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**HOUSE OF
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STANDING COMMITTEE ON INDUSTRY, SCIENCE AND
RESOURCES

Reference: Increasing value-adding to Australian raw materials

THURSDAY, 9 NOVEMBER 2000

CANBERRA

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STANDING COMMITTEE ON INDUSTRY, SCIENCE AND RESOURCES

Thursday, 9 November 2000

Members: Mr Prosser (*Chair*), Mr Hatton, Mr Lloyd, Mr Ian Macfarlane, Mr Allan Morris, Mr Nairn, Ms Roxon, Mr Cameron Thompson, Dr Washer and Mr Zahra

Members in attendance: Mr Hatton, Mr Lloyd, Mr Ian Macfarlane, Mr Allan Morris, Mr Prosser, Ms Roxon, Mr Cameron Thompson, Dr Washer and Mr Zahra

Terms of reference for the inquiry:

To inquire into and report on the prospects of increasing value-adding to Australian raw materials. The Committee will start with an evaluation of the current state of value adding in Australia, and how that compares internationally. This will provide a base from which to evaluate the following topics:

- incentives and impediments to investment;
- intellectual property rights;
- national/international marketing factors which may encourage or hinder Australian value-adding;
- government intervention, both nationally and internationally;
- the location of value-adding industries and projects in regional Australia;
- resource licensing/permit arrangements;
- the impact of vertical integration within particular industries; and
- the Australian skills base and any associated impediments.

WITNESS

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Committee met at 11.32 a.m.**BATTAGLENE, Mr Anthony Nicholas, Director, Canberra Wine Bureau, Winemakers Federation of Australia**

CHAIR—Welcome to this committee hearing. I remind you that the proceedings here today are legal proceedings of the parliament and warrant the same respect as proceedings in the House. The deliberate misleading of the committee may be regarded as a contempt of the parliament. The committee prefers that evidence be given in public but, should you wish at any stage to give evidence in private, you may ask to do so and the committee will consider that request. I now invite you to make an opening statement.

Mr Battaglene—I will briefly give a little bit of background on what my organisation does and an overview of where the industry is at the moment. That might help you frame your questions a little bit more easily. The Winemakers Federation of Australia is the peak industry body for the wine industry. We represent about 90 per cent of the crush in Australia and about 98 per cent of the exports. There are about 1,200 wineries now in Australia, and we represent about 400 of those. There is a large group of small winemakers that we do not actively represent, although I must say the recent tax debate certainly increased our numbers a little bit.

The wine industry has a reputation of going along pretty well. It is fair to say that this year exports look to be growing at around 25 per cent by volume and about 20 per cent by value. That has been pretty consistent over the last few years. There has been a little bit of a slowdown from last year in the export market, and we are seeing a much tighter domestic market at the moment. It looks like business as usual, but we are running into a lot of pressure at the price points. We have seen a great increase in plantings, particularly of red wine grapes. Last year was the first year that we could actually meet our red wine grape demand for a decade, and that has been very good.

We are going under a lot of increased price pressure in some of our key markets, particularly the United Kingdom, where our exports are still growing and we are taking more of the market. But the supermarkets that control the distribution there are putting more pressure on us to lower prices because they are aware of increased supply. There is increased competition. Plantings are going on in California, Chile and Argentina—our major competitors—as well as in Australia. This is an industry that is doing fairly well in the export market, but we are coming in for a turbulent few years. We are coming under increased competition from high plantings, high supply and that is going to impact. Grape prices will go down, the price of wine will go down and competition will certainly increase. That is all I would like to say at the moment.

CHAIR—Before I ask a question, I want the committee to be aware that I have an interest in a small vineyard, and Dr Washer wishes to inform you of the same.

Ms ROXON—I hope you are all members of the federation, then.

Mr Battaglene—I was just about to ask the same question.

CHAIR—In my case, the answer is no.

Mr Battaglene—I can send you out a membership kit if you like.

Dr WASHER—All right, you can do that.

CHAIR—Tony, in relation to the group that you represent you mentioned that there was a great deal of debate on the tax treatment of the wine industry. The smaller producers maintain that the Wine Equalisation Tax, WET, is an impediment to their growth. Can you comment on that?

Mr Battaglene—I would not say it was an impediment to all the small growers. Can you clarify your question: do you mean how we are treated under tax reform with WET and the cellar door rebate?

CHAIR—Basically, they claim they do not like WET.

Mr Battaglene—I do not think anyone likes taxes. What we have seen under WET is an effective increase in the rate of tax. There is no doubt about that: the industry is paying more tax. No-one likes an increase because it impacts on consumption and on demand, and it effects the bottom line of a lot of companies. Certainly, at the medium sized end of the market it is going to impact relatively greatly. At the small end of the market, the people who sell cellar door mail order, the \$300,000 exemption has actually negated a lot of the negative effects of the tax increase. You will probably see that something like 70 per cent by number of wineries are not worse off under the new tax treatment, despite the effective rate, because they are not selling through the distributors, retailers and wholesale. They are selling it cellar door and mail order. That alleviated some of the effect. It may have affected investment. Quite frankly, we are still waiting to see the final impacts of the tax. It is more the pay-as-you-go effects that we are worried about. We did not like to see a tax increase, but we were grateful for what happened with the rebate.

