

Good afternoon Mr. Chairman and Members of the Committee. My name is Julian Allport, and I'm a Winemaker and co-Owner of Moore's Hill Estate here in the Tamar Valley. Our vineyard is now 19 years old and our family has owned it for the past 8 years. At close to 7 hectares undervine we would be considered a boutique operation by mainland standards. Over the course of the past 8 years we have set about tripling production to 4000 cases per year, we have expanded our vineyard plantings by 50%, taken on the management of 2 other vineyards and now employ the equivalent of 4 FTE not including seasonal labour. We have subsidized the training through the TAFE system of 2 of our employees. We have quadrupled business turnover by focusing on marketing, particularly direct to consumer sales. We have expanded into new local and international markets and this Summer we will be further investing in our business with improvements such as new vineyard area and winery sheds.

My business operates a 7 day a week cellar door on the Tamar Valley Wine Route. With 28 cellar doors over a 128 km of touring route, the economic benefit to the wider community is substantial. Wine trails linking cellar doors are nothing new in Australia but they hold significant power in bringing myriad opportunities to regional areas - the nexus of wine, food, events that celebrate people, products and place is a relatively untapped mine of opportunity and small producers are well placed to facilitate this.

What small producers can achieve is making wines that have strong provenance, that reflect a unique sense of place that present the modern face of Australian winemaking. Our offerings reinforce the strengths of our industry, and position Australia and more particularly Tasmania as a leading producer of exciting wines on the world stage. Through the wines we produce and the cellar door experiences we enable, small producers provide authenticity and a connection to local products that consumers are increasingly craving. We provide story, context and personality that leverages Tasmania's Clean and Green reputation. When we do this right, we can charge more and build more sustainable businesses. Tasmania is at the pointy end of this trend.

I have considered carefully the terms of reference and in the main concur with the comprehensive submission provided to this committee by our industry body Wine Tasmania. As a small producer I am happy to provide further insight as to some of the unique opportunities and challenges for small wine businesses. Especially around the contribution small wine businesses to the local economy, the significance of any changes around the WET rebate system, the market power of retailers and distributors, wine business profitability, the regulatory environment or any of the terms of reference as they relate to small wineries.

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

The Australian wine industry is currently suffering from a prolonged downturn reflecting significant changes to local international sales patterns, the path to the consumer (eg. Domination of supermarket chains) and also changes to domestic consumption. Oversupply of grapes. Not in Tasmania however.

Gaming of WET by larger participants

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;

The complexity of the Freight Equalisation Scheme makes it very difficult to use. Compliance costs are high and the payback is woefully low. Its very design is unfriendly, and is clearly designed with the export of bulk commodity products (milk, apples) in mind. Much of the Tasmanian wine industry exports are in micro (1 carton at a time) lots which over the course of 1 year adds up – suggest a micro scale scheme is contemplated

The new wine award unfairly penalises the wine grape industry. Example of 2 brothers and different awards.

Biosecurity is of extreme importance for the Tasmanian industry. The exceptional nature of the island state needs the continued extraordinary approach to quarantine. Much of the planting material in the ground today (estimate unavailable) is own rooted and not grafted meaning the phylloxera threat is only real if the biosecurity system breaks down. If it does the effects could be disastrous.

The merging of the AWBC and GWRDC whilst outwardly efficient has in my opinion diminished its marketing capacity. Even the AGWA puts marketing third on its list of priorities behind R&D and administering exports.

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

Speaking from the point of view of a small participant this really is contingent on individual operators. Mechanisation, scaling up, marketing, positioning, business structure, pricing all have a place. Yet as small operators we are often penalised on the COGS side of things – there is nothing new here.

