

NATIONAL VITICULTURE AND WINE SECTOR WORKING GROUP – What we have heard

RED GRAPE AND WINE OVERSUPPLY – OVERVIEW OF THE CURRENT STATE AND MAJOR CONTRIBUTING FACTORS

Policy decisions in the past have contributed to current plantings

Managed Investment Schemes introduced in the 1990's. Accelerated asset depreciation. Strategy 2025.

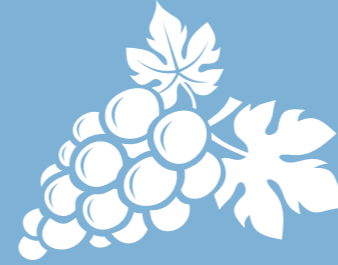
Some contracts encourage overproduction

Uncapped tonnage contracts and payments primarily on volume contribute to oversupply.

Levy structure encourages volume production

Levy collection based on volume is an incentive for levy fund recipients to promote high production levels

TOO MANY RED WINE GRAPES BEING PRODUCED



Declining wine prices

particularly for Australian commercial wine

Loss of China

market was a significant shock

Declining global consumption of commercial red wine

TOO MUCH RED WINE IN STORAGE

The number of grapevines, large 2021 vintage, global market trends and loss of the China market have all contributed to the current oversupply and lower prices through the supply chain.

SECTOR ISSUES Where completely opposing views were specifically presented on the same topic these are highlighted in the document *

GRAPE GROWING

Need to manage production levels / new plantings

** Approaches ranging from no government interventions, improved information, vine removals (payments or tax incentives) and calls for moratoriums or licensing of plantings.*

Need good data for good decisions

Particularly supply data

Interest in exiting / diversifying but face multiple barriers

Growers feel trapped
Asset erosion / inability to sell vineyards
Poor cash flow
Waste stream management costs and logistics are a challenge for those seeking to exit or diversify and an issue for abandoned vineyards (cleared vineyards are more valuable)
Information to inform decision making (e.g., decisions about financial assistance packages / water recovery program / alternative crops / what transformation / adjustment packages might be available).

Sustainable Wine growing Australia certification (market access tool)

Adds cost, ** unclear benefits for growers*
Needs to be put on hold
Creating another service that industry needs to pay for
Wineries who are not treating / paying grape growers fairly are ignoring the 'S' and the 'G' in this ESG framework which should preclude trust mark use

Inland grape prices for many are well below the cost of production

e.g. for the second year prices as low as \$120/tonne, with production costs of \$400-\$500

Mental health challenges, financial distress and high debt levels

At maximum borrowing capacity
Inability to pay back debt
Banks lack understanding of situation due to lack of regional presence
Change in lending parameters by banks for vineyards

Strong support for existing services

Rural Financial Counselling Service (RFCs)

Underutilised by grape growers
Rural Financial Counsellors not currently turning people away but concern demand could increase

Farm Household Allowance (FHA)

Long turnaround time for new applications (greater than 13 requires re-application)

Criteria regarding off-farm income limits access for some in need

Provides support four years out of 10

Concern regarding changes to minimum turnover eligibility

Farm Management Deposits (FMD)

Concern on tax treatment on withdrawals, and re-investment

Future Drought Fund - Farm Business Resilience

Strong support across regions

GRAPE AND WINE INDUSTRY MATTERS

Commercial contract arrangements with wineries have a range of issues

Pricing, Volume, Payment terms
Call for contractual fairness throughout the supply chain through a mandatory code or other mechanisms
Shifting parameters of quality requirements - such as Baume (sugar content), matter other than grapes, disease presence, sun exposure
Unfairness of adding water to increase volume after the weigh bridge
Timing of information from wineries on required volumes required at pruning in order to manage input costs
Contractual restrictions in diversifying to alternative varieties limits grower options
Uncapped tonnage contracts and payments primarily on volume contribute to oversupply

Effective industry representation is important

Importance of grapegrower representation in regional, state, national bodies

** Diverse views on strategic direction for the industry and support for One Sector Plan*

Effective local leadership has featured clear communication of market signals and consumer trends to inform business decision making

Need for consolidation of industry representation, with multiple representative groups

High volume inland grapegrowing regions contribute a high proportion of total levies

Support for current Australian Grape and Wine pre-budget submission

WINE MAKING

Declining value and quality of older red wine inventory

Lower prices, reputational risk
Ongoing storage costs of older wine

Financial and mental health challenges

Need major uplift in how we represent Australia in international markets

Export Market Development Grants are valuable for Australian wine exporters

Many high volume exporters can no longer access.
38 exporters account for 91% of exports.

Need for domestic marketing push

Promotes regional tourism
Improved competitiveness with imports

Alternative uses for low value wine could contribute to immediate oversupply and market risks

Wine Equalisation Tax Rebate impacts competitiveness and business decisions

Payments to NZ producers impacts competitiveness in Australian market

** Influences business structures and decisions around export/ domestic marketing.*

Value based collection influences competitiveness at different price points.

WINE MARKETS

China Market Access

Government and industry actions strongly promoted the China market opportunity
Access to China again is welcome
China wine market has changed (wine consumption 50% down)
Not expected to solve all issues

Risk that markets will reject all Australian wine if perceptions of underpaying and unfairly treating grape growers

Supermarkets have large market power in domestic market

Influences sales, marketing and margins in Australian market

Shifting global demand, lighter, alternative alcohol products

Need information on market trends
Need to develop products to lead and address these consumer and market trends

Markets globally are increasingly demanding sustainability credentials

Market access issue

RISKS OF POTENTIAL POLICIES AND BROADER IMPACTS OF OVERSUPPLY

Concerns around loss of water in regions

Water recovery program uncertainty
Water is an important asset for businesses
Concern irrigation trusts / providers will become unviable

Previous "vine-pull" schemes have been expensive, wasteful, untargeted and overcorrected.

Conflicting views on the need for government to intervene in vine removal and/or transition to other crops. Transition support could create oversupply in other grape wine varieties or other products.

Broader economic impacts

Concern of regional economic decline
Concerns with abandoned vineyards

Biosecurity risks

Aesthetics (individual and community impact)
Waste stream management.

Potential for stranded winery assets

Lower grape production has the potential for underutilised winery facilities and storage.
Empty wine tanks can encourage oversupply

Importance of recognising diversity in the Australian wine industry

Importance of considering impacts of potential programs on the entire Australian grape and wine industry