Submission to the Senate Inquiry into the Australian Grape and Wine Industry

May 22, 2015

Executive Summary

Riverland Wine is the combined regional body that represents over 1,000 wine grape growers and numerous large, medium and small wine producers. The region regularly produces 25% of the national annual grape crush, and as such is an important part of the Australian wine industry.

Recently the wine grape growers and winemakers of the region agreed to merge the separate representative committees into one body – Riverland Wine. This move represents a change in paradigm regionally, where it is recognised that for the industry to have a future it must speak, as much as is possible, with one united voice, in the realisation that growers and winemakers will either prosper or fail together. It is not possible for the industry to be sustainable unless all stakeholders towards shared goals in a sincere, strategic and constructive way.

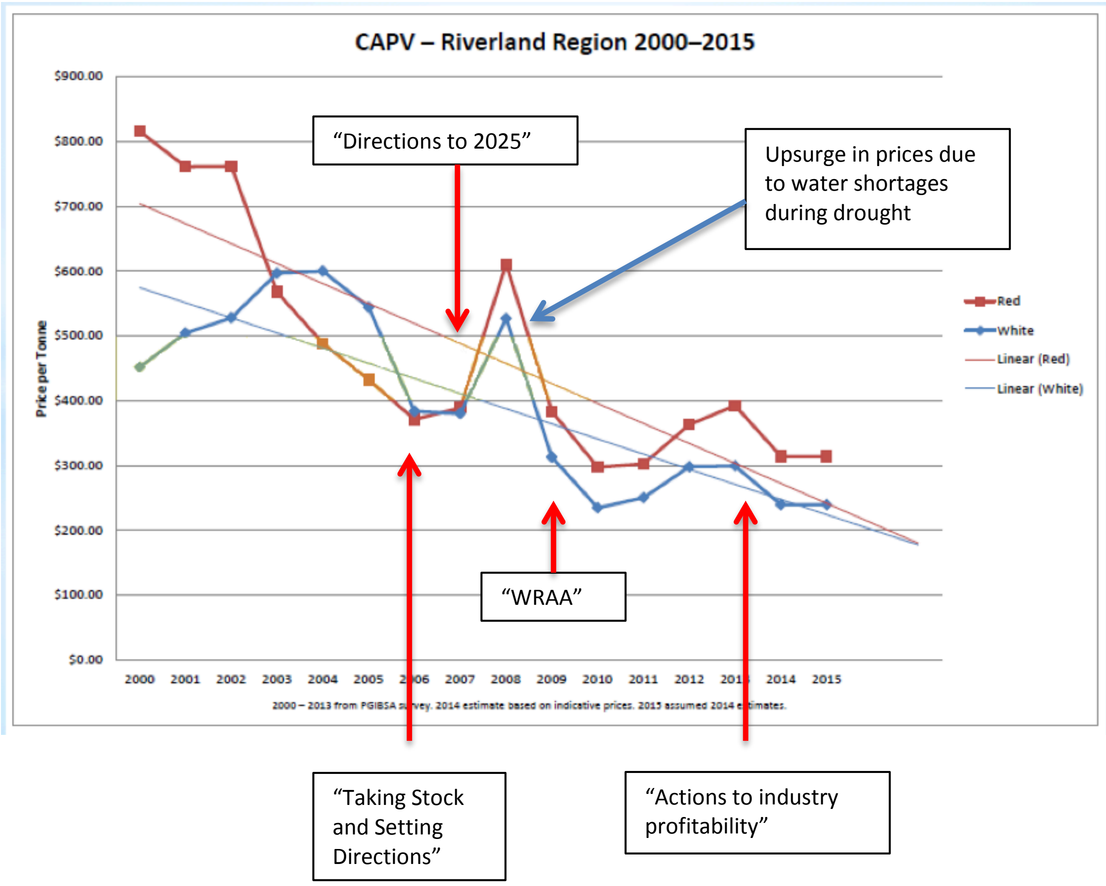
The following submission addresses the issues that presently threaten the industry; not merely from the Riverland regional perspective but from the national and international viewpoint. There is no doubt that during the recent decade of downturn there has been an increasing tendency for those within the industry to act as competitors first, rather than business partners of colleagues. This antagonism has been evident between the different sectors (retailers, winemakers, growers) but also between members within each sector. In the current battle for business survival collaboration and cooperation is in short supply. Similar is happening as mandatory levies and voluntary contributions have reduced through the industry downturn in the face of increasing costs of conducting research and of operating industry representative bodies.

The method of collecting these funds and voluntary contributions needs urgent attention. The costs of conducting research, development and extension programs continues to grow, yet much of the current funding mechanism rests on a “per tonne” levy; currently at $2 per tonne for grape growers and $5 per tonne crushed for winemakers, and matched by government. If, as some suggest the “ideal” picture of the industry is one of higher value but lower volume, there is no escaping the outcome where the funds collected will no longer be sufficient to conduct the critical R&D, and that outcome would cost the Australian industry a competitive edge. All contribution rates and collection mechanisms for all recognised industry bodies must be reviewed as a priority.

