



Senate Rural & Regional Affairs & Transport Reference Committee
SG 62
Parliament House
CANBERRA ACT 2600

Submission to Australian Senate Rural and Regional Affairs and Transport Reference Committee – Inquiry into the Wine Industry

The Wine industry Association of Western Australia (WIAWA) represents grape growers, wine producers, and wine distributors based in Western Australia. The Association (in its current form and under its current name) has been established since 1987 and is estimated to represent 85% of Western Australia's wine production. It is the only body that represents industry across all growing regions and is recognised by governments and industry as the peak representative body in Western Australia.

Winegrapes are grown in nine regions in the southwest corner of the state. Grapegrowing, winemaking, and wine tourism contribute significantly to these regions, and has contributed to the economic revival of several areas negatively effected by the decline of traditional industries such as timber, dairy, and wool. Since 1996 there has been 500 percent growth in production and 220 percent growth in employment in the Western Australian wine industry.

Production of winegrapes in Western Australia has been calculated to be marginally less than 100,000 tonnes in 2004, representing 5 percent of the national total. However, the average price of Western Australian wine is significantly higher than the national average and thus the proportion of national sales is greater. The wholesale value of Western Australian wine is estimated to be in excess of \$500 million.

With regard to the key areas of focus of the Committee's inquiry the Association makes the following submission:

a) the size and nature of the winegrape glut, and the producer's inventory level

In Western Australia there has been excess supply of some varieties, mainly red, whilst there has been undersupply of other varieties, particularly white. This reflects the situation occurring throughout Australia. The magnitude of the red grape oversupply is estimated to be in the order of 10-15,000 tonnes. Whilst continuing sales growth of Australian wine will help to alleviate the oversupply of red grapes, it is likely that a structural oversupply exists in varieties such as cabernet sauvignon and cabernet franc, and replanting or grafting over of some vineyards will be necessary.

Economic hardship will occur where growers are unable to find a buyer for their fruit, or are subjected to the cost of reworking existing plantings.

The higher costs of production and distribution for WA producers, attributed to distance from suppliers and markets, has meant that producers have suffered greatly in terms of margins in attempting to achieve sales under these circumstances. Rising inventory levels also contribute to increased levels of taxable income, which then magnifies producers' financial burdens.

Exports of Western Australian wine lag well below the national average – 15 percent of total sales verse 50 percent – and it can be reasonably argued that if exports were to be raised closer to the national average then issues of over supply within the Western Australian industry would be overcome.

b) the structure of the industry and how this impacts on the relationship between growers and producers: the nature of the contractual agreements between them: the implementation of quality benchmarks and whether these can be standardised in an industry-wide code of conduct.

WIAWA regards the relationship between growers and producers as one based on mutual interest and transactions between growers and producers to be based on the nature of supply and demand in a competitive market. Established growers often have supply contracts that predate the current oversupply situation. Growers entering the industry since the late nineties have had difficulty in securing long term contracts with producers, and some producers have been unable to meet their contractual obligations as a result of encountering financial difficulties.

Generally speaking there is an open, competitive market for wine grapes in Western Australia, with few anomalies, that operates in an economically rational manner. The WIAWA does not see any role for intervention in this process.

Quality benchmarks are commonly applied to grape supply/purchase contracts, these tend to be similar from business to business, often with reference to national standards developed with the support of the Winemakers Federation of Australia (WFA). WIAWA also continues to support research and development into the measurement of grape quality parameters, funded chiefly through the Grape and Wine Research and Development Council (GWRDC).

d) the need for a national grape growers' representative body, the powers that it might have, and the means by which it might be funded, including any possible role for Government in overseeing an industry levy

WIAWA believes there is a need for a national grape growers' body. It would also point out that whilst this may address many issues specific to grape growing, the interests of winegrape growers and winemakers are not mutually exclusive. In fact both groups rely upon the other remaining financially viable. In fact the opportunity for growth of growers' businesses is tied to the growth of the market for Australian wine.

On this basis WIAWA strongly recommends that any peak national wine industry body should be one that represents both grapegrowers and winemakers. The WIAWA fills such a role at state level and does not encounter conflict in so doing. The WIAWA has been party to discussions initiated by WFA to develop a national growers body, and supports these endeavours.

Whilst there is a definite need for a grower body to be properly resourced, the WIAWA strongly opposes an industry levy for that purpose. All regional, State and National bodies representing WA growers and producers currently do so on a subscription basis. These bodies rely on their relevancy and value to members to continue to attract subscriptions, which ensures they are answerable to their membership.

Wine producers who grow grapes as well would not accept a levy raised on the grape crop for a growers organisation.

Yours sincerely



John Griffiths
President
24 June 2004