Mr IAN MACFARLANE—At the pioneer wine dinner a few nights ago, which was well attended by members from both sides of the parliament, statements were made along the lines that WET had had no impact on the growth of the industry. Where it was predicted to impact most, which was at the premium end of the market—by premium, I am saying anything over \$15 a bottle—it had had no effect at all. People still kept buying those bottles. In fact, if there was any complaint, it was from the consumer and not from the wine industry. Do you agree with those comments?

Mr Battaglene—It is too early to say if there are any long-term effects. In the short term, sure, it is hard to see any immediate effects. It is a short time period. We have not seen wineries come, wineries go.

Mr IAN MACFARLANE—But in terms of consumption and sales, it has had absolutely no impact.

Mr Battaglene—It has been confused. Consumption and sales have both slowed on the domestic market—there is no doubt—but to attribute that to WET is a big step, and it is certainly not one I would take. The wine industry never opposed tax reform; that is one thing

we should make clear. We were always in favour of tax reform, and we never opposed a GST. What the wine industry opposed was an increase in tax.

Mr IAN MACFARLANE—But the introduction of WET was in line with what the industry originally asked for. Let me rephrase that: what you originally agreed to, you got.

Mr Battaglene—It was a bit bigger than what we thought we had actually agreed to.

Mr IAN MACFARLANE—But the percentage figures were what you had agreed to. The effect that it had you saw in a different light at a later stage and then changed your position, but you got exactly what we said you would get, and that you had agreed to.

Mr ALLAN MORRIS—They did not want a GST.

Mr IAN MACFARLANE—Let him answer the question.

Mr ALLAN MORRIS—He is imputing a position which is really unfair to the witness.

CHAIR—Order! Can we have one at a time.

Mr ALLAN MORRIS—It is called coercing a witness.

Mr IAN MACFARLANE—You haven't seen me coercing if you think that is coercing.

Mr ALLAN MORRIS—You are on the record here. What you say gets recorded. To say that they wanted that is wrong. The industry did not want a GST.

CHAIR—Tony can respond to that.

Mr Battaglene—We certainly did not want an increase in tax. We did not actively oppose a GST because that was coming, but we wanted tax reform. We supported tax reform. We supported a bit more efficiency in taxes. We still think as an industry we are taxed too highly, particularly in comparison with other industries and other countries.

Mr IAN MACFARLANE—Let me go back to the point, seeing that it has been confused by the interjection. The point was that the wine industry accepted that as part of the reform process there would be a WET, and what we said you would get, you got. The wine industry, at a point after that, then decided that they were being asked to pay too much and changed their position.

Mr Battaglene—Yes, I know. I think there is confusion on both sides. What originally came out in the ANTS package was not what we finally ended up with because Treasury had made a mistake in their calculations.

Mr IAN MACFARLANE—I am not sure if it was Treasury. The wine industry said they had made a mistake.

Mr Battaglione—Perhaps you are right, I will defer. Treasury was arguing for a 31.7 per cent WET, and we went to 29 per cent because in negotiations with Treasury we managed to point out that they had made an error in their calculations. What we ended up with was not in the ANTS package; it was a better result for us. What we argued for was that there be a revenue neutral tax, which we always argued for, and what we got at the end was an increase in tax, which we never actively supported. We did support an ad valorem tax over a volumetric tax, but I do not think it is fair to say we ever supported an increase in tax.

Mr IAN MACFARLANE—No, and I did not mean to suggest that. I meant to suggest that everyone accepted that there were going to be changes under the new tax system.

Mr Battaglione—Certainly.

Mr IAN MACFARLANE—The wine industry actually got treated very fairly in that process.

Dr WASHER—Again I must reiterate that I have an interest in this industry, to be fair.

Mr ALLAN MORRIS—You are more than just a drinker.

Dr WASHER—Yes, I am more than just a drinker. I am trying to put something back into the industry. I would not mind calling on the R&D factor. I notice in the submission that the 150 per cent reduced to 125 per cent was nominated as a factor. Can you elaborate a little on that and what other things you could see, particularly in the wine industry, that government should possibly be doing to encourage further excellent research in the industry?

Mr Battaglione—We see R&D as probably the biggest reason for the success of the wine industry. We have a great product and a great climate, but why we are so successful is the innovative production and marketing techniques. R&D in the wine industry is like it is in a lot of industries—it is difficult to collectively get together. We continually vote for the Grape and Wine Research and Development Corporation and we are continually asking for an increase in the levies. In fact, we will be going to the government to ask for them to amend the legislation shortly to increase those levies so we can levy our members more so that collectively we can use that money in a better way.

But that is only part of the story. We see anything that can help research in the country as going to give us a competitive advantage in what, as I outlined at the beginning, is an increasingly competitive market with increased suppliers of grapes. It is good stuff that we are getting from Argentina, Chile and California, it is good quality. In our major markets we are going to come under pressure. I do not have any specific answer, except please do not tamper with the Grape and Wine Research and Development Corporation and please provide incentives for R&D. We support them wholeheartedly because we need them as an industry.

Dr WASHER—Can you elaborate on how the levies are now extracted and what you would like to see them go up to?

