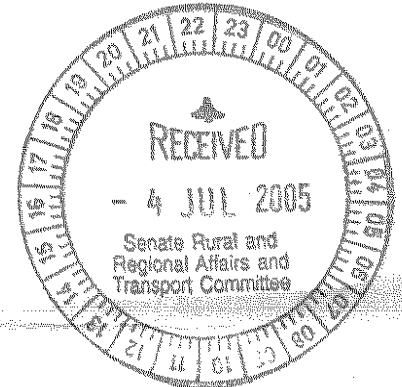


June 14, 2005

Ms Maureen Weeks
Committee Secretary
Senate Rural and Regional Affairs &
Transport References Committee
SG 62
Parliament House
CANBERRA ACT 2600



Dear Ms Weeks

Re: Inquiry into the Wine Industry

Murray Valley Winegrowers' Inc., on behalf of the 1350 winegrape growers in the Murray-Darling and Swan Hill wine regions, wishes to alert Senators to the continuing decline in the viability of winegrape production under current arrangements.

Producing more than 400,000 tonnes annually, with a farm gate value of more than \$200 million pa, the Murray Valley NSW/VIC (incorporating the Murray-Darling & Swan Hill wine regions) is the second-largest winegrape production area in Australia, accounting for about 25% of the national crush.

The Murray Valley joins with the Riverland South Australia and Riverina NSW in a triumvirate that accounts for about 60% of Australia's annual production. These areas are the major source of wine grapes for the 20 largest wine companies in Australia.

Incomes declining

A steady reduction over a number of years in the Weighted Average Price (WAP) for premium red grape varieties is causing many growers acute hardship. For instance, the WAP for Cabernet Sauvignon, Merlot and Shiraz has dropped in each of the past five years.

| | 1999 \$/tonne | 2000 \$/t | 2001 \$/t | 2002 \$/t | 2003 \$/t | 2004 \$/t | 2005 \$/t (estimated) |
|--------------------|------------------|--------------|--------------|--------------|--------------|--------------|--------------------------|
| Cabernet Sauvignon | 1135 | 803 | 726 | 686 | 538 | 487 | 350 |
| Merlot | 1092 | 773 | 723 | 614 | 596 | 535 | 450 |
| Shiraz | 1146 | 812 | 736 | 802 | 657 | 620 | 500 |

Source: Victorian Department of Primary Industries – annual Australian Regional Winegrape Crush Surveys 1999-2004 Price Summary Data for Red Grapes. Est. data provided by Murray Valley Winegrowers' Inc.

But even these figures can be misleading. About one third (450) of growers in the Murray Valley NSW/VIC are not under contract to a major winery and enter the marketplace each year to find a buyer for their fruit. And for them over the past few years the price per tonne for premium red varieties has been in the region of \$100 to \$200. Sometimes a buyer hasn't been found and the fruit dumped.

The only compensatory factor has been the good price for Chardonnay, but this year even that has crashed – from a WAP in 2004 of \$881/tonne to an estimated \$700 or less in 2005. The spot market price for Chardonnay is much worse, plummeting in one year from about \$900/tonne to \$200/tonne.

It is against this background that many growers feel compelled to go along with policies, prices and terms that exploit the current situation, which wineries dismiss as purely the result of over supply but which growers increasingly regard as a gross imbalance in market power.

The uneven playing field, with the processors controlling the goals and shifting them at will is littered with examples that render growers powerless, including:

Lack of dispute resolution provisions – Very few agreements for the sale of wine grapes in the Murray Valley NSW/VIC contain provisions that enable growers to involve an independent third party should a conflict arise over price or fruit quality assessment.

No price negotiation – There are no formal provisions that allow for meaningful price negotiations. And if no dispute resolution process is available, and the grower is under contract to supply fruit, what choice is there but to “accept” the price?

Unspecified terms of payment – South Australia has legislated terms of payment, as do Griffith and the Shires of Leeton, Carrathool and Murrumbidgee in the NSW Riverina. There are no statutory provisions in the Murray Valley NSW/VIC, leaving wineries to impose whatever terms they wish. For example, the “terms” connected to prices as low as \$150/tonne are commonly three installments over a period of six months’ or more.

No means to collectively bargain – A recommended simplified system of collective bargaining has not been implemented. (Two years’ ago the Dawson review of the Trade Practices Act recommended that notification to the ACCC replace the cumbersome and expensive authorisation system. The government accepted the recommendation). Collective bargaining may provide growers with the means to legally form groups to engage wineries in genuine negotiation. But, two years’ later, growers still wait!

No transparency – It has become commonplace in the Australian wine industry for wineries to pay according to either:

- The value of the market in which the wine is intended to be sold, or is sold;
- The flavours exhibited by grapes before harvest;
- The discretion of “the winemaker” post harvest;
- The measurement of colour or sugar concentration in grapes.

Most of the procedures associated with such price-determination methods are subjective and lack transparency. For example, the two largest wineries in the Murray Valley decide final red grape prices on the basis of colour (measured in milligrams of anthocyanin per gram berry weight). However, none of the equipment used is subject to third party checks, no legal procedures are in place to protect the integrity of the results, and results are provided to growers after harvest without any means for them to be challenged. **Instruments of trade in other industries have to conform to the National Measurement Act, but not, as yet, in the Australian wine industry.**

Code of Conduct

These and other issues of concern have been addressed by the Wine Industry Relations Committee (WIRC). This committee was formed in 2001 by representatives of the Winemakers' Federation of Australia and then Wine Grape Growers' Council of Australia. This committee has endorsed the need for the inclusion of contractual provisions for such things as dispute resolution, terms of payment etc. After four years too few wineries have acted on the endorsements. **It has become apparent, therefore, that a mandatory code of conduct is required for there to be widespread adoption of the outcomes of the WIRC process.**

The inquiry into the wine industry by the Senate Rural and Regional Affairs and Transport References Committee presents growers with hope – hope that matters that govern winery/grower relationships come under the scrutiny of our law makers, resulting in action that balances a dangerously lopsided playing field.

Yours sincerely



Signature

Print name

Mailing address

Any other comments:

Lined area for additional comments, consisting of 15 horizontal dashed lines.

Submission of similar wording from:

| | | | |
|------------------------------------|-------------------------------------|--|-------------------------------------|
| PM Scopelliti | Brenton John Booth | Paul Freckleton Katrina Freckleton | John E. Keating |
| M Johnson | J.M. Mason | Barry Parfrey | David Beard |
| Kevin Cock | Bruce Dickie | M.H. McKinnon | James Bruce Garde |
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| Peter Jansen | Tom Demis | Leo Mammone | Rosario Pizzo |
| Kerry Young | Neville Gardner | Donald Turner | L Englefield |
| Robert Lowe | Paul Andronescu | Laurence Stanley | Jeff Dewall |

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| G.J. Izard | Dougal F. Leslie | Hayley Siddons | Greg Clayton |
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