This senate inquiry is one of many such industry investigations proposed and undertaken in recent times. Given the lack of traction evident by way of industry adjustment it is unsurprising that there is a prevailing cynical attitude among many wine industry stakeholders about the likelihood of a positive result from this inquiry. Riverland Wine believes this senate inquiry presents an opportunity to “look under the bonnet” of the wine industry and for the committee to act without fear or favour in identifying the reasons for the industry’s failure to adjust by implementing policies and programs to bring about the recovery.

From the viewpoint of Riverland producers and grape growers, change needs to happen immediately. Despite the considerable number of reports and inquiries in the last decade, the industry as a whole has failed to redress the reduction in profit and commensurate dissipation in value of industry assets over this time. These different reports can be plotted against the calculated average purchase value for Riverland fruit, and it paints a telling picture.

Recent Analysis of the Australian Wine Industry



2006 Taking Stock and Setting Directions
Driven by WGGA, with focus on need for boosting demand and consideration of the need for alternative industry models in recognition of consolidating value chains. Also noted regional imbalance between supply of fruit from warm inland and cool temperate regions and demand.

2007 Directions to 2025
"Industry strategy for sustainable success" This was an update on the previous 1995 document "Strategy 2025", and advocated a market – led approach with underpinning focus on sustainability and building capacity.

2009 Wine Restructuring Action Agenda (WRAA)
Against the backdrop of the GFC this was a "wake up call" that the industry was facing increasing imbalance between supply and demand. It contained the message that approximately 20% of Australia's vineyard was, in theory, surplus to requirement.

2013 Actions to Industry Profitability (Centaurus Partners)
A very complete report with evidence of loss of value, and coining the phrase "a perfect storm that became more perfect", it documents figures demonstrating lack of margin among growers and winemakers and includes suggestions for actions to address the problems.

The brief upturn in wine grape prices in 2008 was caused by wine companies offering substantially higher prices for fruit during the period of drought. Prices were issued more than two months earlier than usual as an inducement for growers to purchase water to maintain normal yields. Ironically, the drought had a more positive influence on regional fruit value than industry strategies devised to address the ongoing problems. Despite genuine best endeavours and measurable success at the regional level to increase scale, improve quality and constrain yields there has been no positive economic benefit for the wine industry in the Riverland region.

The documents referred to above all contain very sound analysis and often share common goals. The core issue industry must now confront is why there has been no traction in addressing these issues at a national level and why there has been a failure to achieve structural adjustments necessary to deliver reform and long term sustainability.

It should be recognised that the problems that the wine industry is facing are not unique to this industry. Many other agricultural producers face similar challenges. Indeed many irrigators across different sectors in agribusiness must deal with similar challenges with, for example, water policy. Furthermore the problems wine companies face in trying to be profitable, when dealing with the current powerful retailer duopoly, are common with many primary producers of other crops.

Australian primary producers are adept at dealing with climatic challenges, and the associated risks of dealing with producing high quality agricultural produce in the most challenging climate in the world. What many would list as their number one challenge, however, is dealing with the ramifications of unpredictable and inconsistent policy. One possible outcome from this senate inquiry may be to explore ways in which agricultural producers may forge greater collaboration to be able to more effectively communicate with governments.

There have been numerous suggestions about which solutions should be front of mind in trying to redress the imbalance between supply and demand. Much of the rhetoric about this imbalance between supply and demand, often simplistically referred to as “oversupply”, is a gross simplification and refers to the national position in regard to production capacity and current domestic and export sales. This does not take into account the regional supply and demand situation.

For many years, the Australian Wine and Brandy Corporation asserted that the warm inland was under-represented in fruit production and that there was significant over reach in the expansion in the cool and temperate regions during the expansionist phase of the industry. This is amply illustrated with industry figures that show that between 2000 and 2014 the Riverland region expanded by only 18% (3,000 ha), compared with around 50% in the Barossa Valley and Limestone Coast regions, and 80% in McLaren Vale and Adelaide Hills. The total increase in area across the rest of South Australia was more than 18,000 ha[1] during the period. During the onset of the difficult trading conditions in the industry, Riverland fruit has suffered from displacement by excess fruit grown in cool and temperate regions but sold at unsustainable prices. The evidence presented in the Wine Industry Report clearly illustrates production of fruit destined for D, E and F category wine is well in excess of the total produced in the warm inland regions. It is reasonable to assert that such compelling evidence would have been scrutinised to determine the source of the imbalance between supply and demand.

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[1] Figures from the Phylloxera and Grape Industry Board of SA

Some have proposed solutions based around supply adjustment, such as variations on the "vine pull" scheme of the 1980's. Aside from being unlikely to gain political support in light of recent tax depreciation policy that was implemented to facilitate vineyard expansion, Riverland Wine believes that the answer lies in boosting demand and retaining value. Some vineyard removal is inevitable, but that is best done in response to sound and accurate market signals rather than the blunt instrument of government policy.

