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Official Committee Hansard

SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE

Reference: Operation of the wine-making industry

MONDAY, 27 JUNE 2005

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BY AUTHORITY OF THE SENATE

SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT REFERENCES COMMITTEE

Monday, 27 June 2005

Members: Senator Ridgeway (*Chair*), Senator Heffernan (*Deputy Chair*), Senators Buckland, McGauran, O'Brien and Stephens

Participating members: Senators Abetz, Allison, Boswell, Brown, George Campbell, Carr, Chapman, Colbeck, Coonan, Crossin, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Greig, Harradine, Hutchins, Ludwig, Knowles, Lightfoot, Sandy Macdonald, Mackay, Mason, McLucas, Nettle, Payne, Robert Ray, Santoro, Tchen, Watson and Webber

Senators in attendance: Senators Buckland, Ferris, Heffernan and Stephens

Terms of reference for the inquiry:

To inquire into and report on:

the Australian wine making industry with particular reference to the supply and purchase of grapes and the relationships between independent growers and wine makers in the current market.

Specifically, the committee will be focusing its inquiry on the following key areas of the wine industry:

- a. The size and nature of the winegrape glut, and the producers' inventory levels;
- b. The structure of the industry and how this impacts on the relationship between growers and producers; the nature of the contractual agreements between them; the implementation of quality benchmarks and whether these can be standardised in an industry-wide code of conduct;
- c. The adequacy of the terms and implementation of the Trade Practices Act 1974 in relation to winegrape growers; and
- d. The need for a national grape growers' representative body, the powers that it might have, and the means by which it might be funded, including any possible role for government in overseeing an industry levy.

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Committee met at 3.26 pm

ACTING CHAIR (Senator Heffernan)—I declare open this hearing of the Rural and Regional Affairs References Committee inquiry into the wine industry with particular reference to the supply and purchase of grapes. I welcome everyone here today. This is a public hearing and a *Hansard* transcript of proceedings is being made. The committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in the order of the Senate of 23 August 1990 concerning the broadcasting of committee proceedings.

Before we start taking evidence, I place on record that all witnesses are protected by parliamentary privilege with respect of their submissions and evidence to the committee. I remind witnesses that parliamentary privilege does not extend the statements repeated outside the committee's proceedings. Any act by any person which may disadvantage a witness on account of their evidence before the Senate or a Senate committee is a breach of privilege. While the committee prefers to hear all evidence in public, the committee may agree to take evidence confidentially. If the committee does take confidential evidence, it may still publish or present all or part of that evidence to the Senate at a later date. The Senate also has the power to order publication of confidential evidence. The committee would consult the person concerned before deciding whether to publish confidential evidence.

BARIC, Mr Drazen, Vice-Chairman, Riverland Winegrape Growers Association**BYRNE, Mr Christopher John, Executive Officer, Riverland Winegrape Growers Association****DOLAN, Mr Richard Neil, Chairman, Riverland Winegrape Growers Association**

ACTING CHAIR—Welcome. Would you like to make an opening statement before we go to questions?

Mr Byrne—Thank you. First of all, I welcome you to the engine room of Australia's wine industry. The members of our association number well in excess of 1,200, and we recognise that we are the largest wine producing region in the country in terms of both number of growers and number of tonnes produced. We also realise that wine grape producers in this region and in the two regions across the border, Murray Valley and Riverina, combined are exporting some 65 per cent of Australia's wine.

Because of the very limited time, we will focus on some of the key points and issues you have identified in your scope page or part of your document. Perhaps a lot of the outlining will come in the answers to questions rather than us making a long presentation. They are what we are already doing to address these issues, how we have gone about identifying the issues and who we are working with both in terms of our industry partners and government in order to address what is increasingly a very difficult position for our constituents. Clearly the difficulty has been brought about by continuing low prices. Continuing low prices have come about because, as we all know, there is a significant oversupply.

I will move to item A of your scope, the size and nature of the wine grape glut and producers' inventory levels. As I have said, clearly we have an oversupply. If I look at one of the exhibits that I have provided to Geoff, it shows very clearly that in South Australia alone every region in 2004 had a significant oversupply of grapes. It is pleasing to note that, despite our size and magnitude, the Riverland had relatively the lowest oversupply of all regions. To give some understanding to those of you who are perhaps not familiar with the figures, in that year we produced 440,000 tonnes. Our oversupply was calculated in the Phylloxera Board figures, which we believe to be by far the most accurate source of the matter for the industry in the country. It is interesting that the Phylloxera Act is what ensures that we get good, strong high-quality data year after year. That data illustrates that our oversupply in this region was about 42,000 tonnes. That sounds fairly staggering when you consider that some regions that are identified as regions produced much less than 42,000 tonnes, but in percentage terms our oversupply that year was 9.62 per cent. If we look at, say, the Limestone Coast, their oversupply was 41.4 per cent; Eden Valley, 17.39; Coonawarra 23.6; and Clare Valley, 17 per cent. So clearly there is an oversupply and no-one is disputing that. There is a copy of that data for your further reference. As a result of that we see continuing downward pressure on price.

We do not know the extent of the glut because we do not have as an industry sufficient information to give us a clear summary of what the most basic number is, that is, our opening stock. Before we get into a new vintage, it would be very helpful for all of us if we had a clear idea of what our opening stock position is so that we can then use that information to plan just what we need to produce in the forthcoming vintage. We do not have a level of confidence about our opening stock figures. I know it is easier said than done; I do not believe it is an easy thing to find that number. But, given the magnitude of the problem that the industry is looking at, we do need to apply a lot more resource in that regard.

We fully expect that next year's opening balance will be greater than last year's and therefore, as we have all learnt from lessons in economics, we will see a continuing downward pressure on price that will exacerbate what is already a very serious problem for not just our growers but our regional community and our industry. Ideally, to plan more effectively and to enable all stakeholders to manage risk we need far more accurate stock figures. Many of us would like to see a national register of what is actually planted. Whilst we realise that you cannot stop anybody planting anything, we think it would be terrific if before people did plant grapes they were in a position to make an evaluation of what that investment was likely to return. One of the significant problems for us is that investment vineyards, quite often undertaken by investors from outside of industry, may or may not be successful as investment vehicles. Whatever the case, those vines remain in the ground and they continue producing grapes year after year, and that continues to fuel the oversupply position.

Part B of the scope talks about the structure of the industry and how the structure impacts on relationships between growers and producers. Until a few years ago it is fairly true to say that the industry was loosely structured. We have a federal growers body and of course have had the Winemakers' Federation of Australia for some time. Regionally growers have not been well organised around the country. We are very pleased in the engine room to be able to identify that not only do we have an organisation with a membership of almost 1,300 but we have an organisation that includes winemakers and grape growers together, so we are talking about a structure within this region that has a winemakers group and also a wine grape growers group.

The two bodies have separate governing entities but there is representation on one of the groups with four winemakers and four growers.

We would like to see something similar to this progressively evolve in other regions and then at the national level. We have been instrumental in working with the winemakers through the Wine Industry Relations Committee to develop a business plan for a federal body. I have provided a copy of that as well. This has only been completed in June of this year, so it is very current. I would urge you to familiarise yourself with some of the detail or to ask us more about it at a later date. Inland regions have pretty well driven this activity. We realise it is only going to be successful if we can include in the end body growers from regions right around the country. We are about to embark on a selling campaign or roadshow with help from the federal government. I might say that the Department of Agriculture, Fisheries and Forestry provided \$100,000 to help us in the formulation of that particular plan and it has been widely distributed, although we would say that, because of lack of organisation at regional level, a lot of growers are not yet aware of it. So we do recognise that we need to hit the road and have more growers become more familiar with that document. In our region we think we are well-organised, and we would like to see the model of let us call it an integrated industry body adopted in other regions and at the federal level.

Item B goes on to talk about contractual agreements. There are many problems with contractual agreements. We could have an inquiry that would simply focus on that particular issue. The issues with contractual agreements, in our view, relate to the fact that there is a significant imbalance and the oversupply problem of recent years has certainly not enabled growers to work into a stronger bargaining position to even up that playing field in relation to contractual arrangements. In terms of how the structure affects our ability to implement standards, it does because there is not sufficient agreement as to what standards are, let alone how we go about implementing them. By way of example, this document, *Winegrape Assessment in the Vineyard and at the Winery*, was compiled by growers and winemakers in 2003 through the Wine Industry Relations Committee. The purpose of that was to set down in writing quality assessment standards so that when we talk quality we are talking apples and apples and we know what we are all talking about. It was endorsed by the Winemakers' Federation and by the Winegrape Growers Council but we have failed to have it implemented. We have failed to have it implemented because there is no compelling reason at this time to have it implemented in such a way that it would compel parties to comply or adhere to the recommendations.

Dispute resolution clauses are a bit of a classic as far as we are concerned. We successfully had dispute resolution clauses included in some contracts. Indeed, that clause has to some extent enabled us not to maintain the balance but to reduce the effect of imbalance. In recent years there have been two well-documented instances where growers have invoked the dispute resolution clause and the result of that is that \$7 million of grower payments have been paid to growers rather than being paid to the particular winery in question because an independent expert deemed that indeed the prices were not fair and that they needed to be adjusted. We would like to see dispute resolution clauses integrated into all contracts and have them integrated in such a way that there are ways and means of ensuring compliance.

The question is raised about an industry-wide code of conduct. The view of the Riverland Winegrape Growers Association and the federal body, Winegrape Growers Australia, is that an

industry code can be, should be and must be implemented to assist in the restoration of balance in going forward. We recognise that supply and demand will indeed be corrected at some time in the future subject to us being able to plan for the correction, and the planning for the correction can only come about if we have better data to enable us to evaluate or to assess what it is we should be growing. We think a code would assist both wine grape growers and winemakers to form much more successful, much more sustainable working relationships in the longer run.

We have worked this fairly solidly through our Wine Industry Relations Committee this year and initially encountered significant barriers. There was strong resistance to the need for a code. We are quite happy to start off with a voluntary code that gives growers and winemakers the freedom to adhere or not. Our understanding is that if there is a significant lack of compliance then possibly the code could become a mandatory one. We would prefer not to go down that path, but it is interesting and handy to know that if we do get a code up—and I might say that we as growers are fairly confident that we will have a code prepared and endorsed—that it would improve our working relationship immensely. We have already done quite a bit of work on elements of contract, dispute resolution clauses and quality assessment. We are simply saying, ‘Let’s bind that work into some sort of meaningful form so that there can be a code and we can look for compliance all round.’