Mindful of the Tasmanian Wine industry market lead approach I would say however that the supply side of the equation is getting extremely tight which can have a significant impact on profitability. More competition for fruit resource than ever married with slow growth in vineyard area means significant latent demand in Tasmania that will likely see Pinot Noir prices

spike to almost \$4000 per tonne this year. 1000% more expensive than a tonne of grapes from the Riverland. Just as \$400 is unsustainable so too is \$4000 as at both ends of the curve either a seller or buyer is priced out of the market and it is usually a smaller operator. Whilst some very significant investments have been made in the Tasmanian wine sector of late most smaller producers who have wanted to grow have funded this growth organically out of cashflow, family or banks at commercial rates. Given vineyards take a minimum of 3 years to become productive Government assistance in the form of focused low or no interest loans would promote growth. The concept of an investment portal could assist in matching investors with smaller projects. Consideration of innovative partnerships and ownership structures such as sharefarming, cooperative farming might assist in increasing planting area.

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

I concur with our industry body and the opinions of many other participants that the current value based tax together with the WET rebate should be retained. As mentioned in my introduction small winemakers use the WET rebate as intended and it assists as it was intended regional economies. It is for others to reign in the gamers and manipulators of the WET rebate – we will simply continue to go about our business

e. 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;

Representation is fine but funding from AGWA is woeful. Extension activities for a small production regions cost them same as for larger regions. One might argue that the need for extension to assist the growth of the industry might be more vital in Tassie as a growing region.

\$25k Tassie \$125k Riverland

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

Cant comment

g. the power and influence of retailers of Australian wine in domestic and export markets;

A growing problem especially when it comes to market power and gaming the WET system. However given that 90% of Tasmanian wine sales are sold domestically perhaps a more pertinent question might relate to the way Distributors conduct business.

The standard for own label wine sales for small producers follows the producer -> distributor -> restaurant/retailer model, with many wineries receiving lower margins for products than the distributor or retailer (especially any winery that uses contract winemaking or purchases rather than grows fruit)

Payment terms that average 90 + days is common practice. This has severe implications for cashflow for small businesses.

Routine abuses of market power with distributors know to ask for some or all of the WET rebate back in the form of discounting

Suggest Standardized distributor contracts. Some sort of oversight into the behavior of distributors would be desirable. Often contracts are pushed at small produces desperate for a market with unconscionable out clauses meaning if a winery wants to exit the agreement the distributor can sue for up to 50% of the previous years sales.

Suggest Development of a "Name and Shame" register for distributors, restaurant owners, retailers who don't adhere to payment terms or simply don't pay.

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

Pretty poor and inaccessible to small producers.

Suggest something that AGWA might take on as a priority project to assist small businesses adapt to the changing environment.

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

According to the Australian Wine Industry Directory of the 2481 trading wine producers in Australia approximately 2000 (or 81%) crush sub 250 Tonnes or might be considered boutique. Whilst there is a perception that many small wineries may be un-economic many are not. Small wineries value add through a focus on own branded product that is grown or made or sold (or all three) on site. These are the kind of small wine businesses that the Wine Equalisation Tax Rebate was originally meant to assist. Businesses that operate productively in regional Australia, supporting regional Tourism offerings through cellar doors and restaurants, supporting regional economies by providing local employment and utilizing the services of local Tradies, Contractors, Accountants, graphic designers, food suppliers, transport companies – the list goes on. Furthermore the vast majority of small wine businesses diligently pay all State and Federal tax obligations as good

corporate citizens and generally work too hard or lack the financial skills to even contemplate manipulating the WET system.

j. any related matters.

Ongoing challenges:

High capital intensity for setup and expansions

Variation in weather conditions affecting input costs and crop outcomes

Seasonality of tourism businesses affecting cash flow and staffing

Opportunity cost with new vineyard

Contract Winemaking

Standardized Contract Winemaking contracts. Some sort of oversight into the behavior of distributors would be desirable. Often contracts are pushed at small producers desperate for a market with unconscionable out clauses meaning if a winery wants to exit the agreement the distributor can sue for up to 50% of the previous years sales.