

Dear Sir/Madam,

Thank you for the opportunity to contribute to this necessary debate, the recommendations that emanate from the review and I trust their implementation. I have a unique combination of experience and independence, having worked across major wine business and medium sized privately held operations both domestically and abroad. Furthermore my representative experience at regional, state and federal level from both an executive and governance perspective provides me with great insight and understanding of the issues that matter. Finally now through my position and work with Evans + Ayers I am in a position of complete independence from any organisation, region or interest.

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

Market failure is a subjective matter, the current issues that the industry faces are not fundamentally a failure but rather an conglomeration of market forces allowed to go to extremes, well intentioned taxation being abused, extremely ambitious pursuit of volume growth and associated plantings, a polarised industry structure and unpredicted and for all intents and purposes uncontrollable external factors such as the GFC and prolonged high FX.

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

Excluding taxation, current federal and state legislative and regulatory regimes do neither materially support or inhibit the production, processing, supply chain logistics and the marketing of Australian wine. Minor matters such as the lack of universal recognition of state based responsible service of alcohol accreditation add unnecessary frustration, whilst restrictions on the transport of grape matter predominantly in SA to ensure its phylloxera free status and the preservation of globally unique genetic material are necessary. The importance of the wine industry through its direct economic contribution at a national and regional level is recognised and increasingly its input to the national food and wine tourism push has reinforced its value across broader channels. The impact the wine community could have is arguably not fully leveraged particularly in South Australia due to inadequate levels of focus and funding. That however is a subjective matter to which the industry needs to respond by mounting its case for legitimacy.

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

The issue of profitability is one that needs to be addressed throughout the value chain, not limiting the discussion to one end. Growers, producers, distributors and retailers are all feeling effects of the market dynamics which have shaped the industry over the last 10 - 15 years. Most steps over recent times taken by industry participants to enhance profitability have focused on reducing costs, finding investors or downsizing. Examples of innovation led profitability development exist, but are few and far between as very few operators have the appetite or resource to be speculative. The rapidly expanding area of on line and direct to consumer sales remains attractive for operators large and small, however the level of understanding and ability to dedicate appropriate resources to develop, communicate and manage this route to market is equally limited. Furthermore the impact of retailer consolidation is felt equally in this space as in bricks and mortar, as no operator has the capacity to compete on convenience, range or price with the major retailers.

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

The WET rebate despite appropriate intent always had the potential to distort the market, and this has not only occurred but the actions it precipitated generated elements of the industry designed to exist because of it and operators to become solely reliant on it for their solvency. The economic importance of regional business and the communities they support cannot be overestimated, but anything which fundamentally distorts the market will have negative repercussions alongside the benefits they were intended to deliver. The rebate was

introduced to alleviate the challenges of an increasingly punitive taxation regime created following the change from a wholesale tax to a GST and the associated creation of WET, which positioned Australia as one of the highest taxed wine producing countries in the world. The rebate also coincided with an appreciating Australian dollar, the GFC and an increasingly internationally out of favour Australian wine category. As a result the incentive to sell wine in Australia and claim the rebate, far outweighed the potential benefits of any investment to drive international sales, which when combined with a growing oversupply and a rapidly consolidating local retail environment precipitated a downward spiral of reduced pricing and profitability.

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

Equity and representation are perennial challenges of any industry groups. The issue is exacerbated when the industry, as is the case with Australian wine, becomes so significantly polarised and concentrated between large commercial operators and small regional producers, resulting high contribution made by a few and the perception, real or otherwise, of undue influence wielded in their interest. Furthermore the industry until recently was generally differentiated at all levels by grape grower bodies and winemaker associations due to a dynamic based on a belief that one always benefited at the expense of the other. The reality is that the Australian wine industry operates in a consumer led market and demand will drive value right through the supply chain. Anecdotal evidence suggests that winemakers are at their most profitable when they are paying most for grapes. Finally the significant number of representative bodies that have evolved from diverging interests and regional requirements has resulted in a disproportionately high level of industry levies being used to finance administration rather than action.

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

The lead Australian industry bodies, WFA and AGWA, have pulled together a summit to address the issues raised in question (e). Grape and Wine 2015 - will be held in Adelaide and bring together 40 representatives from national, state and regional organisations to address profitability and representation in the industry. This is a good initiative however it will only produce value if the delegates are seen to be truly representative of their constituencies and of appropriate consultation having been undertaken. The challenge will be to get the summit to think from an industry perspective rather than one of self interest and to have the sense of urgency required. The outcome must be a merging of many representative organisations, demonstrated industry unity and voice to government, along with better dispersal and effective utilisation of industry levies, all of which will result in some delegates having to vote for theirs and their organisation's redundancies.

- (g) the power and influence of retailers of Australian wine in domestic and export markets;

The power that now resides in the hands of two retailers in Australia and similar consolidation in key export markets such as the US and the UK, has limited the transaction / route to market choice and impacted the profitability of the industry. The ability to effect this impact has been heightened by the over supply and distorting effects of the WET rebate. The conditions imposed by retailers chasing profits and shareholder returns have not only impacted profitability of individual operators but also limited the number of suppliers who are able to trade with them. As a result operators are being driven out of business or being forced to compete for share in an ever diminishing independent and on-trade market, either directly or through distributors who are having to evaluate their trading models as the current market cannot support their existing overheads. Furthermore emerging on line trading models are being established on a discounting basis rather than value adding, and consumers are being conditioned to this offering. The most effective operators in this space are, as previously mentioned, the major retailers offering convenience, range and price with which few can compete. The arrival of new retailers such as ALDI and COSTCO have yet to demonstrate their impact on the market, however the former with myriad stores is own label focused and the latter with limited stores may not have national impact until their footprint broadens.

- (h) the adequacy and effectiveness of market intelligence and pricing signals in assisting industry and business planning;

The current market intelligence service being offered by AGWA is adequate and supplies appropriate sales data, however the true understanding of the size of the Australian industry, the varieties planted, the prices being achieved and subsequent profitability are generally extrapolations of insufficient or inaccurate data. The Foundation Data, as it is being called, needs significant improvement to ensure decisions being made are taken on sound and accurate information.

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

The Australian grape and wine industry is a major contributor to regional communities culturally, economically and socially. In some regions the wine community is fundamental to the region's and its inhabitants' identity. Increasingly the quality, character and appeal of the national food and wine offering is being recognised to leverage visitation to and investment in Australia. Furthermore the wine community has always encouraged and fostered research and development, to such an extent that Australia is seen as a leader in many agricultural and associated educational fields including sustainability, wine marketing and water management. The impact of the Australian food and wine industries on regional economies is unquestioned and increasingly recognised on the national stage.

- (j) any related matters.

Business management skills - an apparent lack of management skills exists in an industry driven by art and passion. More objective analysis and decision making is required to respond to market forces.

Succession / Ageing workforce - the average age of the of industry participants is heading towards sixty nationally and in some regions it has been surpassed. Businesses are not being structured to facilitate the most effective generational transition or the next generation being provided with sufficient evidence to motivate their return to the business.

Sustainability - the on going climatic evolution along with growing market demand for product traceability, ethical production and environmental awareness will become increasingly important and the industry's response to these issues and demands will differentiate it and provide opportunity to charge the premium it deserves.

I trust this top level commentary is of interest to the committee and look forward to expanding on these views and making further comment if and when the opportunity arises. It is fundamental that like the summit being convened, that this review results in more than analysis and commentary. It must produce commentary and action. No change is not an option for the Australian wine community.

Kind Regards

Marc

Marc Allgrove
Partner - Evans & Ayers - Wine Business Consulting