



**SOUTH AUSTRALIAN
FARMERS FEDERATION**

**Submission to the Senate Rural
and Regional Affairs and
Transport References
Committee
Inquiry into the Wine Industry**

1 INTRODUCTION

The SAFF Wine Grapes Section has been invited to provide a submission to the Senate Rural and Regional Affairs and Transport References Committee Inquiry into the Wine Industry. SAFF has requested Scholefield Robinson Horticultural Services Pty Ltd (SRHS) to provide background data and discussion on the current situation in the wine industry and its causes, on which SAFF can base its submission.

The letter from the Committee Secretary inviting the Section to provide a submission suggests that four key areas be addressed. These are:

- Size and nature of the winegrape glut, and inventory levels held by wine producers;
- Industry structural issues and the development of an industry wide code of conduct
- Adequacy of the terms and implementation of the *Trade Practices Act 1974* in relation to winegrape growers; and
- Need for a national winegrape growers' representative body, its powers and funding.

These key areas are addressed separately below.

2 WINE GRAPE GLUT AND INVENTORY LEVELS

2.1 Introduction

The area of wine grape plantings, production of wine grapes, production of wine, domestic and export sales and inventory levels are all at record levels¹. The just completed 2005 vintage is expected to also be a record with 1.96 million tonnes processed out of more than 2.0 million tonnes available for harvest. Wine grape prices have also declined substantially.

While there have been several previous booms in the Australian wine industry, the current situation started developing in the early 1990s. A major milestone was the development of an industry agreed blueprint “Strategy 2025” released in late 1996. This strategy set apparently ambitious targets for 2025 (ie 30 years hence) and formed a focus for industry and policy developments that encouraged growth and expansion of all aspects of the wine industry.

2.2 Strategy 2025

Strategy 2025 demonstrated that the wine industry could develop a widely agreed and applauded strategy with targets and estimates of the resources (investment, land, water, skills etc) required to implement the strategy. It formed an encouraging framework for substantially increased investment in the industry and for the development of policies and institutions to enable strategy implementation. It has been effective beyond all expectations.

Targets set in Strategy 2025 and expected to be achieved in 30 years by 2025 have been achieved within a decade as shown in Table 1 below. It shows that there have been substantial plantings leading to the area of bearing vines almost doubling by 2001 and grape production almost doubling by 2004, more than 20 years quicker than suggested in the strategy. This has been driven by the success of exports in more than quadrupling volume resulting in export sales increasing by almost 5 times by 2004. This growth was mainly fuelled by growth in red wine production and sales.

Table 1 : Strategy 2025 targets and achievements

Parameter	Unit	1996	2025	Year (FY) exceeded
Total Annual sales	\$ billion		4.5	
Exports	ML	130	600	2004
Exports	\$ billion	0.47	2.5	2004
Domestic sales	\$billion		2.0	
Domestic sales	ML	250	440	not yet
New vineyards (by 2022)	'000 ha		40,000	
Vineyards (bearing)	'000 ha	65,000	120,000	2001
Vineyards	'000 ha	80,000		
Grape production	'000 tonnes	850	1,650	2004

¹ ABS, *Australian Wine and Grape Industry*, Cat. No. 1329.0 series to 30 June 2004. Extracts from 1990 to 2004 are tabulated as Attachment 1.

2.3 Issues

2.3.1 Time lag between vineyard investment and production

The major part of capital investment in a vineyard is incurred in purchasing the land and establishing the vineyard, which, by convention is designated year 0. The vines do not produce any harvestable crop in years 1 and 2, and do not reach full production until year 4 or 5. Consequently, there is a lag of at least 4 to 5 years between investment decisions and full production, and the effect of changes in plantings will not be realised for 4 to 5 years. This lag effect must be considered when reviewing policy and development decisions.

The formulation of appropriate policy and investment decisions also requires availability of accurate data particularly regarding plantings. Statistics regarding plantings in South Australia are required to be collected under the Act enabling the Phylloxera and Grape Industry Board of SA. However, SA data is considered to have error margins of about 6% due partly to non registration of new plantings. The collection of planting data for the rest of Australia is not legally mandated and is estimated to have an error margin of at least 10%.

The combination of the time lag between vineyard investment and production and the inaccuracy of data regarding plantings is likely to affect the appropriateness of policy development and investment decisions.

