

**Submission
No 35**

INQUIRY INTO WINE GRAPE MARKET AND PRICES

Name: Name suppressed

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

Partially Confidential

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"Inquiry into the Wine Grape Market & Prices 2010"

Thanks go to this Standing Committee in having the confidence to call for this long-awaited enquiry into the factors affecting & influencing the Wine Grape market & pricing of wine grapes in NSW. I sincerely hope that every committee member can really appreciate the delicate predicament every grape grower who speaks out via their submission could very well face.

If, in our submission, we may digress from the terms of reference, we do so because it is vitally important that you, as committee members, actually feel & know what it is like to have your very livelihood at extreme & serious risk of imploding. It seems we may take on a more emotional charge at times, it is because *it is very emotional*. It is our livelihood. It is our long term investment. Wine grapes are a long term investment. You can't simply turn production on or off, or change varieties via a switch on the head post or pump shed. We have taken on significant long term financial commitments based on information & contractual sureties provided by the winery. That same winery is not only backing away from any & seemingly all, contracts, it is in fact progressively backing away from this area. A factor that is deeply disturbing & positively galling to say the least.

We purchased our vineyard 6 years ago as it was just newly established with the 2 varieties - as stipulated by the winery - complete with a 5 year delivery contract, which was renewable upon us installing drip irrigation. Of which we did install the following year. No sooner had the ink dried on the contract than there were mutterings (from the winery) about changing the varietal mix of the vineyard! Are these mutterings just designed to keep the grower *on their toes* insofar as the actual insecurity of a delivery contract? Or are they mutterings from winery marketeers chasing the next pot-of-gold in a way to satisfy their short term market targets? Whichever the case may be, this sentiment only ensures insecurity for the grower & guarantees a minimalist risk approach to vineyard management. Unfortunately, it also breeds a bubbling mistrust between grower & winery.

After another year of production, we again approached the winery to ask if one of their requested to plant varieties, that are now not in their "forecast product mix", if they would agree that if we were to replant with another variety of their recommendation, would we be granted the same or a similar, 5 year delivery contract for this new variety? Over a year later, we finally received a verbal response of: "don't know - we'll see what happens next year". Of course, the price goes down as: "we don't *really* want it but we'll take it" default pricing policy is enacted.

The next year I learnt that some wineries from outside this area (south) were looking for this particular variety so I contacted a winery that has this requirement. Over the phone, the progress & prospect in supplying this particular variety was going very well until they asked where our vineyard was. I told them it was near _____ & that's when all interest stopped. After some more

questions as to why they were now not interested, he said that they have an agreement with a major winery in this area to purchase all their requirements for them. As there was a very large discount in the price received by growers in this area for the same grapes as compared to what was being paid to growers in the other area, you would have to ask, what benefit would either winery derive from such an agreement? Could it be that the winery in the Riverina was endeavouring to keep a lid on prices paid to growers & not have competition come into the area?

Now as we are entering the last year of our 5 year delivery contract for the remaining variety that "we don't really require", I initiated discussions with the winery in regards to changing the delivery contract to wine grapes that we do have - which have recently become "out-of-contract" - for a major variety for which the winery does have a demand & does have a market for. The exchange was granted but for one year only & only for the same tonnage as the original contract i.e. for the same tonnes as the grapes *we don't really want*. There is absolutely no indication of any extension to any delivery contract, only for the winery to say: "we will look at our requirements on a year by year basis". That does not provide even the slightest hint of any surety if we are going to sell any of our grapes to the winery & it definitely doesn't indicate any price for any grapes we may produce.

With the much touted surplus of wine grapes in the industry, it is impossible to place any grapes with any other major winery because no winery is granting any new or extensions to existing delivery contracts. Commonly, the answer is: "we will look at our requirements on a year by year basis". I & many in the industry have fast come to realise the incredibly leveraged & strategic position wineries have taken with this attitude. To put it bluntly, they seemingly have an agreement or at least a mutual understanding, that by having excess grapes planted & excess production from grapes via their own previous recommendations, & then only forming agreements of supply with growers as to a small percentage of the growers total production, they (wineries) are therefore able to pick from the bunch (growers), their total winery requirements in a predatory manner. Is it any wonder there is such anger, frustration & discontent directed towards some major wineries?