Other short term solutions have been proposed such as imposing a levy on each bottle of wine in order to provide a fund that will support struggling growers. Riverland Wine is in favour of any measure that assists its struggling growers as long as that measure can be effectively and efficiently implemented, that it has a high probability of success, and as long as there will be no perverse impacts. That may work for a well-planned industry adjustment scheme, but it cannot be said for a scheme that effectively underwrites the production of unsustainable fruit.

The topics of the senate inquiry are addressed in the following pages.

Market Failure

a) The extent and nature of any market failure in the Australian grape and wine industry supply chain;

A common definition of 'Market Failure' is where there is a mismatch between the quantity produced and that which is demanded by consumers. On the basis of that definition it is clear there is market failure in the wine industry at present. The main causes of this market failure have been identified in the Centaurus Partners Wine Industry Report, commissioned by the Winemakers Federation (WFA)[2]. This report lists combined global headwinds of currency exchange rates, strength of the $A especially in comparison with competitor countries, Global Financial Crisis, reduced appeal in the US, growing strength of the (domestic) retail duopoly and the distorting influence of the WET rebate on price signals. The failure of the Australian wine industry to react to these changing conditions, particularly the WET rebate situation, has led to the current market failure.

As a direct result of the loss of their own profitability, producers also have reduced the amount paid for wine grapes. This has caused much consternation among growers, many of whom tend to blame wineries, rather than understanding the lower grape prices are a flow-on effect of the combined market challenges. This is a common outcome typical in primary industry where the price paid for the input commodity is determined and offered by the processor, with the primary producer having little, if any, bargaining power in an oversupplied market. Notwithstanding this market-driven impact, a considerable volume of fruit has been purchased in recent seasons at prices that appear to be predatory.

Such behaviour appears evident among processors that do not publish or issue wine grape prices until after most other grape buyers have done so; often immediately prior to the anticipated vintage. Those prices are significantly lower than the average price offered by other processors buying fruit in the region. These processors appear to be waiting for others to lead the price setting, then offer prices that are significantly lower as a "take it or leave it" option in an over supplied market.

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[2] Wine Industry Report – Expert Report on the Profitability and Dynamics of the Australian Wine Industry; Centaurus Partners, August 2013.

Unfortunately some growers are constrained in binding contractual relationships with processors exhibiting this behaviour, and in most cases they are unable to avoid delivering fruit at prices well below the cost of production.

Wine processors and growers have reacted to the ongoing downturn in profitability by working to reduce the effective cost of goods and by boosting production. Growers have been continually economising on inputs, by reducing the number of machinery passes through the vineyard and substituting lower cost products. Wine processors have similarly been focussed on improved efficiencies.

For wine companies in particular the majority of their costs are fixed, so there is pressure on maximising throughput within reason to amortise processing costs, expressed as cents per litre of wine, by seeking to maximise the volume of wine produced. For large companies this may result in a hedging arrangement, where there are effectively two types of wine being made for sale:

- That with a known sale price, often through supply contract or ongoing sale arrangement;
- Speculative wine, where the sale of the wine is not secure, and the greater risk means that it must be made and sold at a lower price. As a result the price that can be paid for the fruit to produce this wine is also very low. This is why some large processors in recent seasons have had different prices – one for contract fruit and another for “spot buy” which is purchased very close to harvest time. For example, last season a winery offered $328 for Shiraz from contracted growers and $220 for Shiraz for “spot” purchased Shiraz, essentially the same fruit.

This downward pressure on fruit prices has been exacerbated by increasing claims of WET rebate on bulk wine (see (d) later). Some wine companies have chosen to purchase a portion of their total wine requirements as bulk wine for some years. The reduction in the proportion of total grower fruit that is re-contracted, once supply agreements expire, is leading to an increasing amount of fruit being contract processed into speculative wine, or being purchased at unsustainable prices. This suggests that there is an increasing amount of this bulk wine being utilized, as part of what is effectively a hedging mechanism. The availability of the WET rebate on bulk wine is an added incentive for this wine to be produced and traded in what is an inefficient use of available resources.

Therefore, there is still demand for fruit, despite the fact that the industry is presently in a state of oversupply; but only fruit at a price that is sufficiently low. This means that fruit is commonly sold by grape growers at prices well below the sustainable cost of production.

Similarly, growers faced with unsustainably low prices per tonne of fruit produced have little choice to remain viable other than trying to lower their cost of production as much as possible, and grow as much fruit as possible from their available land. This situation ends up being an “inverse law of supply and demand”. When the likely sale price of wine is low, it leads to wine companies offering low fruit prices in the preceding vintage, which leads to growers trying to boost their production to cover costs. This in turn leads to more fruit and wine being produced, often of questionable quality, and that being released on the market, which in turn prolongs and exacerbates the imbalance between supply and demand.