2.3.2 Vineyard expansion

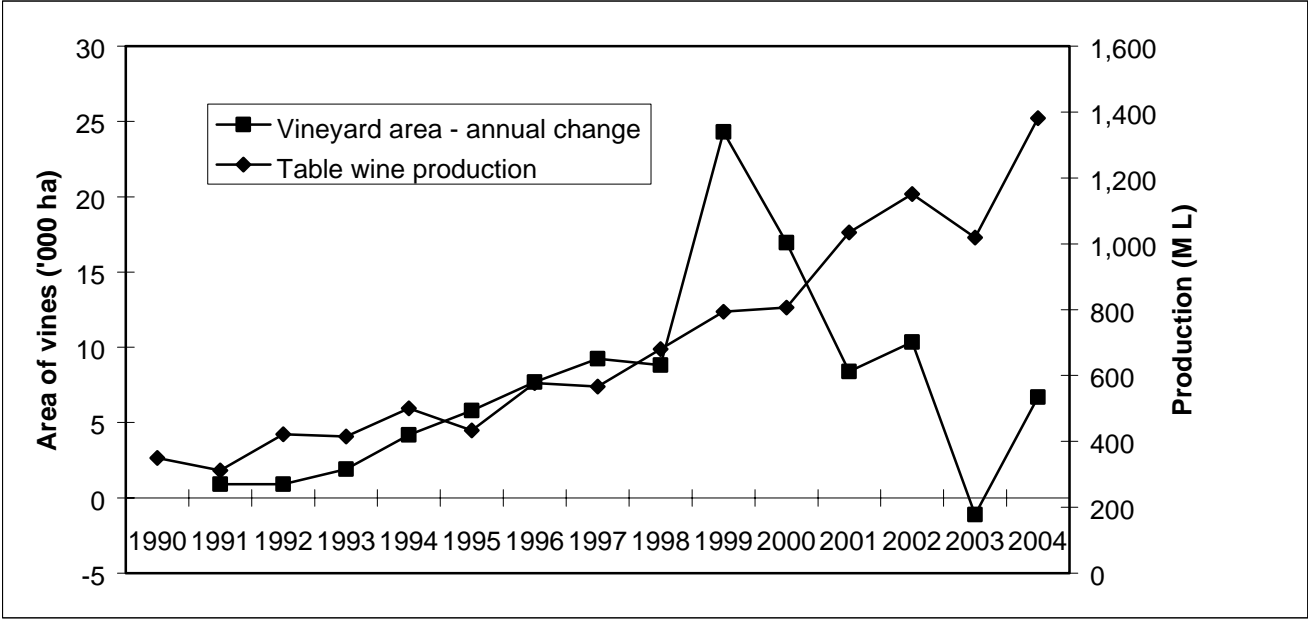
Analysis of ABS data enables charting of the change in area of vines each year and comparison with the table wine production. This is shown in Figure 1 below.

This figure shows that annual change in vineyard area increased approximately in parallel with increasing table wine production until 1998. For example, the average increase in the 3 years to 1998 was 8,500 ha. However, in 1999 the annual increase tripled to almost 25,000 ha. It then reduced somewhat in 2000 to about 17,000 ha or double the average for the three years to 1998. The effect of these substantial increases has taken about 4 years to be reflected in increased table wine production, and form the basis of the current glut.

Clearly, the implications of these enormous increases in plantings should have been taken into account at that time when considering the possible continuation of policy measures such as accelerated depreciation that favoured vineyard expansion, and when evaluating the longer term implications of investment decisions.

It should be noted that the annual change in vineyard area has now substantially decreased to an average of 6,000 ha in the last 4 years. This could be interpreted as a rational adjustment in the light of market expectations.

Figure 1 : Annual change in vineyard area and table wine production



2.3.3 Accelerated depreciation provisions

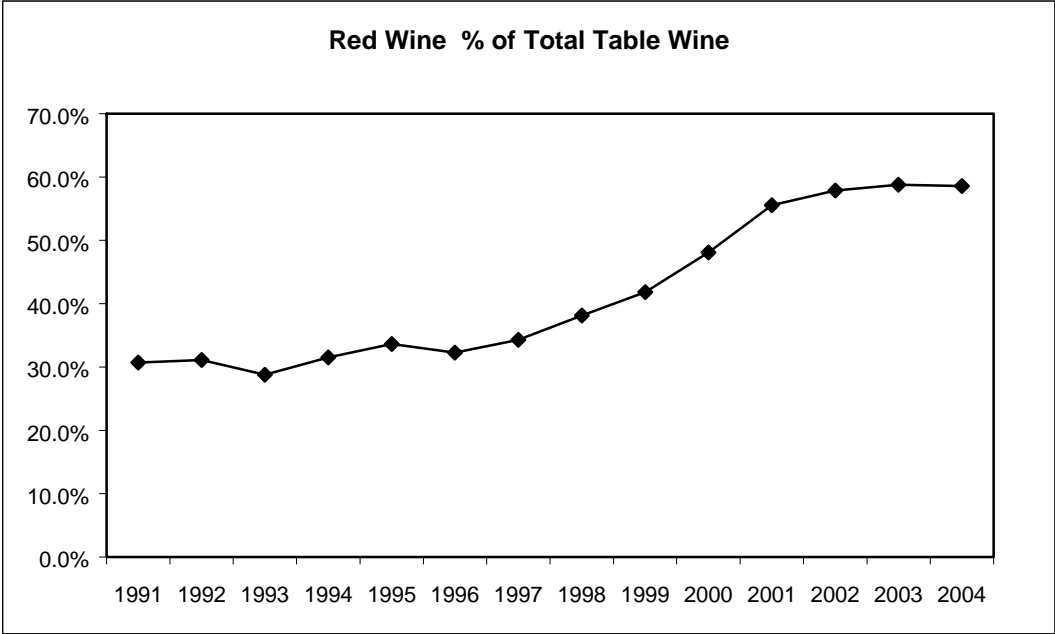
As an early attempt to stimulate investment in wine grapes, concessional rates for depreciation (decline in value of a grapevine) were introduced in 1992 (tbc). These provisions were aimed at writing off the value of capital expenditure incurred in establishing grapevines by the time they notionally reached full production. This resulted in a depreciation rate of 25% per annum. This was a substantial concession and was seen as an extremely attractive incentive to invest in vineyards and subsequently, to assist the industry to meet Strategy 2025 targets.