I will quickly move on to paragraph (c) in the terms of reference: the adequacy of the terms and implementation of the Trade Practices Act. We, as Riverland Wine Grapegrowers Association, have had quite a bit to do with the ACCC and it has enabled us to have a better understanding of that particular act. I might say that few growers, if any, have the resources to test that act. As you would all know, at this stage we still do not have collective bargaining rights, so it is very difficult to get a group of growers together. It is almost impossible for a single grower to come to grips with the intricacies of the Trade Practices Act; because we do not have the right to bargain as a group, it is even very difficult for groups to come together. We have come together, on a reasonably informal basis, to try and encourage growers to recognise and stand up for what they believe to be their rights, but in most cases we have become exhausted because of the very significant difficulty with following through the process.

If there is an alleged case of misleading and deceptive conduct, for instance, it may seem on the face of it to us, as mere growers, that there is misleading and deceptive conduct. Most of us do not have lawyers to construct our contracts; most wineries do have access to lawyers. We have found that in most such cases, whereas on the face of it we may think there is misleading and deceptive conduct, the conduct is in fact just within the guidelines of the act; and therefore it becomes very difficult to continue the fight. And there is a strong sense of futility among growers when there is a suggestion that perhaps you should go along and see the ACCC, because to go and see them is one thing—we have found them to be terrifically cooperative; they have been up here and conducted forums that we initiated for growers and for winemakers and there was significant follow-up to the forum that we held—but in the end it boiled down to ‘it’s all too hard’ for individual growers to rely upon the Trade Practices Act. In summary, we do not believe most growers have the resources to test it. We would prefer not to test it; we would prefer to find solutions without relying upon the Trade Practices Act—or any other act, for that matter. But it would be comforting to know that if our best efforts were exhausted then there was some reasonable access to legal rectification.

I might just qualify what I said earlier and state that we know collective bargaining is certainly not the panacea to all growers' woes. Collective bargaining just improves our position but it certainly does not provide solutions. We realise that, even if we have got the best collective in the world, there is no-one who can compel anyone else to purchase our product. So the act is just one of the things that we are aware of and we are trying to acquaint ourselves more fully with it and to make it more workable. We know our contracts lack certainty and we know that transparency is a very significant problem, but we do not have the bargaining power at this stage to do much about it.

The final part of the terms of reference addresses the need for a national grape growers representative body, and the powers it might have. As I have already indicated in my other remarks, our view is that, yes, a federal body is an absolute must. We have been very encouraged by the level of support from both the government and the Winemakers' Federation to assist us in the formation of such a body for growers. If the Senate committee is looking for suggestions as to how you might be able to help us achieve this, then one very useful suggestion has been made in this region, which is that perhaps the Grape and Wine Research Development Corporation's annual \$2 per tonne levy on growers could be increased slightly to facilitate the collection of what we would call a voluntary levy—the same as we have here in the Riverland—where those who choose not to pay it may obtain a refund. Our experience is that with our 1,303 growers last year we had six growers who asked for a refund, so it effectively has a paying membership of, as I have said, well over 1,200 growers. Those numbers do fluctuate from year to year as the number of growers increases or decreases.

In conclusion, I hope those opening remarks have illustrated that the Riverland growers are aware of their responsibility to lead, to seek, to find out further information, to understand it, to communicate it and to engage with our members and colleagues in other regions and within the industry. We have close working relationships with the Winemakers' Federation, the Grape and Wine Research and Development Corporation and the Australian Wine and Brandy Corporation. We are getting out there and engaging them. We do take our responsibility as the leading region very seriously. We are working to ensure in so far as we can that the playing surface is evened out, and we think that will happen in due course, but we would like to manage that rather than just allow it to happen by osmosis, as has been happening in recent times. We think there is a huge risk that if we do not begin to manage it as an industry more effectively then there will be a great deal more unnecessary suffering.

If we get into the data on the 'get big or get out' solution then we can illustrate just how impractical that is as a solution. It is an easy one for the economists to point out to us but it is not practical. Some 89 per cent of all growers in the Riverland have 24 hectares or less and our recent work with the primary industries department indicates that growers would need to have 150 hectares each and be producing a return of \$485 a tonne—I think they are the numbers, but they are all in the report I have given you—in order to break even. That would suggest that 29 out of every 30 growers would have to forgo their careers as growers and leave just one to manage that area. It may be easy to say but it is entirely impractical. We would like the opportunity later on to elaborate on that. The 'get big or get out' attitude tends to be an easy answer but we think it is an entirely impractical one. That is not to say that we do not believe there needs to be further rationalisation and sharing of resources in creative ways.

ACTING CHAIR—There is a relative oversupply in the industry, although you say it is not a bad oversupply. Was that seasonally driven?

Mr Byrne—The season had a fair bit to do with it this year because it was an ideal growing season. Again, our magnitude tends to magnify the effect of adjustments. It is reasonable to say that because of the declining prices growers in this region have in some cases been able to increase their yield to counteract the effect of declining prices. You can have a small increase from our 440,000 tonnes—say a 10 per cent increase—by increasing your water, that might increase your tonnage per acre from an ideal eight to perhaps nine. You get a very significant increase in supply. Our crush this year in this region has increased in a year when we would have liked to have had a decrease. We have increased from 440 to 500.

ACTING CHAIR—If I want to plant 1,000 acres of grapes tomorrow, what is to stop me?

Mr Byrne—Presently there is nothing to stop you.

ACTING CHAIR—Right; that is all I need. We were told by the Winemakers' Federation this morning that they planned the 20-whatever it was vision for wine to go for 20 or 30 years and it all happened in five or six. Is it fair to say that the industry has been flying blind?

Mr Byrne—We would say yes. At the end of the 1990s there should have been some greater effort on the part of industry to manage the slowdown of the accelerated growth. Unfortunately, as we all know, accelerated depreciation was not removed as an incentive for vineyard investment until last year. We do not think that was necessarily the biggest part of it but it was a contributing factor. Industry itself failed to alert the investment community to the wider implications of continuing to plant.

ACTING CHAIR—We put that to them: 'Hang on, if you are the federation and you knew that, why the hell didn't you yell it louder?' In terms of this area, what would be the ratio of uncontracted to contracted growers?

Mr Byrne—I would say probably we have enjoyed a contracted growers ratio of about 90:10.

ACTING CHAIR—What sort of a person spends all that money without having tied up the contractual side of it?

Mr Dolan—Basically the Wine Federation of Australia in its own right constituted a document that was put together by an accounting firm. It said that the way that the wine industry wanted to go was that it was prudent for the wine industry to move away from having the whole of their input contractually managed to having part of that—

ACTING CHAIR—We were told that it was about 60:40 that suited them.

Mr Dolan—Yes. It would appear that some have erred on the conservative side and some have taken that to be just a suggestion and have gone way—

ACTING CHAIR—People that are not contracted, on the business side of it you would think, ‘Gee, I must have a contract,’ and on the other side, ‘Gee, it is wonderful to go out and have a vineyard.’ Is that the fantasy farming side of it, without a contract?

Mr Dolan—I suspect that has been some small measure of grape growing in the cool regions, but it has not really been effective as far as the majority of the grape type that has been pushed into the export market is concerned, no.

ACTING CHAIR—When you say that a proportion of growers could not get a lawyer to look at their contract, couldn’t the association have lawyers that do that?

Mr Byrne—The association has been in deep trouble for even suggesting we go down that path. The way our levies are constructed, winemakers who grow grapes pay the levy as well as wine grape growers. There has been a view that it would be imprudent and improper for the association to spend part of the winemakers’ voluntary fund, if you like, voluntary contribution, going in to bat against them.

Senator FERRIS—What about a pro forma contract?

Mr Byrne—Can you clarify what you mean by pro forma?

Senator FERRIS—Just a model contract that people work from that has the statutory clauses in it that would protect the grower.

ACTING CHAIR—You could say that by not doing that you are complicit in what has happened.

Mr Byrne—Let me correct it. We have supported growers in kind by encouraging them to take advice. If I can come to your point, Jeannie, yes, there have been some model contracts that have been constructed in the past, but developing a model contract and having it implemented during a period of oversupply is a very difficult thing to achieve.

Senator FERRIS—I realise it is today, but what about five years ago?

Mr Byrne—I could not comment on five years ago—

Senator FERRIS—Some people had 15-year contracts.

Mr Byrne—Sure. As a representative group we have been going since 2002. I think our very existence has come about for a lot of these reasons, because we did not have a representative body.

ACTING CHAIR—In 1998-99, that period when it was gung ho, didn’t everyone think, ‘Look what happened to the beef back in 1972, look what happened to the wool and what happened to wheat’?

Mr Byrne—If you look at the make-up of the grower population in this region, you will find that very few small growers in this region have been fantasy farmers. I think you would find that

the fantasy farmers populate the other regions of the country. In this region we have known for five years at least that you do not plant without a contract and we discourage anyone from planting without a contract. We cannot control what others may do with their superannuation funds that are up for investment that they can put into 1,000 hectares.

ACTING CHAIR—Of all the people in your area that are business farmers, what percentage of their contracts have failed in the present circumstances?

Mr Byrne—One of the main causes of failure, as you put it, in the present circumstances is that many of the contracts have expired, and when they have expired they have not been renewed. That would be the single biggest factor that has added to the number of uncontracted growers in recent years.

ACTING CHAIR—What would be the percentage of loophole contracts where they have weaseled their way out of them?

Mr Byrne—Gosh, it is very hard to put a figure on that but probably, I would say, 20 per cent of contracts would have loopholes that—

ACTING CHAIR—That any decent lawyer could look at?

Mr Byrne—Yes, decent lawyers could look at them. But bear in mind that the contracts have, in most cases, been constructed and offered by the wineries. And because of the culture of trust and success that we have come from at the end of the nineties, you might say there is a lack of awareness on the part of growers of the need for a rigorous contract.

Senator BUCKLAND—I was interested in your comments regarding the ACCC. You made a comment that you still do not have any rights for collective bargaining. Why?

Mr Byrne—Because the Dawson recommendations have yet to be legislated despite the fact they were made almost two years ago.

Senator BUCKLAND—And the comments you then made about having lawyers represent the wine grapegrowers association—

Mr Byrne—I will clarify that, if you like. Our organisations are constructed so that we have a voluntary levy that is collected from everyone who grows grapes in our region. The wineries deduct the sum of a dollar per tonne from payments due to growers; that money is remitted to the minister for primary industries. We can obtain grants against that fund so long as we can illustrate that we have fulfilled our obligations against our strategic plan, which is reviewed annually.

ACTING CHAIR—The government has full say on how that money is spent?