One of the most perverse outcomes has been the increasing number of growers unable to sell their fruit at profitable prices choosing to acquire producer licenses and make their own wine. This is often a desperate bid for survival, but in many cases is done without having a buyer secured for the resulting wine. The growers involved rarely have a real capacity to market and sell the wine, and the transition from being a grower to wine producer involves increased debt and increased risk.

The fact that wine grapes are a perennial crop means that changing crop types is an expensive and time-consuming option, and unfortunately involves investment that most growers are not able to access. The ability to sell properties is constrained during the current downturn, and in many cases growers are avoiding having to sell at all costs as this will effectively realize their full loss. As a result many growers feel trapped in a situation where they can neither effectively continue nor leave the industry. The majority of property sales are distressed sales; which is another clear indication of market failure.

This interaction is effectively a self-sustaining downward spiral, and is likely to remain so until the nexus is broken, leading to an ability for Australian producers to increase the demand for their wine, which in turn will lead to an ability to command better values for both grapes and wine. Until there is action within the industry to address the imbalance between supply of fruit and the demand for resulting wine in light of what can be sustainably grown on a region-by-region basis, this problem is likely to remain unresolved.

Legislative and Regulatory Regimes

b) The extent to which federal and state legislation and regulatory regimes inhibit the production, processing, supply chain logistics and marketing of Australian wine;

One such legislative requirement was for overseas bottling facilities to have higher levels of accreditation than Australian facilities. This has recently been redressed; and Riverland Wine played a part in that outcome. This regulation was outdated and acted as a barrier to Australian wine sales.

While there has been good progress with the FTAs with South Korea and China, there is still much to do in regard to FTA with Europe. Currently Australia has a significant disadvantage in comparison with new world competitor countries. Redressing this imbalance would significantly reduce or even remove the current oversupply problems with wine from warm inland regions such as the Riverland. While it is well understood that securing an FTA with Europe will require significant work and will take a very long time, nevertheless it is something that should be completed as soon as possible.

Marketing of Australian wine is hamstrung by lack of resources. The current discretionary market spend on generic promotion of Australian wine through AGWA is around $A 1M. This is simply not adequate for a generic marketing program to have any real impetus and impact, and lack of market success leads to the hardship that we are currently seeing in the industry. While the current proposal from WFA that enjoys majority of industry support has the laudable goal of an injection of funds from savings from WET rebate reform, more lasting marketing input is required. If there can be an injection of funds that will recover Australia's position as a sustainable and profitable marketer of wine internationally, the industry will be self-sufficient in being able to fund its own marketing programs. A more profitable industry will pay more tax, so the Australian government is a stakeholder in this outcome.

There are problems with the interstate movement of fruit – the need for ICA33 accreditation is an unnecessary and excessive cost burden on growers moving fruit into Victoria from South Australia and vice versa. While this is a state issue, it is a good example of the type of problem that affects the national industry. At present, growers transporting this fruit must pay an inspection fee and attain certification for each load of fruit that is transported in accordance with this requirement.

The claimed need for this inspection has little credibility when it is supposed to declare that there are no biosecurity issues with the fruit. There is no way that this fruit in semi-trailers, often in the middle of the night, can be adequately inspected with a level of confidence that can enable such a declaration. Rather than being a biosecurity declaration the certification is effectively a statement of the origin of the fruit. These details should be able to be verified with documentation that must be supplied with grape deliveries to satisfy the label integrity program, and it should be possible for that to be achieved without cost to grape growers.

The export market development grant (EMDG) scheme has provided incentives for wine exporter in the past. "Recharging" this scheme or re-starting for wine companies wishing to develop new export opportunities will help industry recovery; recognizing that it is only through exporting that Australia will recover.

While the recent industry proposal to reinvest part of the savings of WET rebate reform has not gained immediate approval; perhaps there may be scope, for the disparity caused by the lack of an FTA with Europe, to be addressed and for Australian exporters to be more competitive.

While working to secure an FTA with the European Union, the single most advantageous 'interim' action the Government could undertake to encourage wine exports, would be to meet the cost impost imposed by the Common Customs Tariff of the European Union (CCT). This industry support could easily be funded by the very substantial savings arising from the WET rebate reforms proposed by the WFA. Such a scheme would be temporary, and exist only until an FTA with Europe is achieved.

Profitability

c) *The profitability of wine grape growers and the steps industry participants have taken to enhance profitability;*

Very few growers or winemakers are profitable under present circumstances. Most are continuing to try to reduce their fixed cost of production, and trying to boost yields and throughput in order to increase returns. This scenario then becomes a risk and return equation for many growers and winemakers. In order to try to gain greater returns in terms of yield, greater spending on inputs such as fertilizer water and agrochemicals is needed. This also imposes a greater agricultural risk associated with denser canopies, often tighter bunches, and higher yields leading to fruit ripening later, and therefore being exposed to greater weather events and risk. Therefore, when growers are trying to remain sustainable through pushing their production levels they can be more vulnerable from adverse weather events.

