Wine Grape Growers' Australia

Media Release

25th January 2011

Partnerships in profit advocated to overcome low wine sector prices

The Executive Director of Wine Grape Growers Australia, Mr Lawrie Stanford, said that Australian winegrape growers were carrying an unacceptably high level of the financial and production risk in winegrowing, particularly in this 2011 vintage.

Supporting calls for better returns to growers issued recently by the Murray Valley Winegrowers in Mildura and the Wine Grapes Marketing Board in Griffith, Mr Stanford explained that the financial risk of production was born by growers more so than winemakers due to several factors faced by growers:

- Indicative grape prices released far too late in the season, after the bulk of production costs had been incurred and long after growers needed to make sensible economic decisions in their vineyards.
- We believe through general hearsay that prices in 2011 will be similar to those in 2010, despite a start having been made in reducing production capacity in the industry and despite significant crop losses this season through disease pressure.
- The high cost of disease management this year, in what has been an extraordinarily high season for disease-pressure.
- The strong possibility of further disease outbreaks from continued wet conditions.
- Fears of fruit being downgraded after receival at the winery.

Mr Vic Patrick, the Chair of Wine Grape Growers Australia said "Growers need sustainable prices and most prices in the current operating environment sit at less than the cost of production. Growers are encouraged to work closely with their off-takers to negotiate sustainable prices. The alternatives are one of two difficult choices – to operate at a loss or to review and adjust their business operations."

Wine Grape Growers Australia went onto say that it was important to understand the role of market conditions in determining low prices. These conditions include (a) the surplus of wine grape production, (b) poor economic conditions in our key markets that affected consumer ability to pay and (c) a strong Australian dollar that has eroded margins.

"At the end of the day" explained Mr Stanford "the low prices on offer point, yet again, to the critical importance of effectively dealing with the one factor within the control of growers – the systemic oversupply that is at the root of the problem. Oversupply must be dealt with so Australian winemakers' marketing programs can build momentum and lift the returns to the whole wine industry value chain, including winegrape growers."

At the moment, because of the oversupply and low prices, rather than focusing on the quality of Australian wine, the major tangible signal coming from the Australian wine sector is "that Australian wine is cheap."

…./2

Mr Stanford said, "The problem is that the dominant mentality in the Australian wine industry at the moment is a supply chain mentality - too many operators are hooked on low prices." There are several important dimensions to this situation. Being dependent upon low prices is not sustainable and can't last, it is sending the industry broke, it leads to a rundown of infrastructure and it undermines consumer perception of Australia's quality wine product.

Wine Grape Growers Australia strongly urged the Australian wine sector to break out of the unprofitable spiral of events created by a reliance on low-prices to retain or grow its market share.

Winemakers pay low prices for winegrapes for a number of reasons - in response to the competitive pressures they experience in the market place, because of expectations created by retailers through discounting, and because, in the current oversupply situation, they can. Consumers ultimately benefit but in the process, our industry is damaged and viable production and jobs will be lost. Consumers need to realise that unsustainable prices can't last - the industry is going broke and the local product consumers cherish will dry up. Unfortunately, growers contribute to the spiral by continuing to grow unprofitable fruit and by accepting low prices for that fruit – through desperation and a misplaced belief that better days could be just around the corner.

While the somewhat better prices growers should be able to negotiate this year are due to seasonal effects, the fundamental conditions that are keeping prices low are more enduring and go instead to the core underlying problem - excess production capacity in the industry.

To break out of the low-price spiral created by excess production capacity, growers are encouraged to determine what parts of their vineyards are profitable and to structure their businesses around those areas and varieties. They must also demand wineries pay sustainable 'cost-plus-margin' prices or walk away from the offer and strongly consider removing those areas of vineyard. "Growers are invited to talk to us about how to go about analysing their vineyard's profitability" said Mr Stanford, "we have developed excellent programs in recent years that give growers the opportunity to work with others on analysing which areas of their vineyard are profitable and the results of restructuring accordingly."

Finally, Wine Grape Growers Australia appeals to Australia's winemakers:

- not to offer prices below production costs because they currently can,
- not to take fruit if there's not a sustainable market for the wine or profit for the grower of the fruit,
- to remove those areas of their own vineyards they have identified to be in excess of requirement, rather than selling them back into the production pool, and finally
- to work with their growers to identify the grower's profitable winegrapes, offer sustainable prices for the fruit and help and encourage growers to remove that which is not sustainable.

"Developing such a ***'partnership in profitably'*** between winemaker and grower is the pathway to a sustainable industry and offers the best chance the Australian wine sector has to break out of its debilitating reliance on low prices.", Mr Stanford said.

For further information and media interviews, please contact WGGA Executive Director Lawrie Stanford on 0417 859 282 or Chair Vic Patrick on 0408 849 533.