DEPARTMENT OF
PRIMARY INDUSTRIES

The Identification of Wine Grape Industry Issues with a View to Targeting Extension Messages at Regional Levels

Client Report
August 2005

Victoria
The Place To Be

Grape and Wine
Research and
Development Corporation

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Executive Summary

Our aim in this study was to identify and compare issues facing wine grape growers in five viticultural regions in Australia, and to determine if the Grape and Wine Research and Development Corporation (GWRDC) can address these issues through the provision of information.

Based on interviews we found that growers were mostly concerned with five issues. These issues were:

1. Oversupply of wine grapes
2. Low wine grape prices
3. Contracts for the purchase of wine grapes
4. Wine grape quality
5. Relationships between wineries and grape growers

These issues are inter-related the oversupply of wine grapes is the main force driving the emergence of the other issues. A strategy to address these issues is difficult, as it appears to lie beyond the provision of traditional core Research and Development information provided by GWRDC.

While the major issues appeared consistent across the regions, the scale of the effects on wine grape businesses appeared to differ between regions. Most of the growers interviewed felt that they had little control over these issues, and little influence as individuals. However, there were some growers used had developed strategies to increase their influence and control. We believe it maybe worth investigating these strategies in the future to determine if they offer an advantage to growers.

In the current climate technical in the vineyard were not considered to be a high priority for the growers we interviewed. The growers felt they have sufficient information and access to expertise to solve any problems that might arise in their vineyards. While some growers said that it was important to have information specific to a region, no gaps in regionally specific technical information were identified. This implies that the market for research and development information is being satisfied. Therefore any perception of under utilisation of research and development products is unlikely to be the result of inadequate provision of information.

Some growers raised three matters that they believed had the potential to threaten future vineyard viability; the increasing cost of compliance, the availability and skill levels of labour, and availability and access to water.

Therefore we recommend that GWRDC:

- Consider the possibility of contributing to activities outside the scope of traditional research and extension, by investing in projects that will assist growers to gain greater control in areas where they currently feel they have insufficient control. Some examples are; minimising the cost of compliance, grower-winery contract negotiations, managing relationships with customers, and selected aspects of employing labour.
- Investigate and evaluate strategies some growers use to cope with contemporary market issues.

- Continue to provide high quality research, development and extension services to the industry, but seek a better understanding of market size of research information and products.

Introduction

The Grape and Wine Regional Development Corporation (GWRDC) in partnership with the Victorian Government and others, have invested considerable resources in research aimed at increasing the economic, environmental and social well-being of grape producers. Two key areas of research supported by GWRDC concern improving the efficiency of wine grape production, and facilitating the sustainable use and management of natural resources.

In order to maximise the return on investment in these areas, they also invest in training and education programs, which are intended to increase the adoption of research findings by growers. Nevertheless, there has been discussion in the wine grape industry that this information is not being adopted as would be expected.

Some industry analysts have suggested that moving from a whole-of-industry extension program, to regionally targeted programs may be more effective in facilitating the uptake and adoption of research findings by growers. This perspective suggests that the various viticultural regions have diverse information needs, which could be assessed and used when designing a program.

This study has been commissioned by GWRDC to collect information to determine if a regional framework is warranted.

Research objectives

Our aim in this study was to:

- Identify key business and technical vineyard issues facing wine grape growers in five viticultural regions in Australia
- Compare the issues identified to determine if they are region-specific
- Determine if these issues could be addressed by the provision of information

Methods

Interviews were conducted with 35 wine grape growers in five regions of Australia. Ten interviews were conducted with wine grape growers from the Sunraysia region, five each from the Heathcote and King Valley regions of Victoria, and five each from the Barossa Valley, Riverland and Langhorne Creek regions of South Australia.

A strategic sampling approach was used to ensure the growers interviewed were from a range of farm situations, supplying various wineries, and with different levels of experience in grape growing, vineyard sizes and wine grape varieties being grown. Some growers produced their own wine while others were wholly wine grapes producers. All information was collected and treated according to the Department of Primary Industries privacy guidelines (2002).

The interviews were semi-structured in format, meaning that they were conducted in a casual discussion-like manner, yet with an underlying structure to enable specific information to be obtained. We employed laddering techniques to detect themes in the information, and to ensure that the information was consistent and sensible (Grunert and Grunert 1995). Interview responses were recorded manually by two interviewers, transcribed and analysed using case and cross-case analysis, where information from cases are compared and contrasted to determine similarities and differences in themes (Patton 1990).

Findings of the study

1. Major issues currently facing wine grape growers

Most of the wine grape growers interviewed, in all five regions studied, said that the major issue facing their businesses at this time arises from an oversupply of wine grapes on the market. They believe this oversupply is the primary cause of other key issues, such the reduction in price, an inability to sell, and unreliable contracts for the purchase of wine grapes. Consequently the relationship between some wineries and growers have deteriorated.