Mr Byrne—It has full say on how that money is allocated.

ACTING CHAIR—What percentage of the levy coming out of this area would be grower versus grower and winery?

Mr Byrne—Sixty-five per cent of the fund is contributed by growers and 35 per cent is contributed by wineries. That is a very significant contribution.

ACTING CHAIR—Wineries who are growers?

Mr Byrne—Yes, who are growers. I suspect that almost all wineries in this region are still growers, although there has been some decline.

ACTING CHAIR—Who has the most influence with the government, that is, who wins the war over how the levy gets spent: the industry, the producers?

Mr Byrne—Understand that the levy is voluntary. The point I was making before is that if the wine grapegrowers association—that is this part of the organisation on the left hand side of this chart—spent some of the money assisting growers with legal cases then there would be a very significant risk that it would be seen as, ‘Well, what a terrific precedent that is. Go and see the association and they will fund your legal expenses.’

The other issue that is just as serious is that, because the winemakers do make such a substantial contribution and because it is voluntary, they are well within their rights to say, ‘Crikey, we do not like the fact that you are going in to bat and are funding such as such against us, so we will withdraw our funds.’ That would then threaten our whole viability, and also it does not encourage the sort of working relationship that we are striving to achieve, which is one of cooperation through collaboration.

Senator BUCKLAND—Trying to get a working relationship to work takes two sides, though, doesn't it? It appears to me from what I have learnt from this region that only one side is batting; the other side is not even bowling.

Mr Byrne—That is not true. It is hard to generalise, but a number of the wineries in this region have very sound relationships with their growers. Others have much less sound relationships and some have very poor relationships.

ACTING CHAIR—Is it the bigger the uglier?

Mr Byrne—No, the biggest in this region is Hardy's and they probably have the soundest relationships of all.

ACTING CHAIR—Why is that so?

Mr Byrne—In the Hardy case—

ACTING CHAIR—No, why are some ugly, some not so ugly and some good?

Mr Byrne—I think it largely reflects their own culture. We do not want to identify which the most popular wineries are and it would not be fair on the others; I do not think that is the purpose of today. Needless to say, there are some wineries that are encouraging us all the way in the work that we are doing here with standards of contract, with dispute resolution clauses and the like. There are others who do not have the faintest interest in going down that path with us.

Senator BUCKLAND—You said that it was too hard to rely on the Trade Practices Act—that is my interpretation of what you said. Is it too hard or too expensive for growers to rely on it?

Mr Byrne—It is a combination of both. It is too hard in the sense that we are a very lightly resourced organisation, as you can imagine. We have one person and we share one assistant with two other commodity groups. So we are not big on resources. The sorts of resources that are needed to go and visit the ACCC, then seek legal counsel and then go back to the ACCC are very time consuming and very expensive.

Senator BUCKLAND—So expense is a real issue for you in relation to that.

Mr Byrne—Absolutely.

Senator BUCKLAND—You mentioned dispute resolution. Could you elaborate on that? We spoke about it today in Adelaide and I am interested in how that works.

Mr Byrne—I will give you an example of how it has worked in this region. We will refer to the Acme Winery Company. It has a dispute resolution clause in the contract. The Acme Winery Company advises their growers in the middle of January that this is the price plan that it is presenting to them this year. Because there is a dispute resolution clause, if the growers feel that those prices are not going to provide sufficient reward for what they are producing as grape growers, they have the option to notify Acme winery that they wish to dispute those prices. The dispute resolution clause requires the winery, which is signatory to the contract, to engage in the process of trying to resolve the dispute. If that process fails then both parties must agree on an independent expert to resolve the issue and determine what would be a fair price. Acme winery has gone down that path for the past two years in this region and on both occasions it has resulted in a significant adjustment to the price for growers in dispute with the winery. So there is a case where a dispute resolution clause worked very well to the advantage of growers. I might say there were some growers who disputed some prices that were not altered but let me say they were not reduced either. So they were considered to be fair but not overly fair.

Senator BUCKLAND—What about where a grower has entered a contract to provide a quantity of grapes of the quality that has been required and then told that the winemaker will not be taking those grapes? And then at a subsequent date, when the grapes are about to fall on the ground, go rotten or whatever, the winery says, ‘We’ve got this contract for cheap cask type wine. We’ll take what you’ve got but this is the new price we’re offering.’ What happens there?

Mr Byrne—There is a wide-ranging variety of responses to that particular one. Unfortunately, in a number of the cases, the so-called contracts are indeed not contracts. We would almost go so far as to say that the majority of grower-winery relationships in this region fall into the category of not being contracts but rather being agreements to supply. A contract, as you would no doubt be aware, must contain the three elements of offer, acceptance and mutual consideration. Mutual consideration is that part of the contract that enables the grower and the winery to accurately evaluate the worth of that contract. Growers rely on contracts of that nature to enable them to make borrowings, of course.

There has been a trend in recent years away from identifying a price for a particular quality of grape. It has been along the lines that, ‘If you can grow a certain grade of grape, then you will be

graded. And after vintage, when we have evaluated the wine that we have made from it, we will then tell you how much your grapes are worth.' There is a real weakness in the contracts in that sense.

I cannot say the example you gave of a winery saying, 'Here is a contract, but now we are not going to buy the grapes' has not happened, but it is not a common occurrence. It is more common—there are two wineries where this has occurred very recently—for growers to receive letters from the winery saying, 'We are buying your grapes, but we cannot afford to pay the price that was in the contract, so we are going to offer you something less.' I guess the growers in most cases feel, 'I have no option because I don't have any bargaining power. I've got a contract that might have implied I was going to be paid a certain grade, but now it is not worth it.' I think the more intimidating and realistic consideration for growers is, 'If I do fight it this year, where the hell am I going to sell my grapes next year whilst this supply-demand situation continues?'

Senator BUCKLAND—I deliberately asked that question because it was in a large meeting that I attended here that that issue was raised. It seems to be a reasonably widespread comment. You have answered my question, and I appreciate that, but that issue did actually come out of that meeting. We are restricted in time, but Mr Strachan of the Winemakers' Federation suggested this morning that wine grape growers could join the Winemakers' Federation. What is your understanding of the views of grape growers in the Riverland towards that idea?

Mr Byrne—Grape growers in the Riverland, and I would say in the other two inland regions, are very supportive of concluding the work of our business plan that I was showing you earlier—*Business Plan for a National Winegrape Growers' Organisation*—and the establishment of Wine Industry Australia. Stephen Strachan was probably referring to Wine Industry Australia. Stage 1 of this plan is to construct a truly national, truly representative and inclusive wine grape growers' body. Stage 2, if we can get there, is to look at how the wine grape growers' body could be integrated with the Winemakers' Federation and create a new national peak body. Our view is that that is where we need to get to. As I said right at the outset, that model works very well here in the Riverland. We think it will work very well at a federal level, but to get it up we have to be able to resource it well. The funding is going to be the critical issue.

Senator BUCKLAND—What is the number of grape growers that are leaving the industry in the Riverland?

Mr Byrne—I think a number would like to exit, but I do not think too many are exiting successfully at the moment, for the obvious reasons that their assets have diminished in value very significantly in recent years and there is no exit strategy that is working at the moment.

Senator BUCKLAND—You made the comment that 'get big or get out' is not the way to go. If your neighbour was looking to get out, would it not be helpful to take—

Mr Byrne—If your neighbour could afford to get out and if you could afford to increase the size of your holdings.

Senator FERRIS—I am interested in exploring a couple of things you said in your introductory remarks. We are trying to nail down the extent to which the policy of accelerated depreciation affected the expansion of vineyards. You did allude to it. To what extent did this

area expand as a result of those policy years—for example, from 1994 to perhaps 1999? Do you have some figures on that?

Mr Byrne—As a result of the accelerated depreciation?

Senator FERRIS—You said, and I agree with you, that it was part of the reason but not the only reason. I am trying to get a picture of the extent to which this area's grape plantings expanded in those years.

Mr Byrne—I would have to do some research on that. Some of the winemakers here may be better able to answer that question. It was a very significant expansion. Just how much of it is attributable to that particular tax incentive I am not sure. I would say that, relative to other regions, in percentage terms it would have been much lower here. A great deal of the expansion that took place here took place between growers and winemakers. As I said, until very recently we had a very high ratio of contracted to uncontracted grapes.

Senator FERRIS—We got a document this morning from the department—the result of that committee—and I want to explore some of the things with you. It says that 19 per cent of growers in the Riverland still have properties of less than 10 hectares.

Mr Byrne—What percentage did you say? I think it is much higher than what you said.

Senator FERRIS—What they say here is:

Of the 1,303 growers in the Riverland ... 797 have properties of less than 10 hectares in area. These properties make up a total of ... This equates to approximately 19 percent.

That is, 19 per cent are 10 hectares or less.

ACTING CHAIR—That is 50 per cent.

Mr Byrne—That is a wrong number. It is more like 61 per cent are 10 hectares or less.

Senator FERRIS—You might want to correct that. It is on page 29 of the document. In any case, I am wondering whether that percentage has changed. For example, the graph on page 29 shows that properties of a small number of hectares—and in here they say 763 of them—had a cost of production of just on \$800 per hectare whereas properties with 171 hectares—there were 330 of them—had a cost of production of \$201 per hectare. I am wondering whether those people took advantage of the opportunity to try to make themselves more viable or try to share resources in any way. It is very clear that, whilst you do not want to have takeovers, people with 10 hectares and less are going to struggle to be viable.

Mr Byrne—We understand that.

Senator FERRIS—What have you done to try to facilitate the sharing of equipment, marketing, resources and information between those people?

Mr Byrne—There are two things. First of all, most growers are already sharing equipment. Many growers have someone else do their spraying or harvesting.

Senator FERRIS—Why is the cost of production still so high?

Mr Byrne—That diagram you are looking at there does not refer to 330 growers. That is the total cost if you have 170 hectares. Out of the 20,000 hectares we have in this region, there are very few growers that have or could even aspire to have 170 hectares.

Senator FERRIS—I understand that, but what has your organisation done to try to help those growers now that PIRSA's report has identified that their cost of production is massive in relation to other growers? What leadership does the organisation show to help them?

Mr Byrne—In the months since that report came out we have run nine workshops right throughout the Riverland and we have had over 100 growers come along. This document is a summary of what the growers have recommended themselves and we are about to embark on another series of three workshops where we will review the 35-odd recommendations that have been made in here to try to distil the three or four that have some real substance and some real potential to address the issue.

Senator FERRIS—That is fantastic. One of the difficulties with these small properties is that many of those people have off-farm income so in a sense it is distorting the overall capacity of those people.