As shown in section 2.2, growth has exceeded all expectations and the justification for this provision has disappeared. As a consequence, it was removed in the May 2004 budget, effective from 1 October 2004. There is a strong case to say that from an industry view point, this change occurred much later than it should have, and that this delay has contributed substantially to the current record production and inventory levels. The effect of the delay is exacerbated by the lag referred to in section 2.3.1.

2.3.4 Growth in red wine

The proportion of red wine production has increased substantially since 1991 as is shown in Figure 2 below. It shows that the proportion of red wine has approximately doubled from 30% to 60% over the period. This has a major implication for storage and inventory requirements as red table wine usually requires maturation for more than a year and often more, that is at least until after the next vintage, while most white table wine can be sold prior to the next vintage. This is supported by inventory level statistics showing record levels of red wine stocks at 30 June 2004 of about 1,100 ML. There is substantial concern that this will increase further as a result of increased red wine production resulting from the record 2005 vintage.

Figure 2 : Red wine production as a percent of total table wine



2.3.5 Increased exports particularly of red wine

There is concern that the substantially increased exports particularly of red wine sourced from warm climate regions may affect the overall quality of exports and thus threaten the market premiums attracted by our premium and icon wines. There is a related concern about the effects of discounting in response to market oversupply also affecting market premiums particularly of wine already in stock.

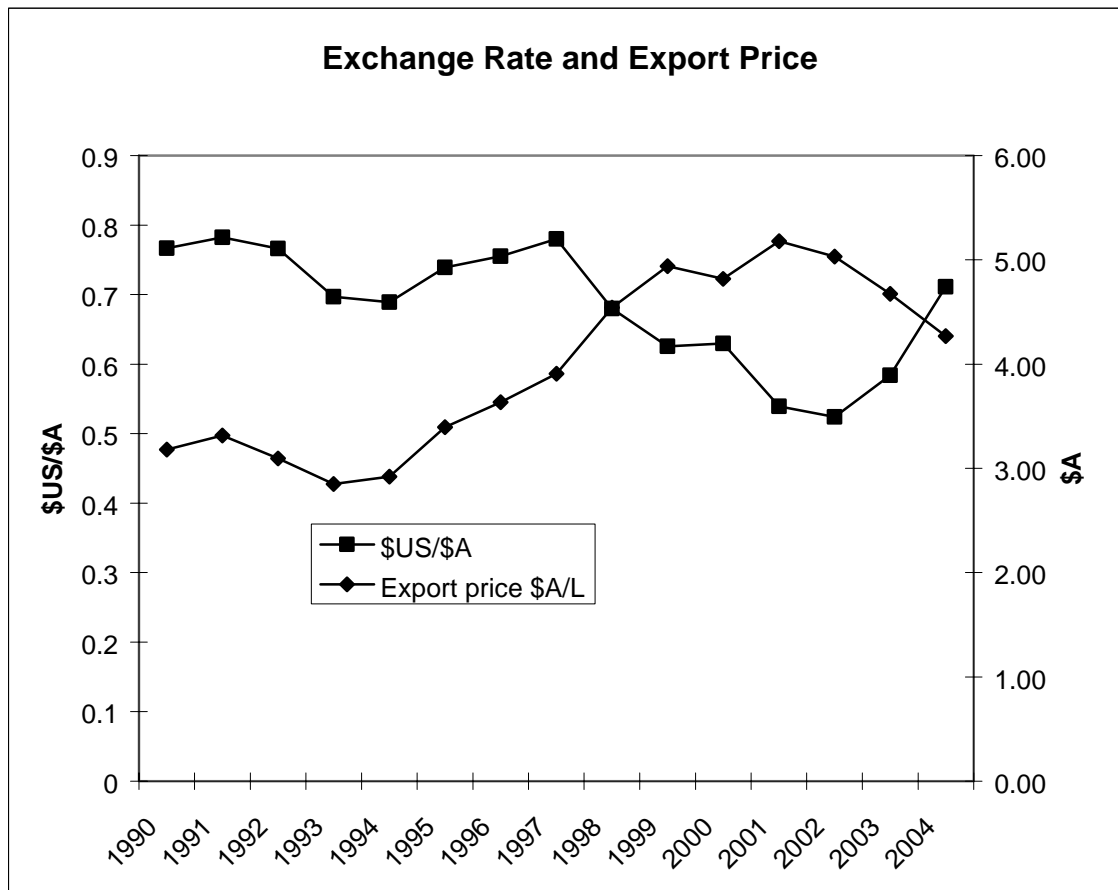
2.3.6 Influence of Exchange Rates

The growth in exports has been partially influenced by exchange rates particularly US dollar rates² that affect the price received in Australia. This is illustrated in Figure 3 below.