Oversupply of wine grapes.
The growers interviewed said that there has been extensive investment in vineyard development in the last five years. There was rapid expansion of grape vines planted not only in the existing wine regions, but also in areas where grapes had not previously been grown. They claimed that this has led to a large increase in wine grape production, while the demands on the wine market have not grown sufficiently to absorb this increase. The growers we interviewed believed this had changed the wine grape market from a sellers to a buyers market.

Low wine grape prices.
Most growers reported that wine grape prices had been falling for a number of years and prices are low at present. However, some growers suggested that a low wine grape price itself is not a major issue, provided prices do not continue to fall.

A low price for wine grapes became a greater issue for growers if accompanied by the inability to sell the wine grapes, or they felt insecure about purchase contracts. Some growers said that if they had the security of knowing they had a set price, even if it was lower than they would wish for, they could work out ways of remaining viable.

All growers suggested that while the prices they received for wine grapes have decreased, input costs have either remained stable or increased. Growers believe they are doing all they can to reduce their costs of production, but they claim that there is limited scope to achieve this without harming wine grape quality or future production.

Contracts for the purchase of wine grapes.
Many growers described their contracts with wineries as being vague or insecure. This meant that they were not confident that their wineries would fully honour contracts for the 2005 harvest, even though most contracts had been honoured to date. Some growers gave examples where their contracts had been cancelled or not renewed during the season. Growers also gave examples where wineries had used parameters such as quality or yield to void contracts. As a result, some growers had to sell some wine grapes below the cost of production, or risk being left with unsold wine grapes.

Many growers felt the lack of security in contracts meant that they could not implement business plans or plan for development with any confidence. They suggested the current uncertainty with contracts would continue at least in the short term, and they believed that they had little power in contract negotiations.

"The winery we deal with uses blackmail. They leave the wine grapes on the vine until you sign the contract" Wine Grape Grower, Murray Valley, Victoria.

Wine grape quality.
All the growers we interviewed were attempting to meet winery quality requirements. Growers often felt wineries were deliberately vague about how they assessed wine grape quality. In many cases the growers claimed that the wineries were "moving the goal posts" and using wine grape quality as an excuse to reduce price, manipulate or cancel contracts, or reject wine grapes. Growers believe that the methods used to measure quality need to be accurate and transparent. Since payment to growers depends on the measurement of wine grape quality, as conducted by wineries, growers suggested they exhibited a high degree of trust in wineries. Growers didn't always feel this trust was justified.

"It is understood that growers meet the winery's expectation or wine grapes just won't get bought"
Wine Grape Grower, Murray Valley, Victoria.

The relationship between wineries and grape growers
Many growers felt that the relationships between wineries and growers had deteriorated to some extent. Some growers simply felt disappointed, while others felt mislead or betrayed by the wineries. Some growers said that although they had spent considerable time and money trying to meet their purchasing winery's requirements and build or maintain relationships, wineries had not rewarded their efforts.

Other growers felt exploited by their wineries in regard to wine grape prices. There were reports of wine grapes harvested in excess of their crop estimate being returned, kept and not paid for, or paid a nominal fee (down to $1 tonne). A few growers reported that one winery in their region would not confirm contracts pre-harvest. Consequently, these growers had to spend time and money growing the wine grapes but did not know whether or not their wine grapes would sell.

"Small growers can't respond effectively to winery liaison officers- they are too vulnerable as they don't have the knowledge and experience" Wine Grape Grower, Barossa Valley, South Australia.

2. Vineyard technical issues and management

The growers interviewed were not very concerned with vineyard technical issues, as the major market issue of oversupply, was taking precedence. They felt that they were in control of the production side of their businesses as they had sufficient information and access to expertise to solve most problems that arose on their vineyards.

" Growing the grapes to the required quality is the easy part, if you can get a good clear idea from the winery about what they want"
Wine grape grower, Heathcote Region, Victoria.

A variety of technical vineyard issues were identified, including: the management of various soil types, control of downy mildew, managing salinity, identification of nutrient deficiencies, efficient de-suckering of vines and identification of graft incompatibility. However none of these issues were raised by more than one or two growers, indicating that they were not common to many growers in the study, or the region. Yet growers said that it was important to have information specific to a region, and that general viticultural information was often not relevant to them.

The growers were happy with the depth and breadth of technical and research information available to them. They described how they access technical information through a variety of sources, including other growers, service providers, industry magazines, conferences and the internet. Many growers commented they were proud of the viticultural research and extension being conducted in Australia, and they perceive that the wine grape industry is ahead of many others in this regard.

"I hope that funding bodies do not think that just because the growers are not in their ears the whole time that R&D is not valued"
Wine grape grower, Murray Valley, Victoria.

"The wine grape industry has excellent research, it leads many industries" Wine Grape Grower, Barossa Valley, South Australia.