Growers need to know, in advance of pruning the grapes for the next season's production & absolutely without question, we need to know well in advance of actually delivering the grapes to the winery - what scarce & often borrowed resources - we are going to commit to these grape vines? Is it worth doing? - is the very question we ask ourselves every time we plan.

We have had many discussions at our winery grower meetings & individually with our winery representatives, as to a better way we can be reasonably assured of receiving a fair & reasonable price for a proportion of our grapes - similar to what is in place in the grains industry - forward price/supply contracts. This would definitely benefit wine grape growers as it provides some certainty of price & supply for a proportion of our production. We can plan for the longer term & can feel with some confidence that by implanting the resources required into the vineyard, we can supply what the market demands - quality at a value price. A forward price/supply contract would benefit the wineries as well because they know what they require, they know what they are going to get, they know how much it costs & as they have more than often forward sold their wine therefore, they would have margin already built in. This would remove a lot of the adversarial sentiment between growers & wineries.

Just in the last few days (27th September) a special grower meeting was convened by our winery to inform us -

When asked about renewing existing delivery contracts, he was very evasive & non-committal, only to say: "we will look at it on a case by case basis to satisfy our requirements". A "flexible business module" - meaning they can come & go from the market as it suits them - is the latest mystique emanating from this winery. That sentiment is exactly the opposite of what grape growers require from their winery.

We have jumped every hurdle & complied with every request (from our winery) in regards to vineyard improvements, eg, installed drip irrigation, extra foliage wires etc. We have complied with every request in regards to overall vineyard management improvements eg, in field moisture monitoring, mid-row mulch, GrapeWeb, irriGATEWAY, extra training courses etc.etc. We have acquiesced to winery logistical supply requests eg, 2.5 tonne bins instead of bulk, delivered grapes to within the allowable 15 minute variable delivery request - as much as possible. We have even agreed to cut back our contracted deliverable tonnages so as to "help out" in alleviating the over-supply, only to find out that it was, & still is, a detriment to our own long-term business viability. We have made environmental improvements & have even gone that bit – well it's a lot further – in defining our own carbon & water footprint for the benefit of the winery to comply with the overseas market retailers actual *demands* in supplying that very product, only to be told that "we are too far ahead in the market for us"(the winery). To use the vernacular – You can't bloody win! When you've jumped every hurdle, gone past the winning post & just about to place your foot on the winner's podium – they (the winery) pull the podium another 50 metres further down the track. Well in this case, they've actually moved the winning post & podium 500 kilometres away!

I, & I'm sure many other growers, are totally disgusted with the seemingly intentional deceitfulness that some major wineries have displayed of late. Our misplaced trust has & will continue to be a defining aspect in any future negotiations with the major wineries. This doesn't have to be this way but unfortunately, this is set to repeat itself unless there is an equally agreeable set of protocols based on mutual respect of each other's *long term* viability & not based on leverage or advantage.

There is absolutely little or no reward for (growers) producing "top quality" wine grapes in the Riverina even though, & to a much greater extent than is given any credence, wines grapes are often the very back-bone that underpins the majority of the major wine companies in supplying "top quality" wines to the domestic & international market(s). The Wine Grapes Marketing Board (WGMB) has more than often, gone into bat for the benefit of the grower but more importantly, it has gone into bat for the long term mutual benefit of growers & wineries. It is essential the WGMB maintains its steadying influence on an often fickle & emotionally charged industry.

I once again thank you for your time in convening this inquiry & thank you for taking to the time read our personal account of the wine grape market & prices in the Riverina.

Yours sincerely,

29th September 2010.