Inspection of Figure 3 shows a clear inverse relationship between the \$US exchange rate and the price per litre in A\$ from 1997 onwards. The lack of an inverse relationship prior to 1997 may indicate the relative importance of sales in the UK compared with the US.

² From ABARE, *Australian Commodity Statistics* 2004, table 11, Canberra; in turn sourced from ABS, Average Monthly Exchange Rates, cat. No. 5654.0, Canberra; and Reserve Bank of Australia, *Bulletin*, Sydney.

Figure 3 : Wine export prices related to US\$/A\$ exchange rates



2.3.7 Industry costs of over supply

Over supply has implications for both grape growers and wineries. Implications for grape growers include:

- Lower grape prices;
- New developments were encouraged by contracts that were short term or inadequately specified, and were not honoured when demand slowed;
- Supply contracts not renewed or renewed on poorer terms;
- Growers were required to increase quality by reducing yields through irrigation management crop thinning etc; and
- Many growers decided to attempt to add value to their grapes by making wine which was commercially unsuccessful.

Implications for wineries include:

- More susceptible to strong pressure from powerful retail groups leading to price cutting; and
- Surplus wine stock leading to stock devaluation.

3 INDUSTRY STRUCTURAL ISSUES

3.1 Introduction

Winemakers source grapes from their own vineyards (20% to 25% of total grapes), from growers under contract, and from the spot market comprising surplus fruit from growers who have contracts and fruit from growers with no contracts. Winemakers manage their supply risk relating to quality and to price by managing grape supply from these three sources. There are relatively few winemakers compared with the number of grape growers, leading to an imbalance of power between winemakers and grape growers.

The terms and conditions of grape supply contracts are important and provide some safeguards to both parties. However, quality criteria incorporated in many contracts are not able to be measured objectively, and are thus subject to interpretation by either party. Interpretation is likely to be affected by supply and demand, and thus the imbalance of power between wineries and grape growers is an important factor.

The Australian wine industry competes with other international wine producers and with other beverages. From an overall industry perspective, the success of the wine industry depends on the international competitiveness of the supply chain and of each component of the supply chain (growers, winemakers, distributors, retailers etc), and the efficiency of transactions between the components eg grower winemaker transactions and relationships.

3.2 Issues

3.2.1 Increasing specialisation of wine grape growers

At the start of the period in question (1990), wine grapes were often grown on mixed farms, resulting in the spreading of risk across a number of enterprises. Wine grapes are now increasingly the only crop grown by growers, and thus many growers are increasingly exposed to risks specific to the wine industry. Thus, the equitableness of the provisions of wine grape supply contracts and their implementation has become more critical for more growers.

One example of inequity includes a number of instances where winemakers have demanded certain developments (eg replanting to different or in some cases the same variety, or changes in irrigation systems) to be implemented by grape growers as a condition of the supply contract, only to then refuse delivery. Another example of inequity is the use of scheduling of the date of acceptance of delivery, and subsequent downgrading of quality and thus price due to delay.

3.2.2 Quality assessment

Despite much research on quantitative measures to specify quality, there is still no universal measure of grape quality. In many cases, quality assessment is totally left to the winery and is based on qualitative assessment on small samples of berries by the winemaker.

A number of issues or circumstances regarding quality assessment of grapes have led to grower dissatisfaction.

One issue is the apparent undue weight given to quality assessments in previous years for a particular vineyard or block. Once a vineyard or block has produced grapes that have been assessed as low quality, it is very difficult for grapes in subsequent vintages to achieve improved quality scores even if there have been substantial changes to management practices.

Another issue is that grapes delivered at a time when the winery is producing a large run of wine to a certain specification or end use, are very likely to be assessed at the quality suitable for the current run, rather than the inherent quality of the delivered grapes.

Grower dissatisfaction has also occurred when the field assessment before harvest was good, but after the wine was processed some months later, the quality assessment of the grapes was down graded.

Clearly, these examples illustrate the importance of the development of quantitative grape quality assessment measures and in the mean time, the importance of trust in the relationship between the grape grower and the winemaker.

3.2.3 Differences between warm climate and cool climate producers

Producers from warm climate regions are likely to achieve much higher yields often at lower quality than producers from cool climate regions. Grapes from warm climate regions are often considered as a commodity and producers have little opportunity to differentiate their product on the basis of quality. Consequently, a major determinant of viability and profitability in warm climate regions is scale of production resulting in lower costs per tonne.

Producers in cool climate regions typically achieve lower yields but higher quality grapes. While these higher quality grapes typically command higher prices per tonne, production costs are also higher. Consequently, a major determinant of viability in cool climate regions is the ability to differentiate grapes due to quality thus commanding higher prices from the winery.

Clearly, the importance of various contractual conditions differs between warm climate producers and cool climate producers.

Although production from cool climate areas is less than from warmer areas, the impact of the downturn is greater on cool climate areas because they:

- Have a higher cost structure;
- Have more variable yields;
- Produce wine at higher price points; and
- Produce less volume and are therefore more sensitive to over supply.