All of the growers interviewed appeared to be well informed about the major technical advances that were occurring, or had occurred in the industry, as well as the technologies available to them as growers. This indicates that research findings and technical information are effectively reaching wine grape growers. There were some suggestions that growers were deferring their adoption of some innovations until they have more income or the market becomes more stable

"The current market situation is impacting on the viability of grape growing and the adoption of innovations. Innovations are required to keep the industry moving forward"
Wine grape grower, Langhorne Creek, South Australia.

When considering topics that may impact on vineyard management in the future, three topics arose. These were the increasingly high cost of compliance, issues around labour and water.

Across all of the regions many of the growers and wineries complained that there were increasing demands to do more paperwork and record keeping than ever before. These demands came from a variety of sources including customers and Local, State and Federal Governments. These demands and the increasing cost and time required to meet them were putting a serious burden on businesses, particularly smaller enterprises.

"We now have more people working in the office than the vineyard. We have quality systems, environmental audits, OH&S audits and spray diaries as well as the rest of it. I don't know how the small businesses will do it" Grape Grower, King Valley, Victoria.

"There is so much paper work associated with hiring staff we now tend to not bother. We try to do everything ourself- which doesn't leave us with much time for anything else"
Grape Grower with Winery, King Valley, Victoria

A few of the growers had, or thought they would have problems with labour. This involved a scarcity of skilled labour, labour being costly, meeting OH&S requirements, the cost of training labour, communicating with foreign contracted labour, and in some regions a lack of accommodation for labour.

The topic of water was also raised by some of the growers interviewed. Once again there were a range of issues, the most prevalent being the security of water, its cost, and quality.

3. Regional differences

The five major issues associated with an oversupply of wine grapes, emerged consistently across all the regions we visited. However, the impact of these issues on grape growers appeared to vary between regions. Consider, for example, the ramifications of low wine grape prices. Some growers felt confident that they could run their vineyards profitably at current prices. Other growers, particularly those with unsold wine grapes, felt that they would find it difficult to remain viable in the medium to long term, even more so if prices continue to fall.

There were obvious differences between regions in regard to contracts with wineries. The Heathcote growers we interviewed had contracts for the 2005 harvest and were satisfied with the prices they were promised for their wine grapes. One grower said that he had been approached by a number of small wineries wanting parcels of wine grapes from the (then) upcoming 2005 harvest. This was in marked contrast to the Langhorne Creek and Mildura regions where growers felt they had accepted exceptionally low prices for wine grapes harvested in 2004, and were expecting to have significant quantities of unsold wine grapes in 2005.

The growers we interviewed in the Barossa Valley had contracts, and expected to sell the majority of their wine grapes, but were concerned about falling prices. We interviewed growers in the King Valley after harvest. While the growers we interviewed had sold their wine grapes, there were tales of local vineyards having unsold wine grapes, or premium wine grapes being sold for only $100 per tonne, well below the cost of production.

The potential challenges to vineyard management of cost of compliance, labour and water were raised in all the regions studied.

Discussion

The results of this study align with the predictions of systems theory. Systems theory posits that individual's needs are shaped by their perception of control, or lack of it over key factors in their environment (Deci and Ryan, 1991). Therefore,the major issues identified by growers will be those they feel they have little or no control over. In this case they were wine grape prices and oversupply of wine grapes. Growers as individuals can not readily deal with these issues, nor do they fall within the province of traditional research and extension. Hence, growers are likely to look to others, such as industry bodies or government, with appropriate resources, to take responsibility for resolving these issues.

Interestingly, in terms of potential threats growers proposed that the cost of compliance, labour and the availability and quality of water were key concerns. Again these are issues where the grower has limited control.

Technical vineyard management was seen as an area where growers felt they had sufficient control. All of the vineyard managers in all the regions studied were confident they had the skills and ability to manage their vineyard and, given adequate direction from wineries, could alter management accordingly.

There were no obvious gaps in research and extension information. Research information was being utilised and regional information was seen as desirable. Yet under the current market circumstances growers are less likely to be perceiving a need for, and demanding additional information in the area of vineyard management, unless it assists them in responding to the current market situation. This implies that the market for research and development information is being reached. Therefore any perception of under utilisation of research and development products does not appear to be as a result of not providing information. This is consistent with previous findings in the grape and wine industry. (Kaine and Bewsell 2001,2003 and Linehan *et al*. 2004)

Recommendations

Therefore we recommend that GWRDC:

- Consider the possibility of contributing to activities outside the scope of traditional research and extension, by investing in projects that will assist growers to gain greater control in areas where they currently feel they have insufficient control. Some examples are; minimising the cost of compliance, grower-winery contract negotiations, managing relationships with customers, and selected aspects of employing labour.

- Investigate and evaluate strategies some growers use to cope with contemporary market issues.

- Continue to provide high quality research, development and extension services to the industry, but seek a better understanding of market size of research information and products.

Acknowledgments

Thanks to all the growers that generously allowed us to interview them. To Helen Murdoch, Vanessa Hood and Lisa Cowen for assisting with interviews, and to Geoff Kaine for intellectual input. We also like to thank John Harvey for his direction and support during the project.

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