Mr Battaglione—There are two levies: one for grape growers and an export levy. They go into the Grape and Wine Research and Development Corporation. We also have levies to the

Wine and Brandy Corporation. As you know, there is the CRCV for wine, which is doing fantastic things and we supported that wholeheartedly. The levies are based on production. I do not think there is a maximum to it. I am not sure of the exact level in legislation, but we are going to be asking for potential to increase it up to threefold what it is. It can be amended by regulation. So as the industry becomes comfortable for it to increase, we would be looking to increase it. It just gives us the flexibility—as an industry, we think that is vital.

I do not know if you know the research bodies we have. We have the Australian Wine Research Institute, which is an excellent institute located in Adelaide. It coordinates a lot of the research; it is an integral part of the CRC. It is taking great steps on some of the flavour and quality aspects of wine and on how to determine these beforehand. They certainly have done good stuff on the irrigation area, which from the environmental aspect as well as the quality aspect is vitally important to us.

I have just come back from visiting some of our colleagues in the United States with whom we do a lot of trade. We are looking into more collaborative research with some of our colleagues, particularly in the United States because they have poached some of our best people, for a start, and they have a lot of money that we can leverage. We think that not only is doing the research important but also who uses it first is important. Australia has, typically, the best people to introduce the research early. So that will be an interesting policy decision for the government: how to cofund projects from the Grape and Wine Research and Development Corporation perhaps with another country, when some of the benefits will go to those other people. Of course, technology transfer is pretty rapid in the wine industry. There are winemakers flying from one end of the world to the other all the time. We see that there is considerable importance in that, but that is the sort of decision that we will be bringing up to the government, I would imagine, in the next six months or so.

CHAIR—Would the small winemakers in the smaller states who are not members of your association agree with your suggestion to increase the levy by threefold?

Mr Battaglione—Yes, I think so.

CHAIR—Their beef has been that they are not members and they do not want to be members, but their voice is not heard.

Mr Battaglione—It is a pretty widely held belief that the research money is a good thing, benefits everyone and is extended well.

CHAIR—But a threefold increase in the levy?

Mr Battaglione—No. At the moment there is an upper limit and we want to increase that substantially. So we can increase up to it, and that is done by regulation along the way. It will go before parliament, so there will be a chance for everyone to decide the appropriate level. But, as we all know, it takes a long time to get a place on the program to get legislation changed. We just want to have the potential for it. I am not advocating that we will look for an increase straightaway. In answer to your question, yes, I think the majority of winemakers and grape growers in Australia will fully support an increase in the levy. Because it is paid on a percentage of tonnage, a small guy will not be paying much, even in the scale of their operations.

Ms ROXON—Obviously the context of this inquiry is looking at the wine industry as an example that has been successful in using research and development, developing its export markets and all those sorts of things. Could you take us back to some of the history of it. I am interested in who drove, particularly, the research and development aspects of it. Did the wine industry identify that that was how they had to go to make themselves viable and then lobby government for it, or did government pick it as an industry that it was prepared to help? How would you apply it in some other industries and what led it to start with?

Mr Battaglene—A lot has come internally. Our organisation was formed in about 1990—I have not been there that long so I cannot tell you exactly. Not long after that, we developed a strategy 2025, which was a vision of where the industry would be in 2025. In that, we identified all the key areas we needed for success. In particular, one of those was research and development and there was an export focus. We did that as an organisation. We have published it widely. Everyone said at the time, I believe, that we would never meet the export figures that we were talking about. Of course, we got to \$1 billion last year—we are five years ahead of schedule there. We had a very small export focus back in 1990. So I think it has come internally, but it came because the structure of the industry is such that there is a number of big players who are very export focused: the Southcorps, the BRL Hardys, the Mildara Blasses, the Orlando Wyndams and the Rosemounts. They can see keenly that the domestic market is not growing, so they identified these as priorities.

They share half our board. Our board is divided 50 per cent between small guys and 50 per cent between bigger guys. When you get this group of people together, everyone can see that it is a benefit for everyone to get more product offshore so we do not flood the domestic market. It is internally run from them. The Wine and Brandy Corporation was then created. It is a statutory body. It has an industry board with a government member and it answers to the Minister for Agriculture, Fisheries and Forestry. It controls the regulation of the industry. What we see as vitally important is that we keep the quality perception and the quality of the product high, because, on the export market, if you lose that quality perception, you are dead in the water. That is run very much with direction from industry, although it coincides with broader government policy. That is another key plank.

With research and development, the Wine Research Institute was formed quite early—well before this, I think. What we have now is the focus on how to do things, particularly the commercial focus, which did not exist before, because industry are on the institute board. Industry is also on the board of the Grape and Wine Research and Development Corporation. A lot of it has come from industry and because we have this cohesiveness through what is a pretty effective industry group, I believe, despite the fact that we do not have everyone in our group. Unless you get that shared vision and the collective working, you cannot get people to work together. Other industries have not been able to do it. One reason is that they are not as export focused as this industry, and another reason is that they are relying at times on government handouts and support, whereas the only thing the wine industry wants is to be left alone.

Ms ROXON—I actually visited the Grape and Wine Research and Development Corporation in Adelaide last year. I understood that they were not very reliant any more on government funding—that actually their success has meant that they have really been able to keep getting contributions from industry. Do they get any government funding now?

