



LITTLES

HUNTER VALLEY * AUSTRALIA

Senator John Williams,
Rural and Regional Affairs and Transport References Committee,
Parliament House
Canberra
2600

28th April 2015

Dear Sir,

I refer to the letter received 31 March 2015 in relation to the senate inquiry into the grape and wine industry.

Alongside my heavy involvement in the wine industry, I am a Chartered Accountant and was a principal in a practice for 30 years. I understand the numbers of the wine industry and the shocking return on investment.

We have been in the Pokolbin district of the Hunter Valley for 50 years and have been vineyard owners for more than 40 years. The industry is in a financial mess. The company Littles Wines has more than 3 million dollars of tax losses, and there is no economic return. When we planted our vineyards there was less than 50 000 hectares of vineyards in Australia, which took nearly 150 years of growing grapes to get to. From 1980 to 2000, the rate of planting per year was 30 times the annual plantings of the previous 150 years. This was principally due to the outrageous government policy of allowing the cost of planting of vineyards to be written off over 4 years.

This policy was promoted by the Australian Winemakers Federation and the big players in the wine industry who thought that they were going to get cheap grapes. An example of this was Brian McQuigan, who I met at a vineyard scheme promoted by investment advisors, who gave an assurance that he would buy the grapes from the new vineyard plantings. The smallprint said that these grapes would be bought at market value which in the end kept dropping to below cost of production. The Australian dollar was low at the time, and this went well with businesses like Australian Vintage Limited which the McQuigan brothers founded. The Australian Vintage Ltd shareprice hit a high of \$7.00, which was when Brian sold out. They are now trading at about 45 cents, which is evidence of the current state of the industry.

The Federal government who implemented this policy of vineyard write-offs and the powers to be in the Australian Wine Industry who pushed this policy didn't take into account the huge increase in production that took place. In 1976, there was only 220 000 tonnes of grapes used for table wines. In 2005, there was 1 925 000 tonnes – a tenfold increase. An indication of the madness that took place of vineyard plantings was the brother of a partner in my Chartered Accountancy Practice, who invested \$100 000 in a vineyard scheme and received a \$90 000 tax refund. Thus he only had \$10 000 capital at risk, and he could call himself a vigneron.

An example of how this has affected grape prices is the price that we have been selling our Semillon grapes to the winery Brokenwood. Brokenwood was paying us \$1500 a tonne in 1996, and is now paying us \$1400. That is, there has been no increase in the price paid to us for 20 years. These Semillon grapes one year was the main source to allow Brokenwood to win Decanter's Best White Wine in the World for Under £10.

Referring to your terms of references, there is no doubt that due to the oversupply of wine, retailers like Dan Murphy consistently offer prices to buy wine below-cost to the wine producers. The dominant nature of businesses like Dan Murphy damages the return to the wine producers. The WET tax refund to New Zealand wine producers is also absurd.

Also, wine tourism in the Hunter Valley is a huge and growing business and is a very strong employer for the region. However, in Pokolbin, the sustainability of the industry of wine tourism needs to be questioned if the grape growers continue to consistently lose money.

One way for the industry to get back on its feet would be to subsidise a vine pullout scheme. Contrary to what one might think that this is just a government handout, it was really prior government policy that wrecked the industry. There is a strong argument that if one made the mistake that wrecked things then it is up to that body, being the government to fix things resulting from the mistake.

I am happy to come down to Canberra to make a submission at the inquiry.

To close off, I'd like to thank you very much for holding this overdue and necessary inquiry.

Kind Regards

Peter Kindred