Mr Byrne—It is distorting the pure economic theory, and that is a point that we have made. This region has grown up on small vineyards. It is impractical to try to imagine that we could move to a region of big vineyards because suddenly we would have to diminish our population by two-thirds.

Senator FERRIS—I am not suggesting that for a minute. I am just trying to better understand where you see the answer to the current difficulty.

Mr Byrne—It is probably not appropriate for me to foreshadow the outcomes of this next stage, but clearly there is a view among growers—and I can say this—that we have to do something very serious about what we would call a restructure, if you like. We have to come up with a formula that will enable those who want to exit the industry to do so with some dignity rather than be squeezed out and left on the scrap heap. I have begun a process of interviewing some 65 growers who indicated a wish to say something privately, not in the big public meeting. It is coming through consistently that there are growers who do not have preferred varieties and do not have the means to upgrade to those preferred varieties. They have a sense of futility about their future in the industry either because of that situation or because of their age or some other circumstance. They would like in normal circumstances to move on and enable the rationalisation process to occur. Someone else, perhaps a neighbour, would buy that property thereby improving their own economy of scale and giving that person an exit opportunity.

At the moment we do not have a plan in place to enable anyone to exit with any sort of dignity. Until such time as we can construct such a proposal then we will continue working through this. I think that within about a month we will have three or four outcomes that we will

take back to the primary industries department—and obviously copy to those of you who are interested—as a final set of recommendations following from this work that we have undertaken.

Senator FERRIS—This problem arose in the citrus industry some years ago. One of the issues was the difficulty of getting local governments to agree to small subdivisions so that people could remain in their houses with a curtilage around them and the rest of the property could be sold off. Is that still an issue up here or have you been able to resolve that?

Mr Byrne—To the best of my knowledge it continues to occur. There are lots of cases where growers have retained their house area and the rest of the block is run by somebody else. There are other cases where the grower lives there but somebody else manages the block. There has been a responsible attitude on the part of most of the growers in this region to rationalise. There is something we have not touched on and it is probably the key to all of these problems. The value in the bottle is very easy to relate to the price per tonne. You may not realise, but for every tonne of grapes there are generally speaking 1,000 bottles of wine produced. That is because we extract 750 kilograms from every tonne that can be converted to wine. That is a very regular standard. We bottle into 750 ml bottles, so that gives 1,000 bottles.

The situation we have is this. If a grower is paid \$350 for that tonne of grapes by the Acme Wine Company, the value in the bottle is 35c. That bottle may sell for \$7, \$10, \$12 or \$15 but what the consumer is actually paying the grower is 35c. We do not think it would be a huge impost on the consumer if the consumer paid an extra 25c and raised that 35c to 60c. That would give the grower \$600 per tonne. That would enable the grower to be viable in the sense that he or she could continue to be sustainable in the industry. They could build on the competence, excellence and experience that they already have and continue to develop their produce to reflect new and emerging standards, both in terms of viticultural management and winemaking standards.

Growers in this region have achieved enormous improvements in quality through investing in the industry. They have converted from old forms of irrigation to new forms. They have put moisture monitoring in. Ours is probably the most water use efficient region in the country, when it comes to that. We have also learned how to build better trellises and how to get more air and light to our grapes. That has been reflected in the marketplace: 65 per cent of everything we grow goes overseas because consumers there want to drink it.

The problem—and I will finish on this—is that those investments in improvements have not been rewarded or recognised in any way. Despite making those improvements, from which the rest of the industry has benefited, we have seen a continuing decline because we have too many vines in the ground; that is the only reason. I am sure the wineries would love to pay us 60c for every bottle of wine that we produce irrespective of what the customer pays but for the time being, whilst the pressure is so intense and whilst that pressure is being maintained by the oversupply, that is not likely to happen. We do not think the adjustment from 35c to 60c is huge; the same formula would apply if you got \$600 a tonne—that is 60c for each bottle. But this year a lot of growers who sold wine grapes that were going to export were paid \$150, and then they had to pay the freight to get the grapes to the winery. They were getting 10c out of a bottle of wine that someone somewhere in the world was paying Lord knows what for.

Senator FERRIS—That is a pretty frightening statistic, isn't it? So it is only 10c.

Mr Byrne—It is a bloody appalling statistic when you look at the potential impact on this industry of the fact that, while the investments that we have made to improve our position in the industry have led to tremendous growth, there has been no reflection to us in terms of the return on our investment. The industry wealth that we have increased has been redistributed somewhere else in the chain. I am not saying it has been redistributed to the wineries. It has gone elsewhere in the chain.

Senator FERRIS—This morning we had some evidence from Peter Lewis. He was suggesting that regions ought to get together and market regional brands. He used the example of the Limestone Coast. He suggested that those in this area ought to get together and produce a Riverland brand. I had planned to ask Bill Moularadellis this question a bit later, but I will ask you: how would your industry feel about that? I remember when there were nine brands of oranges coming out of the Riverland, and I think now you have a Riverland brand. Peter Lewis was suggesting this is one answer to the problem and the marketing difficulties. How would you feel about having a Riverland brand, rather than having all of the smaller brands?

Mr Byrne—There has been some support for the notion of a Riverland brand in recent years. Our view as a growers organisation—and I think to some extent we have been successful in this—is that we have wanted to lift the image of Riverland but not necessarily have Riverland identified as a regional brand that people must buy because it is like Coonawarra or Barossa. Rather, if we lift our image then that lifts our whole sense of self-esteem and worth as grape growers, and we do want to belong to the industry. We know that what we grow is basically south-eastern Australian. Interestingly, there is more and more cleanskin now appearing around the country. There are plenty of examples of it having a label that actually says ‘Riverland Shiraz’ or ‘Riverland Petit Verdot’.

ACTING CHAIR—Are you saying they are not as good as Coonawarra?

Mr Byrne—No, we know we are better than them, because we get paid more than them.

ACTING CHAIR—What is wrong with Riverland? Is Coonawarra sexier?

Mr Byrne—There is nothing wrong with it, but people who buy our product are overseas and they could not give two figs where the grapes are grown.

ACTING CHAIR—Does it work for Coonawarra?

Mr Byrne—It has worked for Coonawarra and it has worked for McLaren Vale and Barossa Valley. Clare Valley is another one.

Senator FERRIS—But there is no Coonawarra brand. There is Limestone Coast, which is part of the Coonawarra.

Mr Byrne—But you have to also get it into context. As I say, we grow in this one region more than half this state’s grapes. There are 14 regions in this state. We have achieved our success by hitting those export markets. The other regions are far more inclined the other way, and you can see it reflected in their volumes. Adelaide Plains grows 7,000 tonnes. That is terrific but it is not going to make or break the industry.

Senator FERRIS—But that is a niche market.

ACTING CHAIR—Before I go to Senator Stephens, who is going to get a full go at her questions, could I just make two observations about the 35c extra in the glass or bottle. In the wool industry, there is between one and 1.5 kilograms of wool in a suit length, which is worth about \$4 to \$10, and the suit length is worth from about \$600 to \$1,000. But you will never convince the wool buyers to give us another \$4. There is a bloke up at Braidwood who was in the paper the other day because he was shooting his sheep. I rang him up and asked, ‘Why are you shooting your sheep?’ He said, ‘Because the sheep buyer came out and said he would give me \$5 for these, he’d give me nothing for these but he would take them off my hands. Rather than set the market to giveaway prices’—which is what happened in the seventies and eighties—‘I shot them so he couldn’t get them for nothing.’ Should you ‘shoot’ your grapes?

Mr Byrne—That is not a lot different to what a lot of us have done this year. Those who have been able to afford to this year have refrained from selling their grapes at those opportunistic prices. There have been a lot of grapes this year, in most regions, either left on the vine or put on the ground. But the opportunists—the predators—come to the growers who have sold nothing and say, ‘How lucky are you. I am going to offer you \$150 a tonne for your beautiful old shiraz’—or whatever it might be. That grower has already spent 12 months spending money to grow those grapes and has no way of paying the cost of growing, let alone having any sort of money for living expenses, so they say, ‘Just take it. I hate you, but take them.’ Whereas the other grower will say, ‘Bugger you, I’m leaving mine on the vine’ or ‘I’m going to throw them on the ground.’

Senator STEPHENS—Gentlemen, can I take you back to your evidence to Senator Buckland and the discussion about the Trade Practices Act as a starting point. You made the point that you have not been able to use the Trade Practices Act because the amendments, which have been through the House of Representatives but are still before the Senate, have not been passed. That is basically what you said.

Mr Byrne—That is the Dawson recommendations. We understand they are going through this session or next session, though.

Senator STEPHENS—Yes, that is right. To what extent do you think passing those amendments in the Senate will address the issues that we have been discussing today?

Mr Byrne—I think it will make a difference in as much as it will make the whole process of collective bargaining much easier because, instead of having to go through the tedious process of application, it will now be through a process of notification. Under the old method, I think there was a \$7,000 payment up front that had to be made and then there was, according to my detailed discussions with the ACCC, a likely period of about six months before you may or may not be granted approval. Under the notification process, I think it is reduced to \$300 as a notification and there is still the consultation process that takes place between the parties, but it will enable growers who have a reason for seeking to collectively bargain to do so far more readily and, possibly, effectively. Only through the exercise of that right will we as growers be able to measure the benefit of it. It will be a way of improving our position in some cases. But, as I said, it will not be the panacea to all of our woes. We prefer to continue down this path of trying to

find some unity amongst our relatively small industry so that we can represent ourselves as one industry in Australia, not as the 'us and them' sort of scenario.

Senator STEPHENS—Thank you for that. It is very helpful for us to understand those sections of the Trade Practices Act that are most likely to assist you in your industry. The other issue that I wanted to pursue briefly is some of the fairly emotional evidence that we have been given through this inquiry. It was actually reflected quite well by Commissioner Martin when he spoke here last year at the meeting. He raised issues like the complaints that have been received about unreasonable quality standards being set for fruit which, having not been met, means the wineries are able to pay less for their grapes. Is that the experience of growers in the Riverland?

Mr Byrne—It varies from winery to winery. The most significant issue in terms of quality assessment is that there is no standard that says, 'This is an A grade, this is a B grade, this is a C grade.' There are myriad different quality standards or criteria that are identified. That is one aspect of it. Then there is the measurement of quality and the instruments that are used for measurement. We know that measuring for trade is regulated by law, under whatever it is—the measurements act, or weights and measures or something. We have been working with legal metrology in our liaison group to try and bring about some sort of standard or have standards recognised. If you are going to be measuring for colour and that is going to relate to payment, then surely there must be a standard protocol for taking samples and a standard instrument for measuring those grades. There are no such standards, which leaves us vulnerable as growers.

