WGGA
Wine Grape Growers' Australia

Industry Release

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Warm inland winegrape growers paying the price

Wine Grape Growers Australia (WGGA) today expressed concern about the rate of adjustment in warm inland winegrape production capacity. This message is released in conjunction with the latest WGGA Harvest Monitor, which outlined a disproportionate impact of this season's early downy and mildew attacks in the warm inland regions[1] and their costly mitigation.

Mr Lawrie Stanford, Executive Director of Wine Grapes Growers Australia (WGGA), said "The cost of disease mitigation this year, on top of the costs of additional water over the last few years, has the potential to financially break many warm inland producers along the major Murray Darling Basin river systems. This will cause further disruptive economic impacts in these communities and accelerate adjustment out of warm inland production. However, while supply adjustment in the wine sector is necessary, it is not the warm inland product that is principally in oversupply. Oversupply is predominately located in coastal-temperate winegrowing areas[2] yet warm inland winegrowing areas are paying the greater penalty."

It has been long acknowledged that production from outside the warm inland districts has been the predominant source of Australia's excess production capacity. "At the end of the day" said Mr Stanford, "the 40% of Australia's winegrape production accounted for by coastal-temperate districts, is trying to squeeze into about a 15% share of Australia's wine sales."

The reason warm inland production takes the hit derives from the fact that coastal-temperate fruit, due to its quality, is more desirable than warm inland fruit at the lower prices created by oversupply, and it is purchased for inclusion in warm inland wine brands in preference to the traditionally sourced warm inland fruit. This has the consequence of driving warm inland prices even lower and pushing warm inland growers out of the market.

Price and production outcomes in 2010 are cited as evidence for this distortion.

- In 2010, the Wine Australia *Winegrape Purchases Price Dispersion Report* showed that the average decline in warm inland winegrape prices was 19% while that for coastal temperate fruit was 5%.
- On the production front, the 2010 *Vineyard Survey* data shows that warm inland regions accounted for a 72% share of the estimated net tonnages removed in 2009-10. This share is 12 percentage points ahead of warm inland's traditional share of total production meaning it is over-represented in the removals occurring within the industry.
- At the same time, demonstrating the oversupply of coastal-temperate fruit, the coastal-temperate districts held the higher share (at 53%)of the tonnages estimated to be left or dropped at harvest – meaning it is over-represented in the industry's oversupply (production without demand) by 13 percentage points over its 40% contribution to total production.

"It is inconceivable that all of the higher-cost coastal-temperate production is sustainable at the current prices for which it is being sold into warm inland wine brands. At the same time, warm inland prices are driven down to unsustainable levels. This can't be good for the industry" said Mr Stanford.

[1] The SA Riverland, the Murray Darling-Swan Hill districts of Victorian and NSW and the NSW Riverina.

[2] 'The rest of Australia'

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The wider ramifications for the industry as a whole are that the industry will get smaller,is necessary in the current context of oversupply, but there will not be a sustainability dividend because unsustainable coastal temperate production will replace otherwise viable warm inland production.

The impact on large number of people and businesses in warm inland districts is demonstrable. Data collected by the Phylloxera and Grape Industry Board of South Australia (PGIBSA) illustrates the case.

PGIBSA data in 2010shows that warm inland growers could account for a third of all winegrowing businesses. Moreover, for SA in particular(and possibly demonstrating the case across Australia), the Riverland accounts for one and a half as many winegrape growing businesses as the next largest major wine growing district.

Another way of looking at the PGIBSA data is to net out businesses that are not full-time grape growing operations(taken to be 24 hectares or less) since they will have other income for support in a time of winegrape downturn. On this basis, there is still the largest number of full-time businesses in the Riverland despite a higher proportion of 'part-time' winegrape growers.

WGGA believes that factors like the current season's disease impact are just bad luck for warm inland production, and to be taken on the chin. However, it doesn't seem to be in the best interests of the industry for the sizeable warm inland sector of the industry to be dealing with a disproportionate amount of the adjustment pain from oversupply when it is largely not they who have created the problem."

It is notable that 2011 appears to be very similar in terms of largely unsustainable price outcomes as 2010 -the problem has become critical for warm-inland growers.

The case is also made by WGGA that industry information and analysis is currently not up to the task of providing timely, accurate information to best understand the critical changes underway in the industry's viticultural foundations.

WGGA is encouraging the industry's service bodies to improve the level of information and analysis available to the industry. It is also committed to assisting all winegrape growers understand their businesses better, to assess what parts of their businesses are profitable and to restructure as appropriate.

WGGA identifies the following courses of action required to bring about an equitable and effective adjustment process that yields the most benefit to the Australian wine sector.

- Better and timelier information on adjustment occurring to the sector's viticultural foundations.
- Pro-activity by the industry's organisations to facilitate adjustment that is in the best interests of all industry participants.
- For winemakers to remove their own vineyards identified as being in excess of requirement, rather than selling them back into the production pool.
- For winemakers to work with their growers to identify profitable production, to offer sustainable prices for that fruit only and to encourage growers to remove that which is not.

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

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