There is a belief that those suffering most in trying to remain profitable are the small growers – meaning those with areas less than 10ha. However, many smaller sized growers can support their vineyard with off-farm work and operate as part time producers. Many growers who are full time often have a spouse who has alternate income from the vineyard. Meanwhile, growers with larger vineyard holdings do not have the ability to work their business as a part time operation, and are commonly working very long hours in order to make ends meet. In this way it is the larger, often more efficient growers who are more vulnerable at present. This is a concern as it is these growers who should represent the future of the industry.

Both grape growers and winemakers have limited ability to make profits when the industry becomes depressed due to a lack of ability to preserve margin. Retailers currently make it hard for winemakers by their ability to command margin at the producers' expense in an oversupplied market. Growers then suffer the price consequences of the fruit contributing to that wine. A recent survey of Riverland growers revealed that even those making a margin at present could not afford to reinvest anything back into their business. Even the most profitable businesses locally are effectively running down the value of their balance sheet.

Many of the problems that the industry is currently facing such as uncompetitive trading conditions, use of market power along the supply chain, disengagement of industry members and complaints about representation will be erased if the industry is able to return to profitability.

WET Rebate

d) The impact and application of the wine equalization tax rebate on grape and wine industry supply chains;

This issue has become very emotive and divisive in the wine industry of late. However, despite claims to the contrary the vast majority of representative organisations that represent the bulk of the industry production are in favour of reforming what is currently a flawed policy. Riverland Wine, along with Wines of WA, all state winemaking associations, the South Australian Wine Industry Association, WGGA and most regions of SA support the WFA proposal of the removal of WET rebate on bulk and unbranded wine and using the savings to boost demand and aid industry recovery.

While there have been significant fines handed out by the ATO for non-compliant behaviour in regard to WET rebate claims, the perverse impacts of the WET rebate are most commonly the result of legal transactions. It is an example of "bad policy", not "bad people".

The problem with trying to gain support for reform is partly due to those entities that are currently receiving benefit not wanting to lose that benefit; despite many having no regular profitable outlet to sell their wine. It is also partly due to the fact that while a rebate is visible, and its effect can be clearly assessed by a business that receives that benefit, the flow-on perverse impacts that are caused by the rebate on the market are less obvious. That lack of clarity arises from the low level of evidence that is currently collected during BAS reporting. For this reason Riverland Wine contributed to the WFA engagement of PwC to increase the level of confidence that industry members would have in trying to make sound policy decision in relation to this issue.

The rebate has many perverse impacts, in particular when it is applied to bulk wine. The ability of a producer at the start of the value chain (either a grower or producer who first makes the wine) to access a rebate without having to pay tax effectively means that this is a subsidy rather than a rebate on tax paid. It is well known that companies trading together structure business dealings to maximize the access to the rebate.

Some bulk wine that has rebate paid finds its way into international trade. An opinion from the ATO suggests that "when circumstances change" there is no recourse on the rebate that has been paid on this wine. This means that the rebated wine can be sold at a lower price than other non-rebated win in the same market, effectively undercutting the price and instilling a taxpayer-funded low level of price. This means that non-rebated bulk wine in the market is less competitive, and whole Australian bulk wine category is reduced in value; and the Australian taxpayer is funding this.

It is well known that retailers and large wine buyers trade with the rebate included. Winemakers in the Riverland region often field calls from companies seeking wine, and quoting two prices; one with and one without the rebate. We have heard reports from other regions about some retailers who approach growers with the offer of purchasing contract-made wine in lieu of fruit, and the rebate effectively is used to boost retailer or winemaker margins. While wine companies have been purchasing a proportion of their total wine volume from bulk wine for some time, the availability of a rebate on bulk wine means that some are now able to buy bulk wine at a price lower than what they can make it themselves. None of these outcomes are in line with the original intent of the rebate, and are questionable from the viewpoint of responsible public policy.

The ready access to the rebate on the domestic market acts as a disincentive for wine companies to export wine. This is evident from the poor attendance at bulk wine sales events in overseas markets. For the past several years Riverland delegates at international wine trade fairs such as ProWein have reported very poor attendances from Australian producers, at a time when we need export growth and marketing efforts more than ever.

There is strong evidence that the rebate is being misused when the amount that is claimed is well in excess of that theoretically possible (PwC work). Many businesses now appear to treat the rebate as if it were top line income. The amount of WET rebate that is paid out is steadily increasing, despite the domestic market remaining flat. There is a strong likelihood that under current trends the wine tax system will not be sustainable in future unless this current policy is fixed.

It is disappointing that the wine industry has (at the time of preparing this submission) failed to gain traction with government in rectifying this flaw in a manner that showed leadership, responsibility and in a way that was self-funding through retained savings. This policy should really have been a “no brainer” in particular at a time when the Government was searching for savings, advocating market-led recovery and encouraging the wine industry to speak with a united voice. The proposal to implement a policy that would deliver and estimated $200M in savings, yet asking for $25M over four years to be spent with the government’s own statutory marketing body, on marketing programs for the industry to trade out of trouble seemed an offer too good to refuse.