Mr Battaglione—They get the—

Ms ROXON—The normal CRC money and whatever?

Mr Battaglione—Yes, the normal matching. It is not much. It is primarily industry funding. As I say, we keep trying to increase it. We are not leveraging any more government money through that. We are up to the maximum we can get from the government.

Ms ROXON—Would you be confident that the value of it is established enough within the industry that it would continue to operate anyway? Obviously the money at an earlier point in time was critical, but has it got beyond that critical time?

Mr Battaglione—If you are suggesting that government money should be withdrawn, I could not support that.

Ms ROXON—I am just looking at the life span that these sorts of programs have.

Mr Battaglione—You made a good point. What we are looking at is that the CRC is due to run out in seven years, or however many years it is, and we are starting to look already at how we can maximise the research effort that is currently going on that was established through it. CRC is great. We cannot get another one—we have had two and we have been very lucky. That is why we are looking at overseas and how we can leverage the United States funds, for example, to help our research and industry. I am confident that we will always be able to keep a very high industry input into research and development, there is no doubt about it. The question is: how do we keep going with the existing CRC process, because it is working very well, and how do we leverage more funds? Probably we will be doing that through a joint venture with other industries and commercialising aspects of the research and so forth.

Mr ZAHRA—You mention in your submission that a fair part of your cost in wineries is associated with electricity, and I have to say I did not know too much about that. Can you estimate how much of your total cost would be wrapped up in energy costs?

Mr Battaglione—No. I can take that on notice and try to find out for you, but I cannot answer that at the moment.

Mr ZAHRA—Could you take this on notice as well if you are not able to give a response to it. The growth in your industry has been exponential. Could you offer a view, or maybe speak to people who could advise you, about this: has at least a part of that massive growth been due to the very substantial reductions in energy prices since electricity deregulation and privatisation? It is generally understood that it is in the order of 30 per cent since the introduction of national competition policies. Has that been a driver of growth in your industry?

Mr Battaglione—You are right—I cannot answer it specifically. We have not seen great reductions in costs over the last few years. There is no doubt about that. There may be some impact of it. Primarily, the reasons for our export success have been in the quality of the product. We are doing some great marketing, it is a great product, we certainly are efficient producers and we have a very good climate. I will certainly have a look at that and see if any studies have been done on that. We have done some cost work but it is limited. We have not

seen any great improvement in efficiencies from that respect. We have seen technological efficiencies but I do not think we have identified any. It does not mean they do not exist. I can see what is available for you. I am happy to do that.

CHAIR—Tony, our great success has clearly been into the US, Canadian and UK markets.

Mr Battaglene—Yes.

CHAIR—Do you think we have the chance to replicate that into, say, the European markets to the same extent where, of course, the traditional producers have a foothold?

Mr Battaglene—The answer is yes. The US market is probably going to be our greatest growth market for at least the next five or 10 years. It has tremendous potential and we are making great inroads there. We are now about number three on the market, behind Italy and France. We might have just overtaken Italy but we are certainly increasing there. Germany is a great market and it is very hard to get into. Europe is very tricky on the mainland. I do not think France will ever be a great market for us.

CHAIR—You have answered my question. We are doing well in the US, in Canada and the UK but the real opportunity for us is the European market.

Mr Battaglene—Germany in particular. Germans are the biggest consumers of wine in the world. We are a very small part of that market at the moment. It is not only perceptions in Europe; they are very regulation focused. We have the European Australia Bilateral Wine Treaty which is still being negotiated. It has been going on for years and is still unresolved.

We get a lot of trouble at the border particularly in places like Germany. Border guards pull items up for sodium levels which are perfectly within health standards and comply with the EC regulation, but they are not happy with that because they think they are produced from a different technology that they do not allow. They have prescriptive regulation and prescriptive labelling requirements, which probably amount to a technical barrier to trade, which really cause us problems at the moment. We are trying to change that obviously but it is a slow process. I think you will find that Germany will be a great market. As for some of the other European countries, I think we will always struggle in France—or at least for the foreseeable future—and in Italy and Spain they produce great wine themselves and, like us, people prefer their own wine. There is still a lot of potential in Europe, and the UK is not dead yet either.

Ms ROXON—Is there not potential in Asia?

Mr Battaglene—Yes, there is good potential in Asia. We have to overcome the perception in Asia, because it is a country of origin thing, that France is the country that makes the best wine in the world, and Australia and New Zealand suffer from that perception at the moment. With increased branding and increased recognition of our brands we are getting in small quantities and some of our smaller makers are doing very well in Asia. It is going to be a good market. Japan is strong because of the health aspects of red wine, and some of the other areas will be doing very well in 10 years or so. But at the moment they are niche markets because we have not had to, but in the next couple of years we will have to.

Dr WASHER—You said you recently went to the US and you just mentioned labelling as part of the component. The US labelling is quite strict in terms of health. Would it be a good idea for us to voluntarily suggest in Australia their type of labelling?

Mr Battaglene—The government health warning?

Dr WASHER—Yes, or would we resist that?

