abused by wine grape processors, i.e. they were giving a minimum price just to

comply with the legislation. Following the removal of this in the last legislation review, wine grape purchasers now take fruit and have no need to supply a written market price before delivery of the fruit.

Due to the perishable nature of the product, the creation of wine grape prices is dominant and usually dictated by the wine processors, regardless of the supply and demand factors within the industry. Growers in seasons of undersupply may be able to negotiate a higher return but ultimately we are mostly price takers in the market.

Market information is critical to the wine industry and it should be legislated that wine grape price notification by wine grape processors is required to occur by July the year preceding vintage harvest. Such prices would be submitted to a regulatory state authority or department to maintain and make available the information to the production market.

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

Supply arrangements for our fruit have usually occurred on a verbal agreement with the purchasing wine company, unless a company has required a written agreement for any fruit during a season. We have seen the decline of written contracts used in the *[omitted at the request of the author]*, particularly longer term (> 2 years) by wine companies, even though the Wine Grapes Marketing Board have actively promoted the use of written agreements to both growers and wine companies.

The Voluntary code of conduct does not appear to be functional in the *[omitted at the request of the author]*, as most *[omitted at the request of the author]* wine companies are not signatories to the code. This is not a fault of the Wine Grapes Marketing Board though but more wine grape processors. There is a need for greater transparency and a minimum standard for agreement between wine grape growers and purchasers. A mandatory code of conduct would be the ideal scenario for the entire wine industry.

The restoration of the Wine Grapes Marketing Board ability to set and enforce statutory terms and condition of payment for all wine grape purchases in the *[omitted at the request of the author]* is required for stability in the region. A mandatory introduction of statutory terms and conditions of payment would create a level playing field within wine grape processors, if implemented across the whole of New South Wales not just the *[omitted at the request of the author]*.

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

Wine companies have not been very accepting, of collective bargaining arrangements. Some reasons include the concern that one entire parcel of fruit offered by the group, is still made up of many individual blocks and each need visual and quality assessments either by the wine grape processor or a independent source on behalf of the collective group, to ensure the entire parcel will meet the winery processing specifications. Also not all wine grape

growers act in unity and at times can undercut competitors due to the perishable nature of the product. This process undermines the collective bargaining process and its success in the wine grape industry.

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

NSW needs to develop legislation for the collection and maintenance of vineyard planting records, to assist the industry with its brand marketing and production forecasting, to return some balance back to an acutely broken industry. Legislation that requires new vineyard plantings and varieties grown to be registered would assist the industry to understand the current and future plantings of varieties to avoid major oversupply situations, such as the situation is with Chardonnay.

The majority of wine grapes planted in the [*omitted at the request of the author*] have been done at the request and / or suggestion of a winery. It is now the same winery not accepting to purchase the fruit in production, resulting in other wine grape processors to take fruit at reduced prices placing pressure on all producers to make a viable return.

Wine grape processors which enter into agreements with growers for new planted vineyard areas should have accompanying written contracts provided, containing a fair base price for the purchase of the fruit produced for at least five years following the first harvest of the wine grapes.

5. Any other related matter

Regulation is required in the wine industry to ensure that the market operates in a stable manner. We believe the wine industry is vastly different to other horticultural produce markets as the fruit is harvested and altered dramatically during the processing stages.

As wine grape growers, we find it extremely difficult to operate in the business not knowing from year to year what we will achieve in terms of base level returns from the vineyard.

We currently have vines still in good production but will be left unpruned and possibly removed, as the wine grape processor will not provide a guarantee to purchase the fruit produced, and then at what price they will provide. Given the fruit was purchased at \$100/tonne last season there is no benefit of producing the fruit at that price.

Based on our costs of production, the bear essentials to live and industry guidelines, no fruit should be allowed to be purchased for less than \$350/tonne.

Yours Sincerely,

[*omitted at the request of the author*]