4 TRADE PRACTICES ACT 1974 (TPA) AND WINEGRAPE GROWERS

The TPA provides a role for the Australian Competition and Consumer Commission (ACCC) in authorising arrangements that may have anti-competitive elements but are outweighed by public benefit. A recent article by a commissioner of the ACCC³ reports complaints received by the ACCC from growers that include the following allegations:

- “buyers have intentionally set quality standards that are unobtainable and unrealistic, thereby giving them a reason to pay less for produce;
- some aspects of the way the buyer receives or handles the fruit causes a deterioration in quality after delivery and therefore allows the buyer to claim a reduction in price;
- the price paid was less than they were entitled to under the contract, where the contract refers to an average price for the region; and
- buyers have insisted on contract amendments under an implied threat that if growers didn’t accept they would receive lower prices or no further contracts once the current contract expired.”

These quoted instances are similar to several examples discussed earlier in these notes.

Martin also discusses misuse of market power under the TPA and concludes that these provisions have little direct relevance to vertical relationships in the supply chain such as those between growers and wineries. However, he suggests that the capacity of the ACCC to authorise collective bargaining is relevant. “Collective bargaining involves an arrangement where multiple competitors in an industry” (eg grape growers) “come together, either directly or through the appointment of a representative, to negotiate the terms and conditions of supply with another, usually larger, business” (eg winery). Authorisation of collective bargaining requires the ACCC to be satisfied that the conduct being authorised is in the public interest. “In general, the ACCC must be satisfied that the benefit to the public in allowing the arrangement to go ahead would outweigh any possible detriment. The onus to prove that the proposed arrangement passes this test is placed on the applicant” eg the group of growers.

The ACCC has recently introduced changes that aim to provide small business (eg independent grape growers) with a quicker more streamlined way to obtain immunity from the TPA (the equivalent of authorisation). The ACCC is also emphasising the importance of the development of appropriate industry codes of conduct and will assist industry groups in this process. The article concludes with the statement that the “ACCC will continue to work with the farm sector to encourage fairness and transparency in contractual negotiations and agreements between participants, whether under the framework of the TPA, through voluntary or mandatory industry codes or a combination of both”.

While this discussion describes changes that are likely to improve the situation, current market conditions are likely to temporarily override any likely beneficial effects of these changes to grape growers.

³ Martin, J. 2005 “Competition Law developments in Australia affecting primary producers” *Farm Policy Journal* Vol 2, No. 1

5 NATIONAL WINEGRAPE GROWERS' REPRESENTATIVE BODY

Winemakers and grape growers have a wide range of common interests regarding the industry. These include issues regarding prosperity of the industry as a whole such as factors affecting health benefits and access to export markets, and factors affecting production such as environmental issues, plant health issues and supply of skilled labour etc. These common interests are further illustrated by most wine makers also being substantial grape growers.

However, there are some areas where the interests of winemakers and grape growers diverge. These issues typically impinge on factors affecting price and quality of grapes. One example has been the effects of the provision for accelerated depreciation of vineyards which has undoubtedly led to greater investment in vineyard expansion than would otherwise have been the case. This has resulted in increased production and thus downward pressure on grape prices and increased quality requirements, both to the disadvantage of grape growers.

Grape growers contend that opposition to the timely (ie earlier) removal of accelerated depreciation provisions for vineyard investment was the result of more effective lobbying by the winemakers' body compared with lobbying by the grape growers. The issue to be addressed is development of a mechanism that facilitates more effective lobbying by grape growers regarding matters where their interests diverge from the interests of winemakers.