Mr Battaglene—It is interesting. We throw that idea around occasionally in policy discussions. We currently have standard drinks which is a de facto health warning. It is very good advice except that people do not understand it as well. That was an initiative that came from the Winemakers Federation so that people would understand. I do not think it will be up to us as an industry to decide whether we have a mandatory health warning. I do not think we will propose it but, at the end of the day, it does not actually affect consumption very much, as they found in the US. It is like the cigarettes warnings. They say that they will kill you but people still smoke. The consumption of wine in the US—and wine is a much better product for you—has not been affected by the warning. The questions you have to consider, I am advised by my legal friends, is whether it actually creates potential liability in class action or alleviates a potential liability, and they cannot answer that one satisfactorily, so I cannot give you a yes or no answer.

Dr WASHER—To change the subject to the US, at the wine dinner that we attended a comment was made that Argentinean and Chilean wine in the US was low priced and that they had entrapped themselves. The feeling was that they had good wine but they valued the product at a price that really will be hard to lift. Is Australia trying to avoid that mistake as we market into the US? Firstly, do you agree with the statement I made?

Mr Battaglene—Absolutely. You are quite right. Chile and Argentina because of their proximity to the US have always suffered. They have had bulk exports going into the US, the wine being bottled there and being sold for a very cheap price. Australia is hitting the table wine market. The biggest table wine in the US is Lindemans Bin 65. It beats their wine. It is the wine with the biggest sales. It is premium wine in these markets; people in Australia tend to think it is not.

Mr ALLAN MORRIS—That is not an exaggeration; it is like Jacobs Creek.

Mr Battaglene—Yes, that is right, but they are great wines. We are not looking to go into bulk wines. With the high supply issue now in Australia, there is a real risk that people will be trying to get rid of low class bulk wine by exporting it to the US or Europe. It will be bottled as 'product of Australia' and it will not meet the standards that we have for winemaking. That could devalue the product in the eyes of the consumer. There is a similar issue for concentrate—people could export grape concentrate, reconstitute it and call it 'fermented as wine'. That is legal in some countries. We are currently having a debate on this and we have a telephone hook-up tomorrow on this very issue; it is a big concern to the industry. The Australian Wine and Brandy Corporation and the chair, David Brownhill, are certainly aware of the issue.

Dr WASHER—I hear that Pierce's disease is starting to devastate the Californian grape crop. Is that a significant problem for them in terms of wine production out of California in the future? Do you see a problem there?

Mr Battaglene—It is potentially devastating. It could potentially wipe out the Californian wine industry, and that is no exaggeration—there is no doubt about it. I went over there for three weeks in October to talk to some of their people, and this was one of the issues. They think that possibly the only way they can fix the problem is by genetic manipulation of vines. That is how serious it is. They do not think they can control Pierce's disease as a disease because it is a systemic invasion of the vine. They can control the sharpshooter to an extent which is the vector. We are very nervous about it and so are the New Zealanders. We do not want to see Pierce's disease here.

Dr WASHER—This is an important issue and I want to follow on from that and talk about AQIS in relation to this. Firstly, do you feel that AQIS is doing an adequate job as far as the wine industry goes in looking at what quality of grape we bring into this country. Secondly, as you know, there is a lot of legal importation of plant material into this country. We do not know how much. Do you feel the laws, the fines and the punishment are adequate enough to act as a deterrent?

Mr Battaglene—They are difficult questions. I will not answer either of them, but I will not answer the second one first. I do not know how much illegal material is coming in. I am not aware of the fines and what people face. Any illegal importations are potentially the ones that are going to cause the trouble. We think that the maximum possible legal impediments are what we need.

With respect to how AQIS is doing their job, quarantine is a difficult job. I used to work in the department of primary industries; I am aware how difficult it is. As an industry we are a bit schizophrenic. We want access to the best quality clonal material to plant, but we want to make sure that we are not going to bring in viruses and potentially devastating diseases like Pierce's disease. On the one hand, we want improved access but on the other hand we cannot afford to let things like Pierce's disease come in and devastate our industry.

It is difficult to know how well these things can be policed at the border any more in a global world and that becomes the question. We have seen a lot of intrusions of diseases and pests in recent times, and I am not sure it is the fault of AQIS. I just think it is extraordinarily difficult to police. I do not have an answer. It is something we toss about.

Mr HATTON—How much taste testing is there for Asia and Europe, particularly in Germany? My experience of German wines is that they are incredibly sweet to an Australian taste. How much work have you done in terms of modifying the product that we try to put into those markets or in modifying the market taste?

Mr Battaglene—That is an interesting question. It is really individual companies who do. There is no doubt they modify wines for various markets. You will find that it is the taste of the red wines in particular that they are trying to modify, because to most people's taste, German red wine is not exactly the stuff that you would like to drink.

Mr HATTON—That is my experience.

Mr Battaglene—That is my own too.

Mr HATTON—We all agree with that.

