

# Senate Inquiry into the Wine Industry

## MWGGAI Submission:

### **1. Characterisation:**

Our members are owners of vineyards within the Mudgee wine grape growing area. Many of our members' vineyards are contracted in part or whole to Southcorp, Orlando Wyndham, Beringer Blass and Hardy BRL. Members may also make spot sales of excess fruit in the open market.

Many of our members have been disappointed in their receipts for the production of fruit and the lack of recourse to the buyer. Some members are also producers of bottled wine retaining quantities of fruit for wine making and usually operate a cellar door in Mudgee surrounds. Just when the pressure is increasing on wine prices due to heavy discounting by corporate wine companies, and our members need to focus on external marketing and sales efforts, they have been met with dramatically reduced returns for their grapes.

Contracted growers who also make wine, rely on grape income to subsidize wine making particularly in the first 3 years when wine making is very capital intensive. However, the income levels have been far below expectations so to continue, the grape growers must input greater than planned levels of cash or liquidate. It is probable that almost all grape growing business within the Mudgee region was unprofitable in 2004 and 2005. Forecasts and information provided by buyers show that grape growing under contract is not expected to be profitable on the typical acreage that we have here or is common to the majority of fine wine growing regions in 2006.

### **2. Observations:**

#### **a. The Winegrape Glut**

We see a major issue in that the vast majority of contracted wine grape growers are private individuals – farmers – and the majority of grape buyers are large, public listed companies with major profit drivers. We believe that the large companies on the whole are determined to remain profitable and to maintain their share price at all costs even when they know that their practices put their suppliers in an unsustainable position. Simply put, this means that they will pay the lowest possible price for fruit.

Our members have experienced the homogenizing of pricing for all grades of fruit bringing all levels closer to the lowest bulk quality rates. For example, members have reported that in 2005 Orlando reduced each grade arbitrarily by \$100 per tonne from 2004 pricing and, without giving growers a chance to alter the cost base, reduced the price of commercial grade grapes to the same level as is paid in the broad acre growing areas such as the Riverina. They simply adopted a “national price” which in fact was the lowest price as well. There was no attempt to average pricing nationally for commercial grades. This meant that the gap between lowest semi-premium level and the highest commercial level grew to \$350. The previous the gap was just \$100. This resulted in prices as low as \$300 per tonne paid for fruit grown in Mudgee which is totally unsustainable for regional growers with their inherently smaller acreages. The buyers are also growers and fully understand the true cost of producing grapes which is approximately twice that of the price above. However, Orlando has announced a further reduction of 20% at each grade level for the 2006 vintage.

Premium growers producing for regionally branded wine at much lower levels than bulk wine producers are financially exposed to the current dramatic reduction in prices offered for grapes by large companies. We believe that growers with lower levels of equity and higher operating costs associated with small vineyard operations are very exposed to financial failure as a direct result of the sudden downturn in grape returns. The conclusion we draw is that many small growers will be bankrupted over the next 3 years. This has a dramatic impact on the local economy.

#### ***b. Industry Structure***

The contract defines the blocks, expected yield and in some cases the expected level of quality but does not make any guarantee as to price.

Our experience is that the contracts with Orlando are totally different from Southcorp's. There is no consistency in approach or structure.

The once common theme is that the pricing is set by the buyer and no correspondence is entered into. The price paid is totally based on the field personnel's assessment which is a very subjective taste test. It is completely exposed to abuse in the interest of corporate profitability.

On several occasions we have applied pressure through objecting to the grading and bringing in an independent wine maker to make opinion. In one case we believe this caused an upgrade in and increase in price from very low to low.

We are very disgruntled with the change to a national price for commercial grade grapes. This is not fair to regional growers. We believe that a judicial independent tasting panel with

ombudsman powers would assist grape growers expose any deliberate conspiracy to lower grading and therefore prices within a region.

***c. Relevance of the Trades Practises Act 1974***

We are sure the resources of the major corporate wine companies extend to the best in legal advice. We believe that there has been a general talking down of grape prices between the companies and this has been accelerated by the exposure of the so called glut in the press. Very large amounts of finished wine have been sold particularly through export by the major companies over the last 2 years. The growth in volume of wine is clear as is the lower profit on these transactions due to global discounting. Therefore we are concerned that the grower is being forced to accept less than appropriate compensation for their product in order for the corporate wine company to maintain profit to revenue ratios.

***d. National Grape Growers Body***

For us as growers, the representation of grape growers on a truly Australia-wide basis in a funded association, with each of the key regions and states having a voice, is essential to the survival and growth of the industry. The industry is already heavily burdened with levy payments and we see that there is increasing difficulty in obtaining payment of our local voluntary levy. However, in the case of supporting a national body, we would consider a further direct cost as reasonable if matched with government support on at least the usual dollar for dollar basis. We also believe that the buyers of grapes must also make a contribution to this process and be subject to any levy as users of the product. We do see that a further burden on a grower's already difficult financial state could meet with general rejection or simply meet a complete lack of ability to pay.

We see that there is a role for the representation to come from the regional bodies such as ours, the Mudgee Wine Grape Growers Association, and that some growers would propose that the funding for the national body should come from the associations' treasury if they are already receiving a voluntary local levy. We would find such a payment as almost impossible or we would have to pass it on anyway in order to guarantee the survival of our organization.

Right now, we believe the government has a role in ensuring that there is an adequate and fair appeal process available to growers when small farmers are being financially effected at the hands of powerful corporations.

Thank you.