SUBMISSION TO THE

Senate Rural and Regional Affairs and Transport References Committee

Inquiry into the Australian Grape and Wine Industry

BY

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Background Information:

My husband and I have been wine grape growers at Hanwood in the Murrumbidgee Irrigation Area of NSW since 1973.

This region, which is home to several of the top 20 wineries within Australia, produces approximately 320,000 tonnes of wine grapes annually from 21,000 hectares of planted area. 75% of New South Wales wine grapes are produced here and one in four glasses of Australian wine comes from this region.

We welcome the opportunity to submit to this Inquiry but would point out that there have been two previous inquiries into the wine industry, a Federal Senate Inquiry in 2005 and a NSW Upper House Inquiry in 2010, neither of which have resulted in any benefit to the industry as recommendations put forward were largely ignored. It is to be hoped that this inquiry will lead to something tangible that will help return the industry to a more stable base which in turn can provide reasonable returns to both wine grape growers and wineries.

Terms of Reference:

<u>The extent and nature of any market failure in the Australian grape and wine industry supply chain</u>.

In 1996 the wine industry embarked on a marketing program entitled “Strategy 2025”. This strategy had the vision statement that by the Year 2025 the Australian wine industry would achieve $4.5 billion in annual sales by being the world's most influential and profitable supplier of branded wines.

Unfortunately for the industry what followed this vision was an unprecedented rush to plant wine grapes. These plantings were stimulated by an attractive but misguided Federal taxation policy of accelerated depreciation on infrastructure costs. The Managed Investment Scheme (MIS) sectors saw vineyards as a good fit for their investment portfolios and planted large vineyards. Export success encouraged corporate producers to expand their own plantings as well as increase their grower base. Thus the 25 year strategy for expansion of plantings was completed within just a few years and the wine industry was then in a position of gross over supply.

Expensive winery infrastructure expansion to try and keep up with the rapid increase in supply placed financial pressure on wineries and the oversupply in the market place forced wine prices down. Australia's reputation and attractive image overseas was adversely affected by the large quantities of cheap wine flooding onto supermarket shelves. Actual wine quality also suffered as volume was ramped up by the proportion of grapes coming from new vineyards.

The impact of the GST in 2000, the Wine Equalisation Tax (WET), the WET rebate, the Global Financial Crisis and the high Australian dollar have all contributed detrimentally to the sad state of the Australian grape and wine industry.

Many winery costs, such as wages, bottles, labelling, packaging and transport, are fixed or rising, so often the only input able to be reduced is the grapes. In order to deal with the oversupply situation and low profit margins on their wine sales, wineries have had to drastically reduce prices for most varieties and have needed to impose caps on the tonnes per hectare they can purchase.

Low grape prices coupled with the rising cost of inputs have caused many wine grape growers, particularly those possessing varieties in over supply such as Chardonnay and Semillon, to be placed in the position where they have been selling their grapes at less than the cost of production.

The number of Australian grape growers is reported to have dropped dramatically over the past few years and in the Riverina several large vineyards planted on broad acre farms have been removed in favour of higher return annual crops such as cotton, cereals and grains.

<u>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</u>

Truth in labelling is an issue which needs to be addressed by government so as consumers can clearly differentiate between wine produced and marketed by an actual winery and wines which have been purchased in bulk and labelled as a brand by retailers. This is obviously a deliberate attempt to confuse the consumer at the point of sale.

The Winemakers Federation of Australia is seeking $25 million over four years to be spent on generic overseas marketing to help Australian wine regain its previous image and position in the marketplace. If this support was forthcoming from government it could be a positive stimulus for the wine industry.

The high dollar has been a major impediment for the export market but now that the dollar has dropped Australian wine exports should be able to compete more favourably and the domestic market should benefit from the higher price of imported wine. The recently negotiated Free Trade Agreements should also bring some benefits to the industry.

<u>The profitability of wine grape growers, and the steps industry participants have taken to enhance profitability</u>

Growers have tried to "wait out the cycle" as in the past various agricultural commodities have experienced down times for a few years and then they bounce back, but after more than 8 years of declining returns many growers are now desperate with some defaulting on their loans and being forced by their banks to sell up.