Mr Battaglene—California probably modifies the quality of the wine more than we do. We tend to believe that if you have good fruit flavours then that will drive the consumer to buy it. That is starting to work. Germany seems to be changing from their traditional styles—excepting the rieslings on this—but certainly the traditional reds are moving to what is probably a better quality wine. What has driven a lot of European wine—not just the German wine but the French wine—is that a lot of the things that people have said characterise the wines were actually winemaking faults. It is the spoilage factors and it has given you certain characteristics. You would be aware of the bretamycin, the ‘sweaty saddle’ in the Hunter Valley, which everyone used to say was characteristic. It was bretamycin; it was a spoilage. These things happen that build up the reputation. Once you get away from that people actually find they are enjoying the wine a lot more and they are moving to drink more of it.

Mr HATTON—Actually flipping the culturally embedded attitudes is a better way for us to go, because we retain our distinctiveness. It is a bit like film.

Mr Battaglene—And then we have the advantage in that we can produce lots of that to satisfy the demand. Changing consumer tastes is always a slow process but increasingly the wines that are getting onto the European market are more of the New World style rather than the Old World style.

Mr HATTON—Do we have any joint ventures with Chile? Some people have production facilities in Chile.

Mr Battaglene—I cannot answer that. I am not aware of any but that does not mean they do not exist. We are big in the US—although Fosters, with their buyout of Beringer, does now because they had some interest in Chile. But apart from that, I am not aware of any.

Mr HATTON—That leads into the next question. I have just come back from a delegation to Brazil and Argentina. The Brazilian market is enormous—there are 160 million people. There are 38 million in Argentina. The Argentinean wines are quite sophisticated and quite on a par with a number of ours. Do you know what our market penetration is within Argentina and, in particular, Brazil?

Mr Battaglene—Argentina is very small. Brazil is growing. Companies like Southcorp and Rosemount are starting to increase their market. It is small. It is something like \$300,000 a year—I do not have the figures. When I last looked at Brazil it was in that region because we had a problem getting across the border. There is an increasing recognition in Brazil, because they have a wealthy sector that is looking at the premium wines with an increasing recognition of some of the New World wines in particular. It really depends on how active the agent is for the company. Usually the companies that have gone into the US and are big there, which are Rosemount and Southcorp, are then moving on into the Latins around it.

Mr HATTON—My last question is about the volume of grapes grown in Australia, over the last five years in particular. Do we have a problem with that in terms of the amount that has been put in and whether we are going to get into an overproduction problem as has been postulated in some areas?

Mr Battaglene—It is interesting. I have just been reading a very good article on supply. Certainly we have very high suppliers coming on board. As I said, it is the first time we have been able to meet our red wine demand for some time. We had a poor vintage last year. It was still a record vintage but it could have been a lot bigger. In five years time we are going to have a shortage of red grapes again. Everyone said a couple of years ago there was going to be too much chardonnay—currently there is a shortage of it. I think it is natural. I do not think there is such a thing as oversupply.

It will put pressure on medium sized companies and prices will certainly come down. Grape prices, which most winemakers think have been overinflated for the last five years, will certainly come down. Most grape growers do not agree with that; they think they have been low. But there is a lot more pressure. It is a normal cyclical event. In five years time we are going to need a lot more grapes in the ground—even more than we have now. We will see a short-term disturbance in the next couple of years, but it is good now.

Mr HATTON—Our friends are safe.

Mr Battaglene—Dr Washer may disagree on that.

Dr WASHER—I am not going to interfere.

Mr ALLAN MORRIS—He is the reason for the increase. He prescribes it to all his patients, but only particular brands.

Dr WASHER—That is true. There is this beautiful stuff called resveratol, which is a chemical that enhances neurones.

Mr ALLAN MORRIS—Yes, I know about it. Here we go; here is the spiel.

Dr WASHER—It is in the wine.

Mr ALLAN MORRIS—I will try to sum up what my understanding of the industry is. Your success was due to good research—in other words, good technology, good science—high quality and good marketing in the face of discordant state legislation and rules, which are still unfixed. For a very small and geographically disparate industry you have managed to have a national perception overseas, which, from what I remember years ago when I was first overseas looking at wine, is very difficult. We used to sell into Scandinavia in bulk. They used a name of some duck or other, which they used to bottle under their own name.

Ms ROXON—Cold Duck.

Mr ALLAN MORRIS—Yes—in Norway, Sweden and those places. It has been an enormous achievement, and this inquiry is largely to have a look at issues that have made industries either succeed or fail. We are not necessarily trying to look at your industry in isolation; we are trying to look at issues that we may learn from. In amongst your documents there is the question of regulations in states, which is still a vexed one. You are still seeking support for where you put the volume—on the front or the back label. After all this time, if that is still being argued, it must be problematic. You would have thought that was easily fixable.

The other really interesting thing you are putting up is the growing issue of intellectual property. I am not sure if you have explained well enough to someone like me what intellectual property issue drives it—what the danger is that you see. I presume it is some of your winemaking technology and some of your research. Can you enlarge on that? It is surely not the brand name; I thought that had been fixed now.

Mr Battaglene—I will address the labelling issue first. Something that vexes us immensely is that there is state legislation for volume labelling. In South Australia they have started to prosecute our winemakers for putting the volume statement on the back label and not on the front label, as is required under the legislation. It seems trivial, but the reason winemakers do it is that you only have to change one label for all your markets. If you are a Southcorp, you can save millions of dollars; if you are a small company with small runs, you can save a heck of a lot of money and time. It seems trivial, but we cannot get the states to agree on this. We are currently doing some work in the international fora, at the New World Group, on getting a harmonised labelling system. We will be looking at this issue again and trying to convince our states as well as the other countries that this is a good thing.

