Southcorp Wines managing director John Ballard recently commented (in effect) that the grape industry is like a wholesale fruit and vegetable market. If you get seasonal oversupply, competition for limited sales will force prices down. This year there could be 20 per cent more fruit available than last year.

Industry eyes watch for bottom of cycle

By Mark Hamilton
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THE JURY is still out on precisely where the wine industry finds itself in terms of the current cycle.

The underlying trends persist: continuing record exports, acceptable domestic sales growth, and planting levels at less than vineyard renewal rate.

This is not the profile of an industry in crisis. Contrast this to the position - if it were to exist - of declining export and domestic sales, declining returns to the litre for winemakers, and long-term returns for grapegrowers below that necessary for the proper repair or maintenance of existing vineyards. If you subscribe to the 'darkest before dawn' counter cyclical theory of investing, then you might argue that the last cycle peaked in 1998 and is bottoming out now.

Certainly, a shakeout is under way in earnest, with several small vineyards and wineries for sale - particularly in some regions outside South Australia - although many of these appear to be lifestyle changes.

Few large commercial vineyards are for sale, with larger producers seeking to ride out the industry cycle.

But whether this is the right time to invest depends in part upon one's view of how long the grape oversupply will last.

Most observers predict that will be between one and three years, particularly for vineyards heavy on cabernet sauvignon.

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It is a risky business purchasing - especially given that values do not seem to have declined for desirable vineyards.

The absence of a grape contract with acceptable terms will also make banks reluctant to lend, given the current state of the grape and bulk wine market.

A little reported but significant announcement in late March 2004 was that the projected national crop would, in fact, be less than originally forecast.

The original projection was, of course, the basis upon which grape purchasing decisions and pricing were made.

Thank goodness for Casella [read Yellow Tail] using grape oversupply at vintage 2004 to snap up un-contracted grapes across Australia, albeit at spot prices growers would prefer to forget.

Still, this is better than leaving grapes "on the vine", and avoids theoretical viticultural debates about whether unsold grapes can be literally left on the vine, or whether they must be picked "on to the ground" in the interests of next year's crop.

It will be interesting to see final grape utilisation figures - and assessments of unsold grapes.

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Will there be significant quantities of unsold grapes or will most have found a home? What will this mean for supply and demand, and therefore pricing, at vintage 2005?

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If you get seasonal oversupply, competition for limited sales will force prices down.

This year it was expected there would be 20 per cent more fruit available than last year.

The question is what will happen to demand and pricing if vintage 2005 is 25pc below this year, which is quite feasible after a bumper crop, especially if weather conditions are adverse.

Unquestionably, the grape supply "problem" is one of timing in that the growth and nature of grape supply has not perfectly matched the growth in demand from wineries.

The truth is that the industry has been remarkably successful in matching supply and demand when one considers the exploding rates of growth of vineyard planting and wine sales in the last decade.

It would be hard to get it any closer than has been achieved.

Two years ago, I wrote about how wine companies could be expected to start enforcing the quality terms and fine print of grape contracts as the industry moved from grape under-supply to over-supply.

This has certainly now happened with numerous instances of dispute between growers and wine companies emerging at vintage 2004. This is unquestionably widespread, with relationships between growers and some wine companies being at a low point, reflecting the wine industry cycle.

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