ABC

HD **Treasury Wine Estates accused of manipulating grape market**

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Inland grape growers have met in Griffith to discuss the 'crisis' in wine grape prices, saying they're devastated and shell-shocked over the prices.

They are writing a submission for the Australian Competition and Consumer Commission which has agreed to investigate allegations of price gouging by the big wine companies.

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They have also taken the issue to the Victorian Small Business Commissioner and will meet the Federal Government next week to demand changes to the Wine Industry Code of Conduct.

Mark McKenzie, chief executive of Murray Valley Winegrape Growers, says the price for moscato has been savagely slashed, and he says the winegrapes are not in oversupply.

"$185 /tonne indicative price from Pernod Ricard, through to $302 /tonne from Accolade Wines, we believe that's a better indication of where the price should be."

He says Treasury Wine Estate set Chardonnay prices $240/tonne in December, but has since started buying out of contract grapes at $150/tonne, which is half the average Murray Valley price for last year, and $100/tonne below the cost of production.

Mr McKenzie says it's market failure, and the Wine Industry Code of Conduct should be mandatory and changed to reduce the power of big wineries to set the price artificially low.

He says TWE has sent them letters saying the company would pay market price, but has otherwise refused to meet grape growers.

TWE is refusing to comment, but has issued a statement today saying;

"TWE complies with the Australian Wine Industry Code of Conduct and one element of that code is that we'll provide our contracted growers in irrigated regions, with grape prices by 15 December each year.

"In determining these prices we take into account a range of factors including bulk-market wine prices, the $A exchange rate, the expected outlook for the new vintage and our own brand demand requirements. All of these factors vary from year to year therefore like all commodities, pricing for grapes fluctuates.

"We're confident that we've been open and transparent in all our transactions and discussions with growers throughout the year and that our pricing is in line with the current market."

Analysts forecast further profit downgrades

Investment analyst Citigroup says Treasury Wine Estate's profit downgrade could be even greater than 20 per cent.

Gino Rossi, of Citigroup, expects earnings for the big wine company in 2014 to be "down 25 per cent and now forecast EBITS of $187 million".

TWE's own forecast is for a $190-$210 million earnings this financial year, down from previous forecast earnings of up to $210 million.

The **Company** blames a decision not to heavily discount its brands before Christmas, like Lindemans, Penfolds and Rosemount **Estate**, which meant major Australian retailers **sold** more of the competition.

Mr Rossi writes that decision cost TWE a 16 per cent slump in **wine** sales.

"The decision to pull back on promotions and raise pricing on **commercial** wines didn't work, highlighting the challenge for **wine** manufacturers.

"We think the strategy is commendable, but we doubt the **company** can maintain this price discipline for much longer, and forecast a recovery in 2015."

He says because of **China**'s austerity push, "luxury wines may suffer in other key markets such as Australia and the UK".

Mr Rossi says the long term outlook for buying shares in Treasury **Wine Estate** is good, even though the share price fell 20 per cent in a day this week.

"Treasury provides investors an opportunity to **buy** the Australian **wine** industry at the bottom of the cycle, and we think the outlook for the US market is favourable.

"We expect Asia to recover and it remains a large opportunity for Treasury. However, we retain our neutral rating on Treasury."

CO trzwn : Treasury Wine Estates Ltd | auccc : Australian Competition and Consumer Commission

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IPD treasury

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