Intellectual property is a very important issue, and it has come up in the context of the European Union and the negotiations over the bilateral treaty. The IP issue is primarily related to their argument that specific terms they use to describe wine—‘tawny’, ‘vintage’—should be exclusively European and that they have a particular connotation of a quality of wine; these are their words, not mine. When you see the word ‘tawny’ you think Portuguese port. There is a whole series of terms in the negotiations they are having with us that they want exclusive right to, and they want us to protect those terms in Australia from third country usage. So, if the United States sent us a tawny port, we would reject it at the border. That is what they desire.

It is all part of their bigger push in food specificity arguments in the international fora to get these marketing controls for cheeses and other dairy produce. Wine is a very visible subject they are trying to make a first run at because they had the treaty with us and they are using it as a precedent. It is something we are resisting strongly as an industry, not just from our perspective in the industry—in the national interest we would be pretty silly to admit that common usage English terms can have a specific meaning. While they do not mean that much commercially to us as an industry, we will resist any movements in the negotiations to give up these terms. That is the IP issue. It is critical.

Mr ALLAN MORRIS—So there is no technology involved.

Mr Battaglene—With technology, as I said, there is pretty much quick exchange because winemakers fly from Australia to Europe every vintage and vice versa. They see what is going on. It is how well you quickly adopt technologies and how well your regulatory system can

allow them to be adopted. The European Union, in theory, will not allow you to adopt technologies that we use regularly though they get experimental permits and they are allowed to do it. Their whole appellation system puts them at a competitive disadvantage to Australia.

Mr ALLAN MORRIS—That raises an interesting point there about the interesting shuttle service for both stallions and winemakers in a place like the Hunter Valley. It is called the European shuttle winemaker service. But your implication is much more serious for us because we are also looking at dairying and grain. You are suggesting that is happening with wine. We are using some of the more common terms. We all accepted the geographical terms such as burgundy and the rest of it. We accepted that as being precious but a fair call. But what if they are going to extend it into the more common language with things like cheese making and dairy products, where we have also increased exporting, and perhaps into some of the grain areas?

How is IP now managed by the Commonwealth? You are concerned here that it may be traded off for some other issue. I presume you have an organisation. Are the states involved? What are the stakeholders that are involved in that discussion? How does the Commonwealth ensure that those representatives have the muscle or depth of input?

Mr Battaglene—It is primarily through Foreign Affairs. They have very good intellectual property people. But there is also something called the Intellectual Property Office which has state involvement and there is a committee which also has industry involvement. I have been to a number of these meetings. There are pretty good stakeholder initiatives. I have no fear that we are going to be sold out in IP now after recent negotiations with the EU. Foreign Affairs people are very good on this.

Mr ALLAN MORRIS—But in your submission you have a fear?

Mr Battaglene—I may have had a fear when I wrote that.

Mr ALLAN MORRIS—So, in effect, you are correcting your submission now, because otherwise we could quote that submission and find that we were not representing you accurately.

Mr Battaglene—You can quote that I am always nervous about it, but I think that the people doing the job probably have our interests and the nation's interests at heart.

Mr ALLAN MORRIS—And there is no recommendation to us about beefing up the representation in that to try and ensure that the industry has enough influence? That was my concern.

Mr Battaglene—Please do. Personalities can change every day. We think that for all these industries, and not just ours, you need to think about the IP. You need to think about the broader interest than just the strict commercial interest of just one industry.

Mr ALLAN MORRIS—Are you saying that, if we were to recommend to the parliament, for example, that the emphasis on the IP negotiating issues be well represented by industry at all levels and state governments, and not just your industry alone but any industry involved—dairy

and probably a number of other industries—will be affected by the use of common usage terminology being taken as being IP.

Mr Battaglene—Potentially, yes.

CHAIR—Given the recognisable success of the wine industry in exports, so too has dairying—from a very low base dairy exports are now topping the \$2 billion mark. They are much higher than yours. Wine has a more recognisable success but one could argue that dairy has done a lot better. This inquiry is looking at the successes of certain industries, including the dairy industry. What comment would you make in regard to the success of your industry and the very great success of their industry?

Mr Battaglene—Do not let Treasury know or they will tax them heavily as well.

Mr ALLAN MORRIS—You always favour equalising—why aren't we taxing the dairies in the same way?

Mr Battaglene—That was a little flippant but it has an element of some truth in it.

CHAIR—We had to get into the same sorts of markets and prejudices and a whole range of other things.

Mr Battaglene—All credit to them. There have been great restructures just going on in the dairy industry which is going to make them more efficient as well. I do not think I have a comment on that except to say well done. I think they have done the same things as we have, except that they would probably be a little more reliant on government assistance for a while longer than we have. We have never asked for that. They have not had the iniquitous tax regime that we have had—that is another cheap shot perhaps. But certainly it is a much more level playing field for them.

CHAIR—You do not have a tax regime on exports.

Mr Battaglene—Not on exports, no, but you do need a solid domestic market to underpin the exports. You are hitting the bottom line straightaway.