Many of us have had the experience of supplying more than one winery with, effectively, the same grapes and having them assessed quite differently. That is perfectly valid under both supply agreements, because quite often they are not contracts, but it is also terribly confusing and leaves the growers, as I say, in a very vulnerable position. Many of the dollars per tonne amounts that we are paid are not determined until this time of year. It is four or five months since we picked. Despite the quality achievements that we may have made back in February, March and April, we are just now getting our gradings that are saying, 'This is how you are going to be remunerated for that 12 months work you did leading up to the vintage.' We think industry could work together to agree on standards. It boils down to commonsense. Our experience with winemakers thus far is that, when we discuss and debate for long enough and hard enough, commonsense tends to prevail in the end.

Senator STEPHENS—How close do you think you are to getting some kind of a quality measurement?

Mr Byrne—If we can continue down this path, which the inland regions are driving, towards having a federal body, I think we could get some consensus about endorsing the standards contained in this publication within 12 months. There is a lot of work that would need to be carried out in collaboration with the research organisations for the industry so as to agree what are the appropriate protocols, methods and instruments for measurement. That would probably take another three, four or five years. It is not going to resolve our current financial dilemma but it is going to give us a much stronger platform to work on in the future.

Senator STEPHENS—There was some anecdotal evidence given to us about growers' contracts with wineries being unfavourably amended under the threat of not having future contracts. We have spoken already about contracts that have expired and not been renewed, but

is that something that you are aware of: people's future contracts being threatened because people are reluctant to accept unfavourable changes to existing contracts?

Mr Byrne—Indeed. There are many growers who have felt intimidated to the point where, no matter how adversely they were being affected by their supply arrangements, they felt they had no option but to accept those arrangements. In a period of oversupply such as we have been in, if you say, 'I don't accept those conditions or that price,' there is no alternative. Bear in mind that we generally find out what prices we are going to be offered from about the middle of January through to the middle of February. In many cases this year, growers were picking grapes before they had had a final offer. You cannot slow down the grapes; they are a perishable product, they must come off and they must be processed. That is undesirable and it is also unfair because it does not give the grower any opportunity to manage risk. It tends to lean the other way. The further into the year it gets, the more the other parties know about what is happening in the marketplace and they can adjust their risk. That process of adjusting risk under the current supply arrangements is something that must be addressed.

ACTING CHAIR—So can they predict that with future currency and a bit of an estimate of the harvest, or do they like to—

Mr Byrne—It is not so much about future currency: it is about what is happening with the wine from Chile and South Africa and how they are doing in that UK and the US.

ACTING CHAIR—But when it comes to January and everyone from the lovelies to the uglies is starting to think about the price they are going to give you, do they look over each other's shoulders like the bookies?

Mr Byrne—They certainly do. I am not suggesting that they would be colluding, but they do, I guess, reasonably assess one another's position and those positions are then reflected in the offers, which quite often come very late in the year as far as growers are concerned if they are going to manage their risk.

Senator STEPHENS—In terms of the growers' contracts, can you explain to me what is meant by contracts that refer to average regional prices and how that actually operates?

Mr Byrne—Yes. Those contracts used to be fairly common, or at least there were a number of them in the region. They actually worked quite well during the days of better balance between supply and demand. But, increasingly, we know the whole system is flawed because, if you are to arrive at a regional average that implies that you have got to know what everyone in the region is paid. So if someone is going to wait until everyone else is paid and then pay the average it is a bit screwy. I guess the way it was used was considered to be fair because there would still be consideration included in the offer, therefore making it a contract. There would be a price. The mention of the district weighted average price would be in the sense of saying, 'We will pay you this price, which is our offer price, or the district weighted average, whichever is the greater.' So there was reasonable opportunity there for growers to measure the risk. But, increasingly, the opportunity for wineries to know what the district weighted average was was blurred because they are not allowed to know what other wineries are paying and so they cannot possibly estimate what the district weighted average is going to be.

Senator STEPHENS—This is my final question. Going back to your dot point submissions that we received earlier on, you make a point about growers' ongoing status as unsecured creditors. Is that something that you would like to elaborate on?

Mr Byrne—Indeed we would. I guess most understand that when grapes cross the weighbridge ownership is vested in the winery. The reason for that is that the grapes change their form soon after they cross the weighbridge. They are crushed and they become wine, and so how do you attribute these grapes back to Richard Dolan or to Chris Byrne, for example? It is very difficult to do. We understand that. Some of you are probably familiar with the failure of a number of processing organisations, whether they be wineries or canneries or whatever in this region. It seems that the primary producer's product has gone across and been processed and then the company has failed or gone into receivership and been wound up and the secured creditors are all satisfied. The unsecured creditors—the growers—are left dissatisfied. Probably the most recent case here is the Normans case, where the growers were left with, I think, about \$11 million owing to them. The growers thought it was a little unfair that their grapes were converted into wine, the wine was sold, and the bank received full payment.

We also cite the example of the tank maker, who could have delivered a tank to the winery the day before they were wound up and could then go and re-take possession of the tank. But we cannot go and re-take possession of anything: it has been converted into wine. So those growers who were, as it were, duded back in 2001 are this week about to receive 27c in the dollar, less the preference payments they received up front, if any, for grapes that they sold back in 2001. That is an outcome that has at least got some payment for the growers. There have been many cases where there has been no payment. So the question of ownership being vested in the winery is the one that needs to be raised. Is it really valid? Is it really achieving what it is intended to achieve—is it really fair? Our view is that clearly it is not fair. We think that a tonne of grapes is worth just as much as a steel tank.

ACTING CHAIR—You are blowing in the wind with that. I can give you any number of instances of insecurity. The Shepherds Producers, which is a grain growers' organisation—

Senator BUCKLAND—That does not mean that they should not push for change.

ACTING CHAIR—I agree with you, Senator Buckland. The Shepherds Producers were buying grain and as soon as they bought the grain that producer lost it; it was sitting in a heap. Then a fertiliser supplier in the district sold to the farmers—the paperwork went through the Shepherds Producers—\$2 million worth of super, which his trucks delivered to the farmer. It had nothing to do with Shepherds Producers, but it became a debt and he lost his \$2 million when Shepherds Producers went belly up. The law is the law. The only way to secure that is to have an offset security system.

Mr Byrne—Which is equally unlikely.

ACTING CHAIR—Finally, all these small grape farms around here, what were they before?

Mr Byrne—The majority of properties in this region were sold as settlement properties after the first and second world wars. They used to be known as fruit salad bowls because they would have some stone fruit—apricots and peaches—and some citrus and grapes. They had a year-

round income. The wine grapes in this region were originally more table grapes or drying grapes. I suppose in the last 30 years there has been a shift towards wine grapes because the major players in the industry realise that their profitability is coming from export sales, it is not coming from regional varietal products at higher prices. Their bottom lines are being derived from this region. So there has been a significant shift towards wine grapes as the predominant product.

ACTING CHAIR—So if I had a 25-acre grape farm here and I put up a ‘for sale’ sign tomorrow, would it sell?

Mr Byrne—It depends on what you want for it. It would not sell at a price that you thought was fair and reasonable; no way. There is any number of them available at the moment. If you would like to buy one, you could nip out and grab one tonight, if you are prepared to pay for it.

ACTING CHAIR—The unfortunate part about it is that just down the road from where I live at Junee, three or four years ago a bloke put 600 acres of grapes in there. He runs cattle and sheep with it.

Mr Byrne—Is he expecting a return on that?

ACTING CHAIR—That is his concern and not mine. I am very grateful for your time here today. Thank you very much.

[4.44 pm]

MOULARADELLIS, Mr Bill, President, Riverland Winemakers Association

ACTING CHAIR—Welcome. Would you like to make an opening statement?

Mr Moularadellis—Thank you for the opportunity. Looking at the terms of reference that you have provided, the most important elements are to get an understanding of where this wine industry sits in a global perspective, to understand the present predicament that we are facing in terms of a cyclical context, to provide perhaps some insight as to the predictability of the current position as a result of significant plantings in the past and to give some sort of overview as to what the likelihood is of this situation easing.

Essentially the wine industry is an international industry. The Australian wine industry has had tremendous growth and success over the last 15 years particularly and that has been driven particularly by export markets. There is enough evidence and enough information out there to chart the success of the wine industry. A large part of our success is because of our very competitive nature. As a result of some very determined producers who were able to harness the value of their brands internationally, Australian wine sales grew significantly internationally and that provided a significant impetus to new plantings as a result of large sales and very high prices. You can see very clearly that the price of grapes very much determines the amount of plantings and that that relationship is very clear.

The wine industry by its nature is a cyclical one not only here in Australia but worldwide. There have been a number of papers written on the manic-depressive wine business and it is very clear that for the wine industry from peak to peak and from bottom to bottom there is on average 8 years between each of these cycles. That has happened not only here in Australia but in California and in Europe, and any observer of this industry can predict with some degree of certainty the likely price and the likely market supply and demand situation that will occur as a result of any one of these cycles. We have very high prices that spur increased plantings. Those plantings then come on stream after a lag. The prices are very high. Supply increases. That supply then needs to be absorbed, prices drop, plantings slow, that supply is absorbed and the cycle then continues.

ACTING CHAIR—We had a fair bit of evidence on all this this morning.

Mr Moularadellis—Okay. I guess if you were looking for some specific information in terms of the position of the Australian wine industry at the moment, the bulk wine position is a very good barometer of the market. At the present time there are between 180 and 200 million litres of bulk wine available on the market and it is very good indicator of the supply-demand balance.

ACTING CHAIR—So 180 megalitres of wine.

Mr Moularadellis—That is correct. By simply getting in touch with a number of wine brokers you can identify the quantity and regionality of the wine, whether it is white or red. At this point in time about 23 per cent of it is 2005 vintage and about 77 per cent is older vintage.

Most of the wine, 76 per cent of the wine, is from cool climates or premium regions and 23 per cent is from warmer climates. These numbers are a little bit surprising in that there is a percentage that the lower value wine is in surplus. That is not the case. Prices have been very depressed and that has led to a significant uptake in the lower priced wine and some more expensive wine has been harder to move. The international market has been very volatile, and with decreasing supply from particularly Chile and California Australian wine is now making significant inroads and even greater inroads, and we expect this bulk wine surplus to clear in the next three or four years.