For many growers it has reached crisis point and they have decided to remove their vines and plant other crops such as almonds or prunes. However the costs of removing the vine infrastructure, preparing land for planting and purchasing trees, as well as no income from that land for 5 or 6 years until the trees come into production, is beyond the financial capability of many growers. Some wine grape growers with smaller horticultural blocks are exiting the industry altogether after selling the permanent water off their vineyards and then selling the land as is. These unwanted vines are often neglected by the new owners and pose a disease risk for neighbouring vineyards.

A major problem affecting the future sustainability of the wine industry and agriculture in general is the loss of experienced farmers as older growers retire. Many young people are not being encouraged to take up farming as a career as they have witnessed firsthand the financial struggles of their parents. This means the many years of wine grape growing experience held by these families is lost to the industry.

Many growers and their wives have taken on off farm jobs to supplement their incomes, however this has placed many families under additional pressure as they still need to run their farms and this means working long hours 7 days a week.

The Riverina region was once predominantly irrigated by pipes and risers or flood but 80% of growers have now installed drip irrigation which has reduced the quantity of water needed to grow the crop. However the exorbitantly high price of power to run these systems is negating the financial gain of using less water so some growers are now reverting back in an effort to save costs.

The dry Riverina climate means that disease impacts are less than the coastal regions so with good management practices in place growers are able to restrict their chemical applications to lower cost products. The widespread installation of drip irrigation has enabled fertiliser application to be applied through the drip line so it is targeted directly to the vine roots with consequent reduced wastage.

Many Riverina vineyards are planted with rootstocks which have enhanced vineyard establishment and production as well as provided some biosecurity insurance against the grape vine pest Phylloxera should it ever be introduced into the region. This investment into their vineyards has been an expensive input for growers.

Growers are mindful of the quality parameters set by wineries and strive to obtain the best possible return for their fruit by producing wine grapes to suit winery requirements.

Riverina wine grape growers are forward thinking, efficient producers who have embraced new technology and mechanised equipment. They have earned a reputation for using sustainable best practice farming methods. They have the potential to contribute positively to the Australian economy via the wine industry but they need to realise higher returns on their investment to enable them to remain in the industry.

<u>The impact and application of the wine equalisation tax rebate on grape and wine industry supply chains</u>

The Wine Equalisation Tax (WET) was introduced by government to “balance” the variation from the previous wholesale tax after the introduction of the Goods and Services Tax (GST). Winery concerns that this new tax would stifle development and growth and lead to reduction of competitiveness have proven to be true and wineries have been facing very difficult trading times.

The Winemakers Federation and the wine industry were led to believe that the new WET tax would be revenue neutral, but that was not the case. The wine industry was pushed into the rarefied position of being the most highly taxed wine growing country in the world and this has been a massive tax increase on what was once one of Australia's most successful exporting industries. When you look at Australia versus the rest of the world, of all the wine producing companies we are the highest taxed domestically. Spain, Italy, Germany and Argentina are reported to pay zero domestic tax, France pays very little, and yet Australia is required to pay 29% Wine Equalisation Tax plus 10% GST. On a $12 bottle of wine Australian consumers are paying $2.50 to $2.60 in tax.

A producer rebate scheme was introduced in 2004 to alleviate the impost of WET providing for rebates on cellar door and mail order sales for wineries up to $300,000 per annum. The rebate has climbed incrementally from its introduction to now be set at a maximum of $500,000 for each financial year. This rebate entitles businesses operating with a wine licence to a rebate of 29% of the taxation on wine sales into the domestic market. This also extends to New Zealand operators selling into Australia.

An inquiry into the WET rebate is needed, particularly with regard to its availability to New Zealand winemakers. NZ wine sales onto the Australian domestic market have grown substantially since the introduction of the WET rebate and it is laughable that this overseas competitor is receiving rebates estimated at $27 million from Australian taxpayers.

The original intent of the rebate was to assist genuine small wineries, but there are many anecdotal stories being told about rorts within the system. If the WET rebate is found to be contributing to the low prices paid for bulk wine then it is restricting the ability of the industry to clear the wine glut and restructure.

<u>The extent to which grape and wine industry representation at regional, state and national level effectively represents growers and winemakers with respect to equity in the collection and distribution of levies</u>

Riverina growers pay a levy of $3.90 per tonne to the Wine Grapes Marketing Board. This enables the board to undertake promotional work to gain domestic and international exposure for our region, as well as conducting research and development projects. The board also liaises with local wineries on many issues and provides market information and general assistance to growers. The board also provides weekly weather information obtained from several local sites and issues any disease alerts during the growing season. Over the past few years the WGMB has returned a portion of this levy to growers in recognition of their depressed financial situation.

