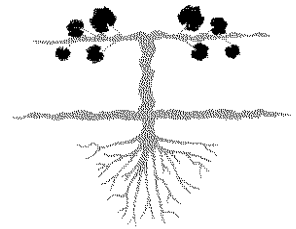


27 June 2005

Senate Rural and Regional Affairs and Transport References Committee
SG62
Parliament House
CANBERRA ACT 2600



Wines Limited

ABN 78 052 179 932

Inquiry into the Wine Industry

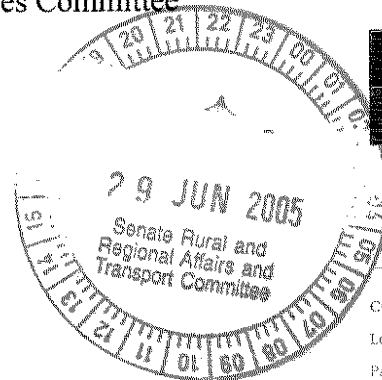
Dear Members

I appreciate the opportunity of submitting some thoughts to you regarding my view of the current situation within the Australian Wine Industry. I will attempt below to bring to your attention the matters that I consider have been important in the industry over the recent past, the ones that are important now and the way forward for the future.

a) Background

1. Since the mid 80's Australian bottled wine exports have grown some 100 times in just 20 years.
2. The driver of the wine industry as a whole has been in the export arena, whilst local consumption has been maintained, and given our rather static population growth, the consumption rate in Australia whilst positive is not exciting and not the industries future.
3. In the mid 90's the Australian dollar declined from the mid 80 cents to the American dollar to as little as 50 cents Australian to the American dollar. The decline of the Australian dollar increased the competitiveness of Australian wine and also the viability of Australian wine companies because the decline encouraged more people to buy our product and therefore unreasonably subsidized the profits of Australian Wine Companies. This excitement also subsidized the prices that Australian Wine companies paid their growers and brought about in the industry complacency and inefficiency. During the late 90's and early new century, grape growers, wine makers and wine marketers thought Christmas was never going to go away and did not consider the risks associated with a turn around of the Australian dollar, or the over production that might flow from the unprecedented planting campaigns of the mid to late 1990's.

Could I say that no comprehensive information was available to deter vineyard planning programs, because there is not a national grape grower's body to monitor the status of acreage in the ground or intended to go into the ground. Yes, it is so that South Australia has a quite comprehensive state wide log of vineyard plantings, it is true that other states do not have such a comprehensive recording and generally available statistical recording process. This is essential not only to monitor complete vineyard plantings but also to understand the variety by variety availability, and therefore be able to determine whether the variety is in undersupply, oversupply or in balance.



