



Murray Valley Winegrowers' Inc

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Swan Hill Wine Region Grape Growers' Association Inc.
Murray - Darling Winegrape Growers' Association Inc.
Robinvale & District Wine Grape Growers' Association Inc.

June 23, 2005

Geoff Dawson
Principal Research Officer
Senate Rural and Regional Affairs & Transport Committees
SG 62
Parliament House
CANBERRA ACT 2600

Dear Mr. Dawson

Re: Inquiry into the Wine Industry

This is to confirm arrangements for Murray Valley Winegrowers' (MVW) Inc. appearance before the Senate Committee in Mildura, June 28.

Representing MVW in the 9.00am to 10.00am timeslot will be:

- Michael De Palma – Chairman, Murray Valley Winegrowers' Inc.
- Mike Stone – CEO, Murray Valley Winegrowers' Inc.
- Len Schliefert – Chairman, Mildura Region Winegrowers' Association
- Colin Free – Chairman, Swan Hill Wine Region Grape Growers' Association
- Phillip Englefield – Chairman, Robinvale Winegrape Growers' Association
- John Ward – Chairman, Murray Valley Winegrape Industry Development Committee

MVW appreciates the opportunity to alert Senators to the continuing decline in the viability of winegrape production under current arrangements. MVW will be doing this in a number of ways – the presentation at the public hearing, a letter to the committee that has been signed by more than 300 winegrape growers (many of whom have added comments of their own) and a submission prepared jointly by the major inland wine regions. The growers' letters will be packaged and sent to the Senate committee next week, while the submission by the major inland regions will be completed by mid-July.

Introductory remarks at the public hearing in Mildura will be delivered by Mike Stone. These will summarise the issues of greatest concern to winegrape growers in the region, and specifically will address:

- The structure of the industry, impact on the relationship between growers and producers; the nature of contractual agreements; the implementation of quality benchmarks and industry code of conduct
- The *Trade Practices Act* and Collective Bargaining
- National representative body for winegrape growers'

Murray Valley background

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 major varieties are Chardonnay (approx. 100,000 tonnes), Cabernet Sauvignon (approx. 50,000 tonnes), Merlot (34,000 tonnes) and Shiraz (65,000 tonnes)

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

The issues outlined above 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 code of conduct is required for there to be widespread adoption of the outcomes of the WIRC process.**

National growers’ body

In 2003/2004 the major inland regions instigated the voluntary liquidation of the Wine Grape Growers’ Council of Australia. There was concern that it was too narrow in focus and not truly representative of the broad cross section of wine regions in Australia. For it to be more representative, more than just the large inland had to be involved. This required constitutional change, which the South Australian Farmers’ Federation Wine Grapes Section could not agree to. If reform were to proceed, the only option left was voluntary liquidation and this is what occurred.

In the wake of the liquidation, the inland regions – Murray Valley NSW/VIC, Riverland SA, Riverina NSW – incorporated Wine Grape Growers’ Australia (WGGA), which has since been gazetted by the Australian government as the interim peak body.

WGGA, with assistance from the Industry Partnerships Program administered by DAFF, has since developed a business plan to assist in the planning for an expanded national grape growers body that ultimately may join with the Winemakers' Federation of Australia in forming a united national peak wine industry body.

Summary

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.

Governments have become reluctant to intervene in industry affairs, preferring “the market” to sort things out. With the current over supply of wine grapes in Australia, the market is failing the growers.

With provisions for dispute resolution, terms of payment, unambiguous and transparent pricing mechanisms, compliance with the National Measurement Act and genuine negotiation largely absent from the marketplace, the winegrape sector is powerless.

Yours sincerely

A handwritten signature in black ink that reads "Mike Stone". The signature is written in a cursive, slightly slanted style.

Mike Stone
CEO