The failure of this policy to gain traction has led to much speculation about the reasons why there has been no success; despite that fact that so many industry representative bodies have expressed support. There has been much speculation about influence that may have been used, and this has been an unhelpful distraction. What appears to be the case is that despite the wine industry having been urged by government to speak with one voice; and on this occasion it has been united if not unanimous, yet the will of the majority has not carried the day.

Representation

e) The extent to which wine industry representation at regional, state and national level effectively represents growers and winemakers with respect to equity in the collection and distribution of levies;

The fact that an organisation exists does not necessarily mean that it has the resources to serve its members.

There appear to be are many instances where there are misunderstood or overlapping responsibilities between regional, state and federal bodies throughout the wine industry. There is often no understanding of “approved functions” of organisations and this causes confusion and wastefulness.

WGGA currently does not have enough human or financial resource to effectively cope with the challenges and tasks that confront the organisation and wine grape growers nationally. This is despite the application and ability of the Executive Officer. There is no point in an organisation merely existing; if it is unable to achieve core goals then it has no reason to exist.

There are several factors that contribute to the lack of funding resource currently available to the national body. In recent years the main funding entity for WGGA, the Wine Grape Council of South Australia (WGCSA) changed its funding mix to reduce the amount of funding that was given as core funding, and increased the proportion that was "project" or "special" funding. Likewise, some regional representative bodies do not contribute funding to the national body, and find it either difficult or impossible to gain support for gaining commitment from growers given the hardships that they currently face. While there may be a core level of funding available from the WGCSA, the fact that such a proportion is discretionary removes the certainty of a core funding level for the national wine grape grower organisation to confidently commit to meeting its overhead costs and to function.

The current lack of resource at WGGA is a concern to Riverland Wine. Our regional organisation pays approximately 65% of WGCSA funds and approximately 45% of WGGA funds; yet have one vote at the table at either committee. The representation and ability to vote at these representative bodies is not matched to the contribution. Riverland Wine has little appetite for "greater control" or increasing the number of representatives at either table, but believes that regional organisations should contribute funds in order to be able to vote and control the agenda. That is currently not always the case.

It is questionable whether having three levels of representation for separate winemaker and grape grower bodies can be justified in the current repressed industry climate. For example, in South Australia SAWIA represents winemakers and the WGCSA represents grape grower interests. It could be expected that there would be significant overlap in areas of concern, and that the vast majority of issues that the organisations deal with are of common concern in that they affect the industry as a whole. There is a strong case for rationalization in the number of representative bodies.

Compulsory levies and voluntary contribution levels across industry vary widely and are often inequitable and not sustainable. Those able to pay more should do so. There is a crisis of representation looming, with many questioning the relevance and viability of WFA and WGGA. Yet there is little support for increasing levies and contributions rates. While this is understandable among a grower population intent on survival, it is uncertain if many members realise that a failure to contribute and commit to a stable resource base will lead to these representative organisations having to be dissolved.

There is also concern at the growing disunity in the wine industry among wine companies. There has been growing disquiet within members of the WFA, with some companies resigning from the industry body and recently Treasury Wine Estates and Pernod Ricard publicly expressing different views from the majority of industry in regard to tax policy.

The voice of the Australian industry seems to be more willing to publicly express dissent and areas of difference than it is to publicly announce the excellent quality of the wines it makes. It is little wonder that there is difficulty in gaining traction in export markets when instead of great stories about Barossa or McLaren Vale Shiraz, Hunter Valley Semillon or Riverland Tempranillo there is much media space devoted to how there is no profitability, and the industry is divided about tax or some other issue.

In regard to levies and voluntary contributions, the current PIF scheme is working well in South Australia in providing a reliable source of funds for industry representation, and ideally should be extended to other states. Without the security of reliable contribution rates the national grower body does not have enough resources to adequately address the challenges currently being faced by winemakers and growers.

It may also be time to merge the national representative bodies WFA and WGGA. There are real problems with resource capability and the problem of gaining traction with government when the industry is represented by multiple different voices. While merging will not completely resolve all issues, it will significantly reduce the mixed messages that currently emanate from industry, and potentially act as a barrier to government from having confidence to act. Merging the winemaker and grape grower organisations has worked well in the Riverland at regional level, and provided a suitable structure that ensures equity in representation. Such a model would benefit industry as a whole.

Levy Collection

f) The work being undertaken by the Australian Grape and Wine Authority pertaining to levy collection information;

The current cost of collecting levies is disproportionately high, and lends weight to a case to privatise the AGWA. There is a good case, if the matching of R&D levies can be guaranteed, for the AGWA to morph into an industry-owned entity.