Attachment 1

	unit	30-Jun														
		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Area of Vines																
Bearing vines	ha	53,900	54,500	56,400	58,600	61,362	65,454	64,845	72,119	78,090	95,301	110,653	130,591	143,373	142,793	150,561
Non bearing - planted prior	ha	2,545	3,634	2,993	2,400	2,771	4,446	8,900	9,615	9,532	11,566	18,130	11,080	8,264	8,412	7,800
Non bearing - planted this year	ha	2,732	2,029	1,646	1,900	2,935	5,969	6,815	8,063	10,989	16,048	11,108	6,586	6,958	6,288	5,819
Total	ha	59,200	60,100	61,000	62,900	67,074	72,869	80,559	89,797	98,612	122,915	139,861	148,257	158,594	157,492	164,181
Table Wine Inventory																
White	'000 L			269,839	253,762	307,710	281,753	364,605	377,328	386,031	455,044	452,802	458,391	506,574	497,338	589,645
Red and rose	'000 L			180,263	183,062	196,385	211,933	266,177	291,511	363,803	482,159	587,185	767,059	919,889	940,705	1,108,146
Total Table wine	'000 L			450,102	436,824	504,095	493,686	630,782	668,839	749,834	937,203	1,039,987	1,225,450	1,426,463	1,438,043	1,697,791
Grape Production																
White	t		339,102	388,265	388,610	453,342	381,550	516,348	484,030	529,463	626,398	577,015	618,266	666,771	557,074	753,482
Red	t		150,352	175,392	157,213	208,471	193,450	246,043	252,448	326,611	449,809	534,122	772,816	847,730	772,522	1,063,075
Total grape production	t		489,454	563,657	545,823	661,813	575,000	762,391	736,478	856,074	1,076,207	1,111,137	1,391,082	1,514,501	1,329,596	1,816,557
Table Wine production																
White (imputed 1991 - 2001)	'000 L		216,175	290,434	295,353	342,552	287,327	390,972	372,500	420,713	461,786	418,750	459,901	484,754	420,295	572,101
Red and Rose (imputed 1991 - 2001)	'000 L		95,849	131,199	119,486	157,524	145,678	186,300	194,279	259,526	331,603	387,621	574,865	666,100	599,098	808,963
Table wine production	'000 L	349,913	312,024	421,633	414,839	500,076	433,005	577,272	566,779	680,239	793,389	806,371	1,034,766	1,150,854	1,019,393	1,381,064
Red wine	%		30.7%	31.1%	28.8%	31.5%	33.6%	32.3%	34.3%	38.2%	41.8%	48.1%	55.6%	57.9%	58.8%	58.6%
Domestic sales (table wine)																
White	ML	180.4	176.2	190.2	186.4	192.5	186.2	178.7	185.0	189.5	188.3	193.0	199.8	199.9	201.6	208.0
Red/rose	ML	49.5	52.1	56.5	59.9	62.2	65.4	68.6	83.7	88.9	99.1	114.1	125.6	130.4	142.8	147.1
Total	ML	229.9	228.3	246.7	246.3	254.7	251.6	247.3	268.7	278.4	287.4	307.1	325.4	330.3	344.4	355.1
Exports																
Table wine	'000 L	32,095	46,890	71,752	95,468	116,655	105,542	120,860	144,892	183,024	206,287	272,841	328,620	406,277	506,662	571,324
Total wine	'000 L	38,120	54,156	78,679	102,832	125,464	113,633	129,480	154,393	192,404	216,149	284,933	338,289	418,393	518,642	584,397
Total wine	\$'000	121,248	179,588	243,526	293,157	366,574	385,704	470,694	603,297	873,847	1,067,979	1,372,756	1,752,082	2,105,139	2,423,468	2,494,089
Exports/Total Production (vol)	%			18.7%	24.8%	25.1%	26.2%	22.4%	27.2%	28.3%	27.2%	35.3%	32.7%	36.4%	50.9%	42.3%
Inventory/Production	vol ratio			1.07	1.05	1.01	1.14	1.09	1.18	1.10	1.18	1.29	1.18	1.24	1.41	1.23
Inventory/ Production (prev. year)	vol ratio			1.44	1.04	1.22	0.99	1.46	1.16	1.32	1.38	1.31	1.52	1.38	1.25	1.67
Inventory/Production - red wine	vol ratio			1.37	1.53	1.25	1.45	1.43	1.50	1.40	1.45	1.51	1.33	1.38	1.57	1.37
Inventory/production (prev year) - red wine	vol ratio			1.88	1.40	1.64	1.35	1.83	1.56	1.87	1.86	1.77	1.98	1.60	1.41	1.85
Inventory (prev year)/production - red wine	vol ratio				1.15	0.88	1.02	0.86	1.05	0.89	0.81	0.90	0.76	0.90	1.19	0.88
Export price	\$A/L	3.18	3.32	3.10	2.85	2.92	3.39	3.64	3.91	4.54	4.94	4.82	5.18	5.03	4.67	4.27
Exchange rate	\$US/\$A	0.7667	0.7824	0.7664	0.6968	0.6889	0.739	0.7553	0.7801	0.6797	0.6257	0.6295	0.5391	0.5238	0.5838	0.7113
Bearing area - annual change	ha		600	1,900	2,200	2,762	4,092	-609	7,274	5,971	17,211	15,352	19,938	12,782	-580	7,768
Vineyard area - annual change	ha		900	900	1,900	4,174	5,795	7,690	9,238	8,815	24,303	16,946	8,396	10,337	-1,102	6,689
Red wine grapes	%		30.7%	31.1%	28.8%	31.5%	33.6%	32.3%	34.3%	38.2%	41.8%	48.1%	55.6%	56.0%	58.1%	58.5%
Wine grape production	t/ha		8.98	9.99	9.31	10.79	8.78	11.76	10.21	10.96	11.29	10.04	10.65	10.56	9.31	12.07
Wine production	'000L/ha		5.73	7.48	7.08	8.15	6.62	8.90	7.86	8.71	8.33	7.29	7.92	8.03	7.14	9.17
Wine production per tonne of grapes	'000L/tonne		0.64	0.75	0.76	0.76	0.75	0.76	0.77	0.79	0.74	0.73	0.74	0.76	0.77	0.76