With respect to the second part of the terms of reference, if you look at the structure of the industry and between growers and producers, one must understand that the relationship between a grower and a winemaker is very similar to that between a winemaker and his customer, the retailer. The retail environment is becoming much more consolidated and power is shifting away from the producer to the retailer. Many producers are seeking to even the balance of power by merging, but the pressure is very much being driven by the retailers' demand for higher margins. It is not only an Australian effect, with the two large groups here, but it is a global effect. The German market is the most consolidated market in the world, closely followed by the UK market and then Australia. The most fragmented is the US market. Gravity will continue to ensure that consolidation continues and, if you look for a solution, you are looking for people who are able to respond to that consolidation and who are able to compete effectively internationally.

Our customers are international customers; they are not necessarily here in Australia. Our fortunes are not about where we sit domestically but how we can compete with producers in the Old World in particular. The same pressures that are being faced by Australian producers are being faced by growers in France. You can see, from various media reports, the acute pressure that those growers are facing as a result of their exports being reduced, and they are very clearly pointing the finger at Australia as being the culprit. Our success is a cause for anxiety for those producers who are generally smaller and less efficient, and Australia has shared in the spoils of those market share gains. From our perspective, we are now facing some similar anxieties.

The third part of your terms of reference is:

The adequacy of the terms and implementation of the *Trade Practices Act* ...

It is very difficult to have a winemaker agree to any sort of pricing mechanism and the growers are always looking for some sort of pricing stability. A winemaker can only provide pricing stability if it is offered to them by their customers, and that just does not exist. Winemakers have no contracts with their purchase of wine, and it is the free market that allows Australia to be successful in that we have responded very quickly and we continue to respond to the changing market demands. That has allowed us to be very successful internationally. From the perspective of having some sort of mechanism of ensuring a return to a grower, that is very difficult.

ACTING CHAIR—I will have to halt you there. Market consolidation always works backwards in that the poor bastard who is growing whatever it is pays for it in the neck eventually.

Senator BUCKLAND—Can I establish, Mr Moularadellis—I suppose I should establish whether I have got your name right.

Mr Moularadellis—It is Bill.

Senator BUCKLAND—That is a bit easier. Who employs you? I know you are representing the Riverland Winemakers Association, but who actually employs you?

Mr Moularadellis—I am the proprietor of Kingston Estate winery.

Senator BUCKLAND—So you produce wine and grow grapes?

Mr Moularadellis—That is correct.

Senator BUCKLAND—And you also buy grapes in?

Mr Moularadellis—That is correct.

Senator BUCKLAND—What is the nature of the contracts you have with the growers?

Mr Moularadellis—They are agreements to offer a market price, and essentially the contract allows for a negotiation of pricing based on the market conditions in any year.

ACTING CHAIR—Are you a friendly or an ugly?

Mr Moularadellis—I am probably an ugly one!

Senator BUCKLAND—These agreements or contracts, or whatever you like to call them, are they signed by both parties?

Mr Moularadellis—They are.

Senator BUCKLAND—And they are legally binding on both parties?

Mr Moularadellis—Absolutely.

Senator BUCKLAND—If there is a dispute halfway through the process, that is, you are reviewing your position halfway through the season, or if your buyers—I guess they would be retailers—say, ‘We are not going to give you what we gave you last year, we cannot get rid of the stuff,’ does that give an automatic right on your part to vary the terms of the contract you signed earlier?

Mr Moularadellis—Not at all. All of our contracts are a meeting of minds. If there is a change in the market environment, the person who is signing it has to be bound by that.

ACTING CHAIR—Do you have some contracts that are tighter than others?

Mr Moularadellis—We do not contract all of our production. That is what gives us the flexibility.

ACTING CHAIR—Yes, but what I am asking is, with the part that you do contract, are some tighter than others?

Mr Moularadellis—No, they all—

ACTING CHAIR—Do some have better lawyers than others?

Mr Moularadellis—They are all similar, as I recall.

ACTING CHAIR—Do you want me to disprove that for you?

Mr Moularadellis—Perhaps you could ask your question again.

ACTING CHAIR—When you take a contract, are there various versions of the contract: are some tighter for the grower and some tighter for you?

Mr Moularadellis—I guess the market at the time of signing determines the terms by which those contracts are more favourable either for the grower or for the winemaker. In a position where the market is very short, winemakers will agree to terms that perhaps they will not agree to when the market is long. That is a function of a number of wineries that are wanting to sign longer-term contracts in this environment.

Senator BUCKLAND—You told us that you have no contracts with the buyers of the wine that you have. They just come in and say, ‘We want X number of cases of wine.’ How does that change the price of things for the growers?

Mr Moularadellis—It does not.

Senator BUCKLAND—If they are getting 35c a bottle—which we have heard evidence of this afternoon—what would the wine producer be getting per bottle?

Mr Moularadellis—You only have to look at the public companies, and the rates of return that they are making on their assets, to be able to see that the industry is under significant pressure.

Senator BUCKLAND—Some of us do not read these reports of a night before bed. I do not look at all the public companies, only the ones that I am particularly interested in. I am not saying that to be insulting; I am interested in the wine industry. If I were to look at one, what would I find?

Mr Moularadellis—Every producer has a different franchise and a mix of product that goes into various brands. The stronger the brand, generally, the higher the market premium and the higher the profitability. There is a difference between commodity wine and branded wine. Generally, the higher and stronger brands attract the higher margin and premium. The retailer, on the other hand, is looking to reduce the equity of the brand, and so the retailer has more of the margin available from any particular retail spend.

Senator BUCKLAND—This morning we had some graphs given to us by the Winemakers' Federation of Australia. One of them had the various sections of wine production set out, from the type of stuff that Geoff Buckland drinks, the under \$10 middle of the road stuff, right up to the premium wines which are not making much impact. Do you have a full range of wines that your company produces, from my type of stuff right up to the top?

Mr Moularadellis—We sell wine anywhere from \$20 a case, or even less, up to over \$120 a case. You could say that of most major companies in this country.

Senator BUCKLAND—At \$20 a case, the grape grower is getting 35c a bottle. Is the grape grower still getting 35c a bottle from the case you sell for over \$120?

Mr Moularadellis—No, they are not. I guess the relationship between the quality and the price is driven very much by the demand for a particular quality level of grape.

Senator BUCKLAND—Can you tell us the difference between a \$40 or \$50 bottle of wine? How much per bottle would a grower be getting?

Mr Moularadellis—Off the top of my head, it is very difficult to do that calculation. But if you assume that \$200 or \$250 a tonne is the equivalent of 35c a litre, you can make your own calculation. If you assume that the top end of the wine market is \$1,600 or \$1,800 a tonne, you are looking at a cost of production that is in excess of \$2 a litre. You can draw your own conclusions. The most expensive wine that is produced generally sells for anywhere between \$1,000 and \$3,000 a tonne.

Senator BUCKLAND—The grapes are picked by machine or by hand, thrown in the back of a truck and taken off to a winery. How does the grape grower know exactly what type of wine his grapes are going into? Is it because you tell him that they have gone into cardboard boxes or is it because you tell him that they have gone into top-of-the-range bottles?

Mr Moularadellis—I am trying to understand what the end point is of your line of questioning.

ACTING CHAIR—I suppose he is asking whether they get sampled, like a load of wheat does, when they hit the deck.

Mr Moularadellis—Yes.

Senator BUCKLAND—I want to know how they know if they are getting the right price for the grapes they have delivered to your door.

Mr Moularadellis—Because the market is such that there is enough competition out there and if there is a grower of very high-quality grapes there will be significant demand for that individual grower's fruit from other competing winemakers. There is enough winemaking activity out there so that if the quality of someone's grapes is significantly in excess of the average that fruit is sought after. Look at the way the market operated when there was a shortage of grapes. There was a high degree of activity in seeking the very best grapes. It is only now,

when there is a significant oversupply, that there is a perception that the winemaker may not be providing the full return.

When you look at the number of write-downs that the industry has endured over the last five years, it is very clear that a high degree of value has been ascribed to grapes in the past that perhaps has not been realised out in the marketplace. I draw your attention to the fact that most major companies in this country over the last five years have had significant write-downs of grapes. One major company that is no longer owned by Australian interests honoured its contracts and paid the growers what was due under those contracts. As a result of that, it wrote down in excess of \$60 million and is no longer owned by Australian shareholders; it is part of a multinational. There are numerous other examples of large companies, medium-sized companies and small companies that have paid significantly high prices for grapes based on the market at the time and then have had to write stocks down. A number of companies have enjoyed significant write-downs as a result of that.

Senator BUCKLAND—Could you give me your view of the joining of the wine federation with the grape growing sector?

Mr Moularadellis—I believe that the winemakers and the grape growers have quite a bit in common. We are all in one industry. It is very difficult to have commercial interests represented by one party. We certainly support the standardisation of contracts so that certain terms in those contracts are addressed. I believe that there is significant advantage in standardising the specifications for wine.

Senator STEPHENS—How many members make up the Riverland Winemakers Association?

Mr Moularadellis—The Riverland Winemakers Association is an organisation whose function has been taken over by the non-political Riverland Wine Industry Development Council. All of the funding and all its marketing initiatives are now directed through the Riverland Wine Industry Development Council. The Riverland Wine Industry Development Council is not a political organisation. Hence, any issues that have any element of difference of opinion between winemakers and grape growers would not be addressed by that body. I am here representing the Riverland Winemakers Association.

Senator STEPHENS—Oh sure; I just wondered how many people were actually in your association. How many wineries make up your association?

Mr Moularadellis—All Riverland wineries are members of the Riverland Winemakers Association.

Senator STEPHENS—How many is that?

Mr Moularadellis—There would be about a dozen, eight to 10.

Senator STEPHENS—Okay. You were saying that many of the functions formerly undertaken by the association have now been taken over by this new organisation.

Mr Moularadellis—That is right.

Senator STEPHENS—So what does that leave you to do?

Mr Moularadellis—Very little. We are an organisation that generally responds to marketing-type initiatives and to issues that have specific interest to the Riverland.

ACTING CHAIR—Should the other crowd have fronted up here today?

Mr Moularadellis—That would have been the preferred course, but those interests are being represented by the Winemakers' Federation and by the winegrape growers association.

ACTING CHAIR—Did you ask them to turn up?

Mr Moularadellis—It was resolved that the Riverland winegrape industry would not present.

ACTING CHAIR—Is there a reason why?

Mr Moularadellis—I guess it is seen to be a political—

ACTING CHAIR—That this is a political exercise?

Mr Moularadellis—Yes.

ACTING CHAIR—Do you think so?

Mr Moularadellis—Well, clearly it is a political exercise.

