KING VALLEY VIGNERONS

Wednesday, 6 July 2005

King Valley Vignerons Inc (KVV)
Submission to Senate Rural and Regional Affairs and Transport Reference Committee Inquiry into the Australian Wine Industry

Introduction:

The King Valley Vignerons Inc. represents seventy-five grape growers in the King Valley Wine Region of North East Victoria. With wine grape plantings of 1500 hectares and an annual production of approximately 23,000 tonnes, the King Valley Region is the largest producer of premium cool climate wine grapes in Victoria. A vast majority of vineyards are family owned and rely heavily on the income from grapes for their livelihood, as this is the major source of their total income.

Due to the cooler climate and higher rainfall experienced in our region, production costs are higher than the warm inland regions such as Murray Valley, Riverland and Riverina. This is due to the higher amount of labour input i.e. canopy management, crop regulation, chemical sprays etc, that is needed in order to ensure that the grapes produced meet winery determined specifications.

Throughout the past two decades the King Valley Vignerons Inc. has built a reputation within the grape / wine industries as being a very progressive organization, which is eager to adopt the latest research findings to ensure that the highest quality grapes are produced.

In line with the other grape growing regions throughout Australia the King Valley experienced a planting boom in the mid to late nineties. A majority of these increased plantings were implemented under instructions from existing buyers, in order to fulfill an increasing demand for Australian wine on the overseas market. The grower / winery relationship throughout this period was very harmonious with both parties striving for excellence in an atmosphere of mutual trust and respect resulting in benefits for both parties.

Unfortunately, since 2000 there has been a steady decline in the grower / winery relationship to a point where we now operate in an atmosphere of mistrust and disrespect where wineries have no regard of the growers cost of production or long term sustainability. Due to lower grape prices being paid for the past four years, many growers have seen their incomes reduced to below the cost of production and are therefore economically unviable.

With news that the current downturn is likely to last for another four years in the cool climate regions in Australia the KVV Committee is extremely concerned for the welfare of its members. If this news is correct, this downturn will be the most prolonged -effectively lasting for eight years- and hardest hitting in the grape growing history of the King Valley and will certainly have a very serious impact on the future of grape growing in the King Valley Wine Region.

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Key Issues:

Under the Terms of Reference of the Senate Inquiry, the Committee of the King Valley Vignerons believes that the key issues that need to be investigated and addressed are as follows:

(a) The size and nature of the wine grape glut, and the producers inventory levels:

1. Throughout the period of 2000 – 2005 Australian wineries have been consistently stating that there is an over supply of wine grapes. Throughout that same period Australian wineries have purchased the total production of wine grapes, with the exception of 50,000 tonnes or 3% of total production in 2002[1] and an estimated 40,000 tonnes or 2% of total production in 2005. The unsold grapes in 2002 were solely from warm inland regions, while in 2005 the unsold grapes were a combination of both warm and cool climate grown grapes.

2. During the past decade the Australian Wine Industry has experienced enormous sales growth by volume, in particular the export market. Annual export sales growth in excess of 20%[1] was recorded in some years throughout that period. A decrease in annual export sales <u>growth</u> by volume in 2003/04[1] and 2004/05 together with overly optimistic sales forecasting and speculative purchasing by wineries, particularly in 2002, 2004 and 2005 has resulted in increased wine inventory levels.

(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 standardized in an industry-wide code of conduct.

1. The structure of the industry means that grape growers are price takers and wineries are price makers. The decline in grape prices in our region commenced in 2000 with a few wineries prices being significantly below others. This continued in subsequent years with a price difference in 2004 of $1200 per tonne (prices ranging from $600 - $1800 for contracted grapes of the same variety, of the same quality, and grown in the same region in the same year). Now, in 2005 wineries that were paying higher prices have reduced their prices thereby lessening the difference in prices paid. The huge variation in prices paid by different wineries for what is essentially the same product has left growers totally bewildered as to how the "market price" is determined The predatory buying strategy implemented by some wineries i.e. buying all they can, late in the season, at very low prices, has effectively reduced the regional average price in recent years. Clearly, an open, transparent and standardized pricing system based on quality - as is the case in other agricultural industries- needs to be implemented in the grape growing industry.

2. Throughout the 1990's it was a standard business practice for wineries purchasing grapes from our region to issue prices in mid to late January each year. However, since 2000 the price issue date has got later and it is now common for all wineries to issue prices in mid March. Anecdotally, it would seem that wineries are afraid of being the first to release prices for fear to offering a higher price than others. Bearing in mind that harvest commences in mid to late February, means that some growers are delivering grapes (early ripening varieties) to wineries with no idea of the price they will receive for their product. This situation is totally unacceptable and must be addressed. Furthermore, we see no reason why grape prices cannot be issued in December when growers undertake crop estimations.

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3. Whilst the majority of King Valley growers have written contracts in place, there is a large variation in the terms and conditions of such contracts. In recent years some wineries have honoured their contracts while others have either dishonoured the contract or have enforced several amendments benefiting the winery and not the grower. In relation to payment terms, the industry standard is three equal payments with full remittance due by 30th September in each year. In recent years some wineries have not been adhering to this standard.

4. It is a common practice for wineries to issue grape quality specifications, which the grape grower must adhere to. However, there is an enormous variation between wineries specifications, and there is a need to standardize these specifications. Throughout the past decade a vast amount of research has been undertaken in order to quantify and benchmark wine grape quality. This has largely involved subjective vineyard assessments and the use of near infa red spectrometry. Unfortunately, methodologies differ throughout Australia, and there is a need to standardize these measurements.

5. The KVV Committee fully supports and endorses the initiatives of the Wine Industry Relations Committee, including the Contract Checklist, Wine grape Assessment and the Code of Conduct. If implemented these measures will protect the grower by having minimum standards and more consistency in wine grape quality benchmarks and contractual agreements and therefore a more harmonious relationship between grape growers and wineries.

(c) The adequacy of the terms and implementation of the *Trade Practices Act 1974* in relation to wine grape growers.

1. Due to uncertainty in supply arrangements the KVV held a seminar in August 2004. Speakers at this seminar included a representative from ACCC. Several examples of grower / winery relationships were outlined and although the ACCC representative felt that wineries were being extremely unfair in their dealings with grapegrowers it was very difficult to prove "unconsciable behavior". However, we feel that as growers have now lost their right of negotiation i.e. if a grower questions the price being paid, they are told "if you don't like the price, take your fruit elsewhere", this certainly should be considered as abuse of market power. Given that, it would seem that the *Trade Practices Act 1974* is currently inadequate in protecting grower rights.

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

1. The KVV is very supportive of a national grape growers' representative body, and recently participated in a workshop to investigate the structure of such an organization. We feel that the most appropriate means of funding would be a compulsory levy on a dollar figure per tonne of grapes produced basis (the same method as the existing GWRDC research levy).

King Valley Vignerons Inc Committee

References:

[1] **Australian Wine and Brandy Corporation Annual Report 2003-2004**

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