TABLE 3

YEAR	Total Wine Exports (kl)	Total Wine Imports (kl)	Total Wine Exports ('000 \$)	% of Wine Export Prodn. Value Exported per litre (3-year moving av.)	% of Wine Prodn. Value Exported per litre (3-year moving av.)	% of Apparent Wine Consum. Imported (3-year moving av.)	Trade Volume Specialization Index
1926-27	14010	407	1688	12	16.5	0.6	94.4
1927-28	17151	346	2124	12	15.8	0.5	98.0
1928-29	7914	347	1602	13	15.4	0.5	91.8
1929-30	9827	369	1112	11	13.3	0.4	92.8
1930-31	10039	70	1020	10	18.8	0.3	98.6
1931-32	15801	36	1818	12	20.8	0.1	99.5
1932-33	14059	67	1582	11	22.4	0.1	99.1
1933-34	13941	110	1606	12	21.2	0.2	98.4
1934-35	15432	129	1624	11	22.1	0.2	98.3
1935-36	18865	138	1870	11	21.9	0.2	98.4
1936-37	16583	156	2088	11	21.5	0.3	98.3
1937-38	17716	226	1890	11	23.0	0.3	97.5
1938-39	16862	187	1964	12	24.4	0.3	97.8
1939-40	16456	120	1918	12	21.3	0.2	98.6
1940-41	7537	29	1032	14	15.3	0.1	99.2
1941-42	6338	14	906	16	8.0	0.0	99.8
1942-43	3714	0	594	16	6.6	0.0	100.0
1943-44	5682	3	848	15	7.2	0.0	99.9
1944-45	7051	0	1190	17	8.2	0.0	100.0
1945-46	8112	2	1482	18	8.8	0.0	100.0
1946-47	12368	15	2384	19	8.3	0.0	99.8
1947-48	12221	86	2880	23	7.7	0.1	98.6
1948-49	8535	199	1968	23	6.0	0.1	95.4
1949-50	5009	120	1032	21	4.8	0.1	95.3
1950-51	5557	208	1270	23	3.9	0.2	92.8
1951-52	5275	363	1462	28	4.1	0.2	87.1
1952-53	5302	35	1528	29	4.0	0.1	98.7
1953-54	8340	184	1806	28	4.7	0.1	94.4
1954-55	6746	242	1634	28	5.1	0.2	91.9
1955-56	5471	221	1408	27	5.6	0.2	92.2
1956-57	7938	152	2264	29	5.2	0.2	96.2
1957-58	6771	223	1994	29	5.3	0.2	91.0
1958-59	7935	236	2304	29	5.4	0.2	94.2
1959-60	7904	273	2530	32	5.9	0.2	93.3
1960-61	8603	446	2606	30	5.3	0.3	90.1
1961-62	7582	373	2772	37	5.1	0.3	90.6
1962-63	7325	404	2742	37	4.6	0.3	89.5
1963-64	6886	534	2741	39	5.0	0.4	85.8
1964-65	9058	681	3521	39	5.1	0.4	86.0

TABLE 3

YEAR	Total Wine Exports (kl)	Total Wine Imports (kl)	Total Wine Exports ('000 \$)	% of Wine Export Prodn. Value Exported per litre (3-year moving av.)	% of Apparent Wine Consum. Imported (3-year moving av.)	Trade Volume Specialization Index	
1965-66	8997	663	3535	40	6.1	0.6	86.1
1966-67	8077	861	3169	39	4.8	0.6	80.7
1967-68	8388	1388	3153	38	4.0	0.7	71.8
1968-69	8200	2074	3395	41	3.2	0.8	69.6
1969-70	5988	1963	2913	49	2.7	0.9	60.2
1970-71	6563	2403	3581	55	2.5	0.9	48.4
1971-72	7957	2530	4245	53	2.6	1.0	51.7
1972-73	6244	3005	3220	52	2.7	1.2	35.0
1973-74	8466	4310	5641	67	2.4	1.4	32.5
1974-75	6546	5294	5343	82	2.1	1.7	10.6
1975-76	6132	6925	5500	90	1.8	1.9	-6.1
1976-77	4924	8098	5400	110	1.5	2.2	-24.4
1977-78	4629	7802	5400	117	1.4	2.3	-25.5
1978-79	5239	8481	6300	120	1.5	2.1	-23.6
1979-80	6087	6874	8400	138	1.7	2.0	-8.1
1980-81	7470	7492	11900	159	1.9	2.0	-0.1
1981-82	8401	8992	14000	167	2.2	2.2	-3.4
1982-83	7931	7334	13400	169	2.2	2.3	-3.9
1983-84	8899	9646	16800	189	2.2	2.6	-4.0
1984-85	8698	13119	17400	200	2.3	2.9	-20.3
1985-86	10628	12794	20541	190	3.4	2.8	-8.3
1986-87	21323	7667	44620	209	6.2	2.6	47.1
1987-88	39135	8146	96157	248	7.9	2.1	65.5
1988-89	39044	9797	114521	293	8.7	2.3	60.1
1989-90	38120	10453	121248	318	9.9	2.4	57.0
1990-91	54156	8999	179588	332	13.1	2.4	71.5
1991-92	78679	8703	243526	310	17.8	2.3	80.1
1992-93	102832	7832	293157	285	20.3	2.0	85.8
1993-94	125464	8341	366574	292	22.2	2.5	87.5
1994-95	113663	14057	385704	339	21.1	3.0	78.0
1995-96	129671	20258	471578	364	22.4	3.4	73.0
1996-97	154375	13588	603274	391	24.8	na	83.8
1997-98					27.0		
1998-99					29.8		

a. Data from 1953-54 to 1990-1991 based on UK imports of Australian wine in the following calendar year, taken from Lafer. Export volumes from 1997-98 are projections assuming Australian per capita wine consumption remains unchanged in the first four years of the 1990s, so that all the extra sales from the production in Table 2 are in export markets. Apparent wine consumption is defined simply as production plus imports minus exports. The trade volume specialization index is exports minus imports as a percentage of exports plus imports.
Sources: AWF Statistical Report, 1996; Lafer (1980, pp.123-124); and ABS Cat. No. 1329.0, 1997.