ACTING CHAIR—We do not think so. We are a unique committee that does not play political games with people's livelihoods.

Mr Moularadellis—I do not have a view on that.

Senator STEPHENS—Well, having expressed that view, that you have no view, you have had the opportunity to listen—

Senator FERRIS—To be fair, on that issue—

Senator STEPHENS—Yes, on that issue. In terms of the concerns that were raised here this afternoon, did you attend the forum held here last year where the commissioner from the ACCC attended?

Mr Moularadellis—No, I am sorry I did not.

Senator STEPHENS—Have you had an opportunity to look at the other submissions to the inquiry?

Mr Moularadellis—I have read all of the submissions that were available as a result of that inquiry, yes.

Senator STEPHENS—What do you make of the concerns and complaints that were raised by growers with the ACCC about the way that they were being treated: did you think that they were legitimate concerns?

Mr Moularadellis—Clearly they were being motivated by a perception that pricing was lower than was sustainable, and that is consistent with being at the bottom of the cycle. I can understand the frustrations and concerns. We, as a producer, also have the same concerns. I believe the market will rule and that whatever structure is put in place the market must be allowed to continue in an unfettered way.

ACTING CHAIR—How much has it come back for grapes, now it is at the bottom of the cycle?

Mr Moularadellis—Price wise?

ACTING CHAIR—Yes. Has it halved?

Mr Moularadellis—If you look at average pricing, it has not dropped as much as the maximum price versus what the minimum price is now. The lowest prices paid for grapes this year are significantly below the cost of production and significantly below sustainable levels.

ACTING CHAIR—Is that because the uglies, as it were, realise that when you are in this part of the cycle you only need to tie up, say, 50 or 60 per cent to a contract and fish for the rest at the sort of ‘bunny end’ of the market, so you can drive the screwdriver in a bit further, and that sort of averages your—

Mr Moularadellis—Senator, your—

ACTING CHAIR—That is fairly provocative. I invite you to be provocative.

Mr Moularadellis—Your assessment of the behaviour of the wine market is emotive. You should also take a look at how the wine market operates with a winemaker’s customers.

ACTING CHAIR—I am coming to that in the moment. Anyway, it is halved. What is it halved to, to you as the producer?

Mr Moularadellis—I am trying to get a relativity of what you are trying to get—

ACTING CHAIR—Well, the grape grower is taking a lot less for his grapes. How much less are you taking as a producer?

Mr Moularadellis—Significantly less. When you look at the last 15 years, winemakers make most of their money when grapes are short and grape prices are high. The only reason winemakers are not chasing grapes is they cannot sell them.

ACTING CHAIR—How much is the market depressed?

Mr Moularadellis—If you look at this region, you see that shiraz prices five years ago had peaked at \$1,200 to \$1,300 a tonne.

ACTING CHAIR—I am talking about the wine. We know that the grape growers are getting it in the belly.

Senator FERRIS—Hang on. One flows into the other.

ACTING CHAIR—We know that the market for grape growers is seriously depressed. How seriously is the market for the wine in the bottle depressed? How much less do you get for your product? I just want a rough guess.

Mr Moularadellis—A rough guess would be 70 per cent to 80 per cent less.

ACTING CHAIR—That is all I needed.

Senator STEPHENS—With regard to the suggestion of passing the amendments on the Dawson recommendations, to what extent do you see that that will resolve the growers' concerns?

Mr Moularadellis—I do not believe that they will have any effect. The market will come out of this cycle in due course, grapes will be short again, the demand will be great and the value that grape growers receive will again increase. Whatever structures and mechanisms are put in place, they will not change the overriding market conditions. The market will always win.

Senator STEPHENS—Do you think there is any justification in suggestions that have come to us from different submissions about some kind of an industry restructuring or readjustment package?

Mr Moularadellis—There is absolutely no justification whatsoever. This industry is internationally competitive. It is vibrant and has tremendous further growth opportunities. We are just working our way through a supply issue which will clear itself in a couple of years and this industry will not look back. In the next 10, 20 and 30 years, we will see continued and sustained growth. All we need as an industry is the government to keep its hands out of it and let the market rule. We have significant opportunities internationally. We are a very efficient industry and we do not require any assistance whatsoever. What we do require are mechanisms for free and open market information flowing back to all sectors of the industry. But, with regard to formalised structures, contracts and things of that nature, the market will always find its own and will always win.

Senator STEPHENS—How do you see that the industry can deliver productivity gains such as have already been delivered in the Riverlands, as we heard this afternoon, but have obviously not been delivered in other regions if there is not some kind of intervention and guidance by government in terms of standards and research and development, for example? Do you say that government does not have a role to play in any of that?

Mr Moularadellis—The government does have a role to play in R&D and all of these sorts of global issues but, with regard to anything of a commercial nature, the value that is ascribed to quality and the value that is ascribed as a result of supply and demand are market conditions. Industry organisations have a role to play with information and ensuring standardisation of parameters of quality and things of that nature but not to enable one part of the industry to have an advantage over another. Information and the flow of information are all the industry need.

Senator FERRIS—If you think that this is just a blip that will correct itself in two years or so—I think that is what you said—where do you think that correction will come from and how will it come about, given that it is generally accepted that the Australian domestic market is satisfied in terms of demand? Clearly it is going to come from export growth. Where do you think that export growth is going to be and what evidence do you have to sustain that two-year time frame?

Mr Moularadellis—When you look at the amount of wine that is available on the bulk wine market, which is the barometer for the fortunes of this industry, you see that the growth rate with which exports are growing is between 14 and 18 per cent. Plantings have stopped, there are no new plantings—

Senator FERRIS—But there are 100 new wineries every year.

Mr Moularadellis—The relativity of the number of wineries versus the total volume is irrelevant. We are selling 650 million litres of wine internationally in a year. The current bulk wine surplus is in the order of 200 million litres. If we reduced that by half, that is really only two months of sales.

Senator FERRIS—Yes, but it is not true to say plantings have stopped. They cannot have stopped if there are 100 new entrants into the market every year. The Winemakers' Federation gave us that evidence this morning.

Mr Moularadellis—There are no barriers to entry into this industry.

Senator FERRIS—And there shouldn't be.

Mr Moularadellis—Absolutely. Each entrant does so at their own peril or opportunity.

Senator FERRIS—I am not arguing that. I am saying: where do you think we are going to find these new markets so that this blip will be gone in two years time—which is what you said?

Mr Moularadellis—When you look at the Californian industry, which was facing a similar sort of predicament only a few years ago, that supply imbalance has corrected itself. The Chilean wine industry, which was facing similar sorts of oversupply and overproduction issues a few years ago, has corrected itself. The only major New World wine-producing country that is still in surplus is Australia. Anecdotal evidence of the number of buyers that are relocating retail shelf space away from those countries that have gone into balance—and into shortage—to Australia indicates that Australian wines, particularly at the trading or commodity end, will receive a significant uplift in volume. You only have to look at the number of particularly German supermarket buyers that were out in this country in the last few months to see the amount of

activity that is being generated towards Australian wine versus wine that would otherwise have come from California or Chile. International supermarkets are increasingly purveyors of varietal wines. These supermarkets are able to redirect shelf space away from those markets which are in shortage and direct it towards those supplier countries that have abundance of supply. Australia is the only New World country in that position.

Senator FERRIS—I hope you are right. Because we are running late and still have another witness, I will only ask you one final question. What do you say about the difficulty of cost of production for 10-hectare vineyards? You have lived here for a long time; you probably buy grapes from some of those people. Do you see there being a future for those people to continue to produce grapes, when their cost of production is significantly higher because of their small size? How do you see the Riverland as a wine producing area in five years time? Do you think those vineyards will continue to operate the way they do now?

Mr Moularadellis—There will always be structural change. I will answer your question in two parts. No-one has a right to exist; everyone has a right to compete and to offer a product that is responsive to the market. The French producers are facing similar sorts of challenges and are responding with subsidies, which we are certainly not advocating. The problem with many of the French holdings is that they are even smaller than the smallest Australian holdings.

Senator FERRIS—But they have the common agricultural policy to support them. I am not advocating it; I am just commenting on it.

Mr Moularadellis—You would not say that is a sustainable formula. What I would see as happening is that, as we come out of this cycle, there will be opportunity for some of those smaller producers to sell their properties and other wine grape growers to purchase those properties.

Senator FERRIS—You think that will happen. That is what we were talking to Chris Byrne about before. You think that is going to be the way that there will be structural change of those 10-hectare vineyards.

Mr Moularadellis—Absolutely; there has to be. These are not viable because the cost of production for people that have larger holdings is significantly less.

Senator FERRIS—There is an article in the *Wine Industry Journal* written by a fellow called Paul Clancy, who is a grape grower in the Barossa. He talks about there being a radical last resort solution of a funded vine pool scheme. What do you say to that?

Mr Moularadellis—There is absolutely no need for that. It would be a travesty if that occurred.

ACTING CHAIR—Finally, the grape growers are paying because we are in the bottom of the cycle. You are paying because we are in the bottom of the cycle. How much are you being screwed by the market consolidation of the retail? You might as well pass the blame all the way up!

Mr Moularadellis—I would suggest that the retailer has significantly more power than any producer and that producers have significantly more power than any grape grower. And so the natural consequence is for producers—wine makers—to get bigger to deal with that retail power, and the natural consequence must be that growers must get bigger.

ACTING CHAIR—There is this flow-on of the root-out, as it were, from the top to the bottom. If that is the case, is that a pretty even sort of screw effect that everyone gets in this part of the cycle?

Mr Moularadellis—Absolutely.

ACTING CHAIR—So why are there uglies and non-uglies on the producing side, with some companies that look after growers better than other companies?

Mr Moularadellis—It depends on their individual predicament.

ACTING CHAIR—Are you in a difficult predicament?

Mr Moularadellis—There are many companies that do not have the value of significant brands. If you have a brand, you can actually attract a significantly higher price in the marketplace and you can negotiate more favourable terms with the retailers than those producers that do not have brands that are mere commodity traders.

ACTING CHAIR—Is there any relationship between the brand and the quality of the wine that is behind the brand? In other words, sometimes is the label better than the wine—that is, it is just the reputation?

Mr Moularadellis—A brand very seldom has—

ACTING CHAIR—Like Billabong or something.

Mr Moularadellis—A brand generally meets an aspiration, and the value of a brand is generally attributed to how the consumer relates to that brand. It has less influence on the absolute quality of the product. As you would know, in anything else, whether you are a purchaser of fashion wear or any other staple, the brand generally creates the market.