Mr IAN MACFARLANE—Your growth is in exports.

Mr Battaglene—Growth is in exports but, unless you have a solid domestic platform, it is hard to sustain it.

Mr IAN MACFARLANE—You have a solid domestic platform now and we have just removed the taxes off the exports, so you should be able to grow faster than you already have—thanks to the government introducing a new tax system where you do not pay wholesale sales tax.

Mr Battaglene—I am not criticising that but the comment is correct: we never had an export tax before.

Mr IAN MACFARLANE—But you now do not pay domestic taxes on your exports.

Mr Battaglione—That is correct.

Mr IAN MACFARLANE—You do not pay tax on those in-built costs, like transport.

Mr Battaglione—That is good. Treasury's estimates were something like 1.2 per cent, so that has certainly been something that we have welcomed.

CHAIR—It would appear that the success of our labels into the US and UK markets—particularly the UK markets early in the piece—was driven by the majors. The minors came along with a mixed bag buy, basically. Is it very much the case that the majors will drive the success in those areas, whether it be into the German market or wherever, and the rest will just follow on?

Mr Battaglione—It goes both ways. I think in Asia we are going to see the small players open up the market for us and get brand recognition for Australian product initially, mainly because it is a different sort of distribution network. Within the US, there are three or four distributors. If you are not there, then you are not in the major market. They do not want small companies. What they want is a large product line. They want to go to a few companies so that they can source and get their Australian portion of the shelf. It comes down to distribution.

CHAIR—But in a market like the New York market you cannot have chains like we do. There it is one bottle shop, one person.

Mr Battaglione—Yes.

CHAIR—So, particularly in a market like that, you are starting to see a lot of very small brand names—indeed, a lot of Margaret River wines—go into a lot of the bottle shops in New York. We cannot call it horses for courses—they are not all the same.

Mr Battaglione—That is quite correct. You will always get the small parcels in. It is great for the industry as a whole. We do not see that big necessarily goes before small. In Asia, I think it is going to go the other way and they will create the market perception of an Australian product. The big guys will then be able to move in behind them. Quite frankly, the industry's success is because it has that mixture of small and big. One sector is not more important than the other sector: they both support each other. What you do find, though, is that you have to be able to source a continual supply of that product, even in markets like New York and the smaller bits. They do not want to know you if you cannot supply what they want.

CHAIR—I heard a comment from a female consumer last year in a New York bottle shop. Looking at the Australian wines, she said, 'Their labels are so exciting.' In fact, they find our marketing exciting enough to try the wine.

Mr Battaglione—You have hit a great point. One of the things we are doing in the New World wine group that we have, which is running with all the New World countries, is that we are just trying to get the labelling so that all the consumers can get the information they need but there is still the creativity for the marketers. You are right: our guys do labelling better than

anyone else. When we get proscription, like our volume statement on the front label—which is my personal bugbear at the moment—then that does not help. You are right. I am not surprised the consumer said that.

Mr ALLAN MORRIS—Also, standardised state regulation should be your big agenda, shouldn't it? It is on there but you are not pushing it today, are you?

Mr Battaglene—I am not pushing it today.

Mr ALLAN MORRIS—Please do—on the record. Push, push.

Dr WASHER—Starting at the value adding component of this, wine has done a great deal on exports. It has done a great deal in improving the quality in technology of the industry over a few years. I think the other great value that we have in viticulture is that we have enhanced the value of land and rural components. If I could just focus on that for a second, because I think viticulture is a very important component of this in terms of employment opportunities out there in rural and regional areas. What barriers are you striking from environmental aspects, water aspects and availabilities for new plantings?

Mr Battaglene—That is a good question. The advances we have had in viticulture are nothing short of amazing particularly with techniques with water, such as reduced deficit irrigation and the movement away from areas in the Riverland where people used flood irrigation and channels. We are certainly seeing the same pressures that other industries have seen in water. What the wine industry and the viticulture sector have done very well is that they have the advantage of using less water which is better for the quality of the grape and the wine. All the incentives for the wine industry to be more environmentally friendly on the water issue are to use less water.

You see companies like Southcorp not accepting grapes from contract growers unless they can demonstrate they have used environmentally friendly techniques using less water. It is not only the quality aspect but also simply because they know it is better for the environment. The salinity issue is something that is affecting us. Rosemount and a lot of other companies are putting in a lot of vineyards in Maclaren Vale at the moment. They are doing some work with the South Australian government to try to get all their waste water reticulated from the winery back into irrigation. You are going to see more of that. Sooner or later we are going to see the big water fight and everyone is going to want a patch of the water. Unless you have got good efficient techniques and can use water responsibly then you are not going to be there at the end.

Industry has a policy that it should be fairly priced—we believe in water pricing. We do not think we should give it away for nothing. It is a scarce resource and there are a lot of users who are entitled to use it. We think, though, that industries like viticulture should look at how they do things and try to maximise the efficiency in using that scarce resource. I am probably not a qualified person to talk on the environmental aspects but water is going to be for us one of the major issues we will address in the next couple of years, though it is going to go quicker than that.

Mr ALLAN MORRIS—Thank you and your organisation for the submission.

CHAIR—Thank you very much for that.

Resolved:

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 12.27 p.m.