It is heartening to see that the current AGWA board has agreed that the lack of information in regard to foundation data is an unacceptable position for the wine industry to be in, and great to see a commitment to amend that situation.

Retailer Power

g) The power and influence of retailers of Australian wine in domestic and export markets;

The power that retailers have is a concern in both domestic and international markets. This is a characteristic of the current supply chain, and is a transition that has been underway for the past ten years.

Many of the large retailers possess their own brands, which is fine, but many in the industry view the use of brand names that avoid linking the name of the retailer to the product as being a questionable practice. If there is a supermarket brand, it should be labelled as such somewhere on the label, so that consumers are able to choose whether they choose to support a retailer brand or not. The proliferation of retailer brands has in some cases come at the expense of wine companies' branded products. The increasing prevalence of retailer or buyers' own brand is fine, and does offer an alternative buyer for a winegrowers' fruit. However, when it is happening at the expense of branded product the overall impact is negative. It is questionable how much retailers contribute in the way of funding of industry marketing and R&D levies, and few retailers own little, if any, intellectual property that contributes positively to the Australian industry.

When retailer market power is used to displace branded product with a retailer's own brand there is little scope for branded winemakers to retain margin, and therefore pass margin on to grape growers. In the absence of clear information on wine labels that identifies the brand owner, and if that brand owner is a retailer, consumers are unable to make informed decisions when buying wine. Given the proliferation of supermarket brands through an increasing proportion of shelf space in supermarkets, consumers are becoming inured to any difference between private company and retailer brands, when they deserve the ability to make a choice.

Wine brands owned by retailers should be clearly labelled as such. Consumers will then have the choice of buying the retailer label or not. Retailers often express pride in the wine brands that they stock. If this is the case, that pride should be expressed by naming the company on the label.

Pricing Signals

h) The adequacy and effectiveness of market intelligence and pricing signals in assisting business planning;

Generally, in the current trading conditions market signals between winemakers and growers are poor, inconsistent and ill timed. In many cases market signals are virtually non-existent, where during the season vague comments are made about the general state of the industry and bulk wine sales, but nothing that a grower can confidently use as a guide to whether they are likely to make a return or not. Some growers wait until February before they accurately know the price of their fruit.

Due to the current state of the industry and the commoditisation of wine in the warm inland regions, few wine companies reward fruit of a quality that will contribute to higher value wine with commensurate payments. Few wine companies that operate in the Riverland region have the scope to do this, given the state of the industry and lack of profitability. Instead, variability in price tends to revolve around penalties for non-compliance with fruit soundness parameters. There is little incentive to produce “better quality” fruit and this results in growers generally attempting to ensure that yield targets are met, and therefore “grow more” rather than attempting to “grow the best fruit” that they are able.

There is a place for business models where the target for both grower and winemaker is for good quality, moderate to lower price segment wine; as long as there is margin for all parties. This relationship can work where a wine company is able to communicate the wine value and corresponding fruit value to the grower in advance of harvest. The grower then has the ability to make a choice as to whether they choose to grow fruit at that value. This relationship can work with lower value wine and fruit where there is scope for the grower and processor to work at yields sufficient for both parties to make a return.

Many growers currently receive the messages from industry sources that unwanted fruit will not be secured with a sales contract; that it is surplus to needs, and that some vineyard area must be taken out of production in order for supply and demand to be brought back into balance. However, by the end of each vintage most of this uncontracted fruit has been purchased. It is usually purchased at unsustainable and opportunistic prices at vintage time, and used to feed the speculative bulk market. This provides a mixed message, and contributes to “stickiness” in the adjustment of supply to better match sales demand.

The timing of price notification to growers also contributes in some way to the current problems with excessive production. For Riverland and other warm inland wine companies that are signatories to the wine industry code of conduct (“The Code”), there is a requirement that they are to notify growers of the likely price that they will be paid no later than December 15 in the year preceding the start of harvest. The intent of the inclusion of this part of The Code was to provide growers some security of price, and the original goal was to stipulate a date much earlier in the season. What has happened, however, is that the intent that December 15 would be the latest date at which prices were communicated to growers has become the default announcement date, with few if any price signals being announced earlier than this date. Some growers in the region are not told of a final price for their fruit until after it has been delivered to the winery. As a result, most growers are likely to have expended over two thirds of their discretionary spend before they know with any accuracy if they have a likelihood of making a return, breaking even, or making a loss. The remaining third is committed as harvesting and freight costs. Many growers who have committed to spending money and growing a crop in recent seasons would not have done so if they had known with any degree of accuracy the price that would be paid for their fruit at vintage. This undesirable timing of price information is leading to fruit being grown that otherwise would not be, and is therefore impeding industry adjustment and reducing the likelihood that growers will make informed choices to leave the industry.