ACTING CHAIR—It would be fair to say, though, wouldn't it, that most primary producers that get a contract with, shall I say, a large retailer—without naming any of them—usually rush home and tell their wives and go to the bank and say, 'God, we've won the lottery, we've got the contract.' And then, within three or four years they feel like cutting their own throat because every year the market consolidated retailer says, 'God help us, we've got to just trim a little bit off it this year and a bit off it the next year and the next year after that.' So is that what you know in full when you have a contract with a major retailer, that they are going to screw you eventually, and in turn you have got to screw the grower? That means it is just the market at work.

Mr Moularadellis—It is buyer beware. How would growers feel if the tactics used by major retailers in reverse auctions were employed in grape growing? That would be a most unfortunate

set of circumstances. Wine makers and producers are being forced to reverse bid for supermarket shelf space and those sorts of tactics would be totally condemned if they were applied in the grape growing industry, but they are the rules which the retailers are asking the producers to abide by. Every producer has the right to not partake in that, but the majority of retail shelf space is now controlled by two major groups here in Australia. Internationally, there are no more than 50 retailers that matter. So you choose to deal with these major retailers or you choose not to.

ACTING CHAIR—Thank you.

[5.25 pm]

DAMBERGS, Dr Robert George, Senior Research Chemist, Australian Wine Research Institute

ACTING CHAIR—Welcome. Would you like to make an opening statement?

Dr Dambergs—I do not really want to make a big opening statement other than to say that the reason I am here is to comment on some objective measures of grape and wine quality. I have already given you an outline of that. I should also make the point that, while I can comment on things we can measure, that may relate to quality, it is not really up to me to comment on how this can be used in a contractual way.

ACTING CHAIR—Thanks very much. Would you say that Australia's wine industry's qualitative measurement is up to world standards?

Dr Dambergs—Yes, definitely.

Senator FERRIS—I am interested in the extent to which some of the smaller grape growers are interested in improving technology and varieties and replacing vines. To what extent is it easily interactive to get those people to understand that they do need to be interested in product quality?

Dr Dambergs—You only have to look at the history of the way the Riverland has developed when, originally, it was not even a grape growing region. Certainly, the initial varieties that were grown here were distillation varieties. I guess it was the initial contractual things that encouraged them to convert over to more required varieties. It is a matter of supply and demand.

Senator FERRIS—Yes, but one of the difficulties is that, when the price is high, people are less likely to be interested in understanding the dynamic of the industry. They ship the grapes out the gate without worrying too much about it. When the price is low, they say they have no financial capacity to diversify. I am wondering what sort of commitment there is in this area to improve grape technology and so on.

Dr Dambergs—I cannot really comment too much on behalf of the growers, but the point you are making is fair. A lot of growers who had seen the cycles and knew that in the long term they needed to update their varieties did so, even when the prices were high. Admittedly, some growers may not have done that.

Senator FERRIS—I see that you are a past secretary of the Berri Agriculture Bureau, and you have developed and managed a 40-acre commercial vineyard for 20 years. I would have thought that you would have a pretty good comment to make on that.

Dr Dambergs—Yes, I could comment personally on that, but not on behalf of the Australian Wine Research Institute.

Senator FERRIS—I am asking you to bring some of that experience as well.

Dr Dambergs—Okay. In my own situation, I had a vineyard that was viable at the time but had non-required varieties and needed to be mechanised—that was a big thing. That was one of the big reasons why a lot of the vineyards were redeveloped. In the long term I realised that needed to be done, and a lot of other growers did as well.

Senator FERRIS—With the 10- and 20-acre vineyards, I am interested to know how you see their future. You quite rightly say that it is not that long ago that the Riverland was not even a wine grape growing area, but I am wondering how much of a future you see for those vineyards and if you could sketch a view of what you think this area will look like in five or 10 years time. Could you give us some indication of how you see that picture?

Dr Dambergs—I guess that, other than people who have outside income, as in my case, those sorts of properties will not be viable in the future. There has been a large degree of consolidation just in the last 10 years, with people buying out neighbours. People who could see what was going to happen were expanding. As Chris mentioned, there is not too much of that happening now because nobody really has the resources to do it. Every industry and every business has boom and bust cycles. In the next boom cycle I am sure that a lot more of the smaller places will be absorbed and consolidated as the opportunities arise.

Senator FERRIS—What are land values like in this area? Have they reflected the boom of other real estate values? For example, have those properties increased in value like the rest of Australian real estate?

Dr Dambergs—While the grape prices were booming they certainly did increase in value, but they have levelled off now, obviously.

Senator BUCKLAND—You talked about the quality of grapes. When I go into the shop and everyone has gold stars and bronze medals on their wine saying, 'We're the best going,' I find it difficult to really work out how they do it if they are all using the same grapes. What is the quality you are looking for? How do we assess that? If you have 40 acres and your neighbour has 40 acres and you are both growing the same grape, how do we work out the quality?

ACTING CHAIR—He is thinking about going into grape growing and he wants to get a few tips!

Senator BUCKLAND—No, I am not going into hard work.

Dr Dambergs—As I outlined in my submission, there are a few basic objective things that you can measure. Part of the mystique of wine is that there are flavours and different nuances that come out during winemaking that might be related to the yeast and are things that at the moment you cannot measure but determine the ultimate sensory quality of the wine.

Senator BUCKLAND—What about when there is a trend change? I was trying to remember the trends a moment ago. I can remember when every woman in Whyalla wanted a bottle of Cold Duck every now and again. I do not even know what Cold Duck is; I have not tried it yet.

If there is a trend change it must have some impact on the growers. Does quality come into that? Can you use the same grape for more than one sort of wine?

Dr Dambergs—Certainly the winemaker has some freedom to change the style they are making but, if there are drastic shifts in styles, their specification for the grapes becomes important as well. For example, with reds, at the moment we are looking at very high-alcohol, big, solid sorts of wines. You aim for a very high ripeness and high tannin and colour levels, but people might decide they prefer rose, so you go for a very light, low-ripeness, high-acid sort of fruit. The specifications you set for the fruit can help lead you towards that style.

Senator BUCKLAND—As Senator Ferris was successful in getting you to wear more than one hat here, can I ask what would be the minimum size vineyard you could have to not require an off-farm income and be not sustainable but profitable?

Dr Dambergs—That is a very hard question. It depends on what you are being paid. If you are very efficient, 20 hectares may well be enough.

Senator STEPHENS—Dr Dambergs, you have heard the evidence this afternoon, so you would know we had quite a long discussion about the document that has been produced, *Winegrape Assessment in the Vineyard and at the Winery*. I see that part of the reference list refers to some work that you have done. Obviously, you are part of that industry. The issue of quality is perplexing us as a committee: how you define quality, how you determine what quality actually means. Are there some aspects of quality that are intrinsically unmeasurable, or do you think we can be objective about most of the industry standards that are required?

Dr Dambergs—I guess the unmeasurable is that final sensory event that the customer has. We can define a few things that will actually give you a high probability of producing that type of product, but that sort of thing can be fairly hard to define. We are getting closer and closer, with very complex analysis, to breaking down all the different compounds and analysing them but, because there is such an enormous mixture of compounds that interrelate with each other, it is very hard to work out some sort of scale.

ACTING CHAIR—How much of it is in the mind, in the steak and in the music?

Senator STEPHENS—Yes, the ambience.

Dr Dambergs—A lot of it is that, I guess.

Senator STEPHENS—And the company.

Dr Dambergs—That is why we do our sensory assessments in a very sterile environment. You sit in a little booth with a yellow light, nobody on either side of you and no music.

Senator STEPHENS—In terms of the work that you are doing, do you think that getting to a stage where you actually have some kind of scale for measuring quality will help to resolve a lot of the disputes between the growers and the wine makers?

Dr Dambergs—Sure, but, as I mentioned earlier, wine is not like sugar syrup or raspberry cordial or Coca-Cola. It is not like a standard product. Every wine maker has got their own little style or might have a number of different styles, so it is very hard to come up with some sort of universal formula. We can set some specifications for some very broad things.

Senator STEPHENS—Concerns as to quality are raised quite strongly in the South Australian Farmers Federation submission. It talks about the tension between growers and wine makers. One of the issues concerns the weight given to quality assessments of a particular vineyard or a block made in previous years. Once the block or vineyard has produced grapes that have been assessed as low quality, it is difficult it is to get that quality reappraised. Do you see that as a broad issue in the industry?

Dr Dambergs—I could not comment for wineries, but a lot of people do use history as a clue to the quality of the fruit and how much they pay for it. We are aiming to have objective measures so that history does not come into play so much. You might use history to help you select certain vineyards that you might parcel together, but ultimately what we would really aim for would be something that you could objectively measure in that batch of fruit from that year.

ACTING CHAIR—So when you rock up to the weighbridge now, do they take a sample and objectively measure what is in the load?

Dr Dambergs—Yes. The classic example is something that everybody uses, something they are all happy with now: you just measure the sugar. There is an objective measurement for that. There are now good engineering solutions for the sampling and measurement.

Senator FERRIS—Do you think there is much of a market opportunity for the development of low-alcohol wine? Do you think low-alcohol—or even no-alcohol—wine might present a significant new market segment that may raise the intake of wine in the domestic market?

Dr Dambergs—This was tried probably 10 years ago.

Senator FERRIS—Yes, and the wine tasted terrible.

Dr Dambergs—That is right.

Senator FERRIS—But there is still a lot of research going on into low-alcohol wine. If you were looking for a significant new market opportunity to increase domestic consumption, would that be it or would that be one of the options?

Dr Dambergs—The trouble with things like that, say, low-alcohol wine—and the other area is organic wine and preservative-free wine—is that the customer actually expects to pay less for it, whereas the cost to produce a low-alcohol wine that has actually got the flavour of a normal wine would be higher.

ACTING CHAIR—And the steak would be tough and the music would be too loud!

Dr Dambergs—That is right.

Senator STEPHENS—And the company would be lousy!

Dr Dambergs—Unfortunately, alcohol does carry a lot of flavour as well, so it might not be possible.

ACTING CHAIR—So, as a connoisseur of fine wine: is there a difference between a \$4.99 bottle of red and a cask?

Dr Dambergs—You might actually have exactly the same wine in both products.

ACTING CHAIR—I was out at Griffith one day and there were all these drums of acid. What do they use acid for?

Dr Dambergs—They use tartaric acid to add to wine. That is like natural grape acid.

ACTING CHAIR—Thank you for your evidence, Dr Dambergs.

Resolved (on motion by **Senator Stephens**):

That this committee authorises publication of the submissions received and the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 5.40 pm