PUBLISHER
Winetitles Pty Ltd

JOURNALIST
Lauren Corsey

ASSOCIATE EDITORS
Gary Baldwin Oenology
Peter Dry Viticulture
Larry Lockhart Marketing
Tory Spawton

CONTRIBUTING WRITERS
Nick Bulleid
Paul Clancy
Karen Goldspink
Guy Grant
Valma Frankel
Jim Harvie
Diana Jacquillard
Tully Keys
Jeanine Marszal
Jane Owen
Amy Russell
Jenny Stonier
Richard Smart
Andrew Thomson
Sam Talley

PRODUCTION AND DESIGN
David Blacklock and Matthew Lee

SALES AND MARKETING
Alison Atkinson

SUBSCRIPTIONS
Adrian Jenkin

The Australian and New Zealand Wine Industry Journal is published bimonthly. Correspondence and enquiries should be directed to Lauren Corsey.

The views expressed in the Wine Industry Journal are those of the authors and do not necessarily reflect the opinions of the journal or its staff.

[w] winetitles

Address
97 Carrington Street, Adelaide SA 5000

TELEPHONE & FAX
T (08) 8223 4799 F (08) 8223 4790

E-MAIL
General: sales@winetitles.com.au
Editorial: lauren@winetitles.com.au
Subscriptions: susa@winetitles.com.au
Advertising: aatkinson@winetitles.com.au

WWW
General: winetitles.com.au

Printed by Custom Press,
Adelaide ISSN 0819 2421
© Winetitles Pty Ltd 2004. All rights reserved.

Too Good For Our Own Good



PAUL CLANCY
Viewpoint

Not for the first time in its more recent evolution as a major international wine producer, the Australian wine industry faces a challenge. However, this current challenge is the most serious it has ever had – it threatens the future of the entire industry.

Australia has been so successful at growing quality grapes in the warm inland regions and producing very good quality wine from them, that these *Popular Premium* sector wines dominate our export volumes and represent almost all current and projected export growth. *Popular Premium* is wine with retail prices in the \$US 3.50-7.99, \$A3.40-9.99 and UK £3.00-4.99 range. It's a market sector which has been spectacularly successful for the big Australian wine companies. However, an oversupply of grapes, the result of good seasons and over-planting, has caused a 'race to the bottom', with some wine producers taking advantage of the surplus to purchase grapes at \$150 per tonne and making wine which sells in our export markets at the bottom end of the *Popular Premium* price points. Millions of bottles of Australian wine, bearing labels unknown in Australia, but unmistakably Brand Australia, now dominate the lower price end of the *Popular Premium* sector. That does not necessarily translate into good news for the Australian wine industry. While statistically our wine exports continue to grow, much of that growth is in fact undermining the more profitable and sustainable parts of the *Popular Premium* sector, occupied by the more familiar brands like Jacobs Creek, Lindemans, Banrock Station and Oxford Landing. And of course, it does nothing to deny the rapidly growing international

perception that Australia is only a producer of the best low value wine in the world. Such perceptions have dire negative impacts on our ability to sell wine into higher, more profitable market categories – causing further grief in the over-planted cool climate regions.

It will be a very parlous situation indeed if Australia becomes trapped by its own success – stuck as a supplier to the bottom end of the *Popular Premium* market. The incredible success achieved by the Jacobs Creeks and Banrock Stations needs to be built upon by pushing up through market price points and not destroyed by plunging backwards to the unsustainable bottom end of the market.

A correction in the fruit supply and demand balance will assist in addressing the problem but it is not a long-term solution. The radical last resort solution is, of course, a funded vine pull scheme. A significant change in grower/winery fruit contracts needs to be structured so that in times of oversupply, surplus fruit does not become a free market commodity attracting the bottom-feeding sharks. For example, an integrated hectare/tonnage contract at sustainable prices, might allow a grower to turn his surplus back into the soil and deny the predatory opportunists access to cheap fruit. For cheap fruit not only destroys the grower, it clearly destroys markets and undermines profitable price point sectors for wine producers.

Exacerbating the problem for wine producers is the fact that in overseas markets and more recently domestically, retail 'consolidation' has meant supermarkets, acting more like cartels, dictate achievable wholesale prices – because they can.

Instead of pushing through market price points and establishing beach-heads for smaller producers of cool climate, *Super Premium* and *Ultra Premium* wine, our major wine companies are engaged in combat against the cheap fruit, cheap wine cannibals, at the rear of the market battlefield.

Ironically, the cannibals are not from South Africa or Chile or Argentina – they're our own. We're biting our own tail.

PAUL CLANCY is a publisher, grapegrower and wine producer, based in the Barossa Valley.