The wine grape industry also pays a $2 per tonne research and development levy that is deducted from grower payments by wineries and remitted to the Department of Agriculture Fisheries and Forestry Levies Management Unit (DAFF LMU). This levy places an unfair burden on the warm inland regions as growers receiving much lower prices for their grapes are paying the same per tonne levy as growers from cool climate regions who receive much higher prices per tonne. This system of payments needs to be reviewed and the levy should be based more on the value of production rather than a per tonne basis. Wineries are also levied between $6 to $9 per tonne and the $2 grower payment is matched by the Federal government.

<u>The work being undertaken by the Australian Grape and Wine Authority pertaining to levy collection information</u>

The AGWA is currently preparing its first 5 year strategic plan and their representatives have been travelling to regional centres to hear from growers and wineries. As a newly formed authority it is hopeful its planning processes will be beneficial to the industry. I have no knowledge of the levy collection information so am unable to comment on this.

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

The domestic wine market in Australia is reported to be controlled and dominated to a large extent by the two major supermarket chains and their related liquor store outlets. In order to obtain shelf space wineries are said to be forced into supply contracts which offer very low margins. The federal government should investigate the price manipulation of the major retailers within the Australian market, not only for wine products, but also for many other agricultural products, including milk, fruit and vegetables.

With regard to retailer dominance, on 31st March 2010 the CEO of the WFA Mr Stephen Strachan announced in *The Weekly Times* newspaper that the retailers which are predominately business partners in the process have now become competitors. He said "Our major customers in Australia are also our major competitors, which doesn't happen in the US because of its three tiered system". He called for protection urgently from the devastating impact of home branded wines. However five years later this problem has continued to escalate.

The major supermarket chains are now reported to be buying grapes direct from growers and making wine for their own company brands. While they are doing nothing illegal or wrong the morality of their actions is questionable. They have taken an opportunistic route to prey on growers without a home for their grapes and are offering consumers low priced own brand wine products. In effect this is just a derivative of the clean skin market.

Both internationally and domestically, supermarket chains are continuing to squeeze supplier margins and develop their own wine brands to compete aggressively with popular premium brands.

The adequacy and effectiveness of market intelligence and pricing signals in assisting industry and business planning

Currently an exact figure for hectares planted to wine grapes is unknown and can only be roughly estimated. A national register of vineyards could work to address some of the supply problems within the industry.

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

With 16 wineries in the region, the Riverina wine industry is a major employer. During vintage many seasonal workers are also required to work in the wineries and vineyards so there is a huge influx of backpackers and itinerant workers at this time of year. The flow on effect of employment in the wine industry is very important and beneficial to our local communities.

There are 345 wine grape producing families and businesses in the MIA. The large number of smaller horticultural farms close to the towns and villages means that there are many farming families residing in the region who shop locally and access local service providers. If the small farms disappear the number of families will also disappear to the detriment of the regional communities. It would be a backwards step for Australia in all industries, not only the wine industry, if the family farm was to be replaced by corporate entities.

Wine tourism is important to regional communities with many wineries offering cellar door facilities which attract visitors to the region, with consequent flow on benefit to local restaurants and accommodation providers. Wineries also participate in various annual festival events, including the popular "unWINEd in the Riverina" Festival, which all bring tourism to the region and benefit local communities.

Any related matters - Murray Darling Basin Plan

The removal of 1950 GLs of productive water from the Murray Darling Basin has had a detrimental effect on wine grape producers with general security water entitlements. NSW water allocations have reduced considerably since the Plan's implementation and this will no doubt become a serious problem when we encounter the next drought cycle. With the current low prices being paid for wine grapes it is highly unlikely that growers needing to purchase additional temporary water to keep their permanent plantings alive will be able to afford to pay the high prices reached during the millenium drought.

Under the Murray Darling Basin Plan there is still 800 GLs of water to be recovered for the environment in order to reach the 2750 GL target as well as another 450 GLs to be achieved by removal of constraints so it is essential that the Federal Government keeps its election promise to cap buybacks at 1500 GLs in order to provide some security for irrigators and communities in the Basin. Any additional water still required should only be obtained by water savings achieved from improvements to infrastructure.