It is problematic for wine companies to offer firm prices for the value of fruit that they will need for making wine in a volatile low value market. To that end, gaining widespread agreement for a meaningful time of release of prices is unlikely in the current trading environment. This is particularly the case with wine destined for the volatile, Fast Moving Consumer Goods markets. There is, however, a case to suggest that growers who commit to provide a wine company with regular supply of fruit in the form of a supply contract are entitled to more predictable and secure trading conditions than those operating on an annual purchase arrangement. Whatever the case, it is unacceptable to have a situation where the price of fruit is not known at the time the fruit is delivered to the winery.

It is difficult to see how the industry can achieve sustainability, attract investment and have succession of younger growers and winemakers willing to join an industry with such a low level of confidence of achieving a return. There needs to be a commitment to sound trading principles by those in all stages of the supply chain to improve the way in which market signals are transmitted between growers and winemakers in particular. Market signals do not work when the market is not working properly.

Recently WFA reached agreement with Woolworths Liquor group to an agreed set of trading principles. There may be merit in extending such agreement along the supply chain to include growers as well, so that winemakers, retailers and growers commit to the same standards of trade.

i) The extent to which the Australian grape and wine industry benefits regional communities both directly and indirectly through employment, tourism and other means;

For several decades the grape and wine industry has been recognised as the most significant *wealth generator* in the region. At its peak in 2005 the farmgate income was $207.31M to growers, before any consideration of value added through processing to wine. This was an equivalent to a generation of $5,900 per capita across the region’s population of 35,000. By 2014 these valued had declined to $103.9M and $2,960 respectively. The 10 year rolling average values are estimated at $59M farmgate value and $4,500 per capita of income. By any standards these numbers illustrate the value of the grape and wine industry to this region. It is imperative that strategies, policies and management practices be developed to restore respectability to these values.

At the time of writing this organisation does not have access to reliable data quantifying the value add component or the employment component.

Traditionally, the wine industry has not been a tourist drawcard as is the case in many other regions. However in recent years Riverland Wine has collaborated very successfully with Wine Australia and the newly formed organisation Destination Riverland to develop tourism potential.

j) Any related matters.

Absence of Standard Assessment Protocols

There is a lack of agreement in the wine industry about standard and meaningful protocols for pest and disease monitoring. Different companies use different methods and many involve a brief inspection; with others little or no diligence is given. The income of a grower may hinge on in-field assessments, and if these are conducted without due rigor then the grower may unfairly wear a loss. Some growers have records of standard field assessment sheets that despite the fact that they are issued by the purchaser of the fruit, the wine company staff has not completed them for years. Instead there is a general verbal comment about the quality of the fruit, and a price offered. There has been no latitude for discussion nor negotiation about price in recent seasons.

There are presently more regulations ensuring fair commercial trade over fruit purchases in supermarkets that involve transactions of a few dollars over a kilogram of fruit than there are to ensure sound commercial practice with wine grape sales representing thousands of dollars in value, and possibly the difference between profit and loss for a grower.

It is time that there was a standard by which fruit was assessed in the field. The wine industry currently has a standard for fruit assessment at the weighbridge, and there is no reason that this could not be extended to field assessment for fruit. This does not mean that wine companies will be forced to have the same acceptance thresholds for diseases, pests and blemish, rather it would mean that there was a commitment to sound assessment practice. Wine companies would still be free to set their own threshold levels, and issue commensurate penalties for non-compliance, as is currently the case.

Likewise, there is much resistance in the industry to the concept of adopting objective assessment of fruit as a manner of assessing fruit and wine quality as a means of conveying accurate market signals to the grape grower. While there is a significant amount of work being done at research institutions in regard to objective measures of fruit and wine, and this topic is a part of the current research focus for AGWA, there is still a strong resistance to the uptake of such measures in the wine industry. That is despite almost every other agricultural industry transferring to some form of objective measurement. It appears that there is a policy issue that must be addressed in addition to the technical hurdles that must be addressed.

The adoption of objective measures offers fruit buyers a significant opportunity to accurately reward the fruit being purchased in a manner that reflects the inherent value of the fruit and the resultant wine. Presently the industry is littered with stories of ad hoc assessments of quality that result in questionable outcomes for growers in particular, but also cases where sub-standard fruit attracts a reward greater than its inherent value.

Lack of Traceability

One area of concern is that of the lack of traceability of Riverland winegrapes through the supply chain. The technology is available. The will to implement systems has been lacking. Riverland Wine firmly believes that if traceability systems and programs could be introduced multiple benefits would emerge for both growers and winemakers. Value chain principles would be encouraged. Growers would be much more likely to espouse sentiments of best practice and continuous improvement.

Depletion of Financial Reserves

If the wine industry was in a position to produce a regional balance sheet, on an annual basis it would reveal the values of both wineries and vineyards have declined markedly and consistently over the course of the past 10 years. The consequences of this are many and mostly negative. Property/asset values have made it difficult for stakeholders to invest and in many cases it has become impossible to borrow funds, not for further development but to encourage best practice maintenance and diversification. Banks are also facing difficult decisions inasmuch as they know there can be no further extension of credit and it's become extremely difficult to take security over borrowings.

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