CORPORATE HEAD OFFICE

Level 2, 170 Greenhill Rd

PARKSIDE SA 5063

T: 61 8 8172 8333

F: 61 8 8357 8544

E: headoffice@mswl.com.au

W: www.mswl.com.au

HUNTER VALLEY

Cor Broke & McDonalds Rds

POKOLBIN NSW 2320

PO Box 300

CESSNOCK NSW 2325

T: 61 2 4998 7400

F: 61 2 4998 7401

E: mcguiganwines@mswl.com.au

BURONGA HILL WINERY

Silver City Highway

PO Box 243

BURONGA NSW 2739

T: 61 3 5022 5100

F: 61 3 5022 5135

E: buronga@mswl.com.au

AUSTVIN LOXTON CELLARS

Bookpurnong Road

PO Box 2

LOXTON SA 5333

T: 61 8 8584 7236

F: 61 8 8584 6376

E: austvin@mswl.com.au

VINTNERS AUSTRALIA PTY LTD

t/a YALDARA ESTATE

Hermann Thumm Drive

PO Box 62

LYNDOCH SA 5351

T: 61 8 8524 0200

F: 61 8 8524 0240

E: vintners@mswl.com.au

MIRANDA WINES

57 Jondaryan Avenue

GRIFFITH NSW 2680

T: 61 2 6960 3000

F: 61 2 6962 6944

E: mirandawines@mswl.com.au

4. The Australian Wine industry has built up an enviable reputation in the world of wine. It is not egotistical to say that the Australian industry is regarded world wide as one that offers dollar for dollar and ounce for ounce the most compelling value offering from any new world producing wine country. We retain this position and image because of the close monitoring undertaken by industry authorities to ensure that we always export product that is value for money. These controls are essential so that our envied position is protected for the future. In the mean time, it is essential that we maintain this position by meeting the expectation of our customers in the Northern hemisphere.

b) Current Status

1. Over the last four years we have experienced large vintages, 2002 vintage as the largest up until that time, 2003 diminished a tad on 2002, however 2004 exceeded 2002 by a considerable quantity and just recently our 2005 vintage reached new heights. As a result, volumes of wine in our wineries have never been at a higher level.
2. Over the same period, the Australian dollar has returned to 80 cents, it presently wavers at around 77 cents. When one compares the value of our dollar against the American dollar just 10 years ago we have seen over the past two years an increase of some 60 percent relative to the easy days of the mid 90's. This increase in the parity of our dollar has needed to be subsidized by Australian wine companies by either:
 - a) Foreign exchange insurance
 - b) A reduction in price to meet the shelf price.

It is a fact, that importers, wholesalers or retailers want to see the retail price of any product maintained. Yes, it is so that they will agree to CPI increases, as well their customers; however any inordinate increase will loose shelf space. Certain sensitive price points need to be maintained if volumes of product are going to continue to grow.

Therefore the end result has been recently, that Australian exporters have needed to meet shelf prices by reducing FOB,s to compensate for:

- a) Large Volumes of product from competitive nations
 - b) Subsidize the dollar differential.
3. An unprecedented era of corporate change has taken place also since the turn of the century. All the major players have gone through some considerable corporate issues. I believe these have been triggered in the main by the changing fortunes of the Australian wine industry. Companies have merged or taken over one another in an effort to improve efficiencies so that they might participate profitably in the globalization of wine. You would all be aware of the many and varied changes and harsh and sometimes bitter outcomes for staff and shareholders of those companies. The changes and streamlining of companies has been in an effort to reduce costs and improve competitiveness in the world arena; this pressure is now being exerted on grape growers who must also suffer the pressures that the whole industry is under because of the dramatically changed circumstances.

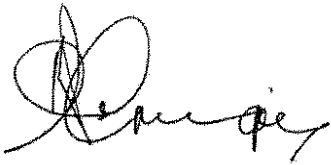
c) The solution for the future

1. A national grape growing body should be supported by the wine industry so that better and more extensive information is available to the industry as a whole from its wine growing component. Better standards could be implemented through the impact of having a national body and quicker, more effective information flows.

2. I believe we will see the further decline in grape prices until our price for bulk and bottled wine is again world competitive. Our oversupply of certain red varieties could be removed very quickly if the dollar declined to a level where we are more competitive. I understand that the dollar's value is determined by world economic forces. There is nothing we can do about this. In the meantime we must 'Batten down the hatches' and work our way through and pay for to some degree, the unprecedented success of the wine industry during the late 90's.
3. We are an agriculturally based industry, we need to recognise this and understand that our financial success is cyclic. In my view we must not artificially tamper with any of the components that would subsidize, support or detract from our international competitiveness. We must find ways to find a solution without government interference because I think we have done very well so far tending our own affairs. Federal government is to be congratulated on its support and involvement within the wine industry through the Wine Federation. As the representative of the Australian government, the chairman of WFA brings government authority, stature but more importantly support and guidance to the industry as a whole, under the steady hand of the Australian government, the wine industry should find its own solutions to what is now an international global marketing problem.

I hope these thoughts are of some value to your committee.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Brian McGuigan', written in a cursive style.

Brian McGuigan A.M
Managing Director
McGuigan Simeon Wines Ltd