

Dear Ms Weeks
From: Drew Mitchell [drew@creeksedge.com.au]
Sent: Wednesday, 6 July 2005 12:39 PM
To: RRAT, Committee (SEN)
Subject: INQUIRY INTO THE WINE INDUSTRY

Dear Ms Weeks

Our submission to Senate Committee is set out below.

We look forward to hearing of the results and conclusions.

Sincerely

Andrew Mitchell

Director

Creeks Edge Vineyard & Winery Pty Ltd

Lue Road, Mudgee NSW 2850

Ph 02 6372 6186 Mob 0402 454 882

Fx 02 6372 618

www.creeksedge.com.au

Submission:

1. Characterisation:

Our company owns 2 vineyards and leases one vineyard in the Mudgee wine grape growing area. The vineyards are contracted in part to both Southcorp and Orlando Wyndham.

We purchased our largest vineyard which consists of 43 ha of vines from Orlando in 2004. We have delivered fruit to Orlando on two occasions - the 2004 and the 2005 vintage. We have been disappointed in our receipts for the production of fruit and the lack of recourse to the buyer. We are a new producer of bottled wine retaining small quantities of fruit for wine making and we are operating a cellar door in Mudgee that is gradually enjoying more visitation. We are soon to begin external marketing and sales efforts focused on the restaurant and the bottle shop markets focusing on the premium \$15 to \$25 bracket.

We planned to subsidize our wine making in the first 3 years with the income and profit from contract grape growing. However, the income levels have been far below expectations so to continue, the owners must input greater than planned levels of cash. The business is unprofitable and is not expected to be profitable until there is a recovery in grape pricing or until the sale of finished wine increases to approximately 5,000 cartons per annum at reasonable pricing.

2. Observations:

a. The Winegrape Glut

We see a major issue in that the vast majority of contracted wine grape growers are private individuals - farmers - and the majority of grape buyers are large, public listed companies with major profit drivers. We believe that the large companies on the whole are determined to remain profitable and to maintain their share price at all costs. And this means that they will pay the lowest possible price for fruit.

With Orlando, we experienced the homogenizing of pricing for all grades of fruit bringing all levels closer to the lowest bulk quality rates. In 2005 each grade was reduced by \$100 per tonne from 2004 pricing and without giving growers a chance to alter the cost base, the price of commercial grade grapes were reduced to the same level as is paid in the broad acre growing areas such as the Riverina. This meant that the gap between lowest semi-premium level and the highest commercial level crashed by \$350. The previous the gap was just \$100. These prices are unsustainable for regional growers with their inherently smaller acreages.

Premium growers producing for regionally branded wine at much lower levels than bulk wine producers, are financially exposed to the current dramatic reduction in prices offered for grapes by large companies. We believe that growers with lower levels of equity and higher operating costs associated with small vineyard operations are very exposed to financial failure as a direct result of the sudden downturn in grape returns. The conclusion we draw is that many small growers will be bankrupted over the next 3 years. This has a dramatic impact on the local economy and threatens the value of regional wine and appellation recognition.

b. Industry Structure

Each contract we have defines the blocks, expected yield and in some cases the expected level of quality but does not make any guarantee as to price.

Our experience is that the contracts with Orlando are totally different from Southcorp's. There is no consistency in approach or structure.

The once common theme is that the pricing is set by the buyer and no correspondence is entered into. The price paid is totally based on the field personnel's assessment which is a very subjective taste test. It is wholly exposed to abuse in the interest of corporate profitability. On several occasions we have applied pressure through objecting to the grading and bringing in an independent wine maker to make opinion. In one case we believe this caused an upgrade in assessed quality and an increase in price from very low to low.

We are very disgruntled with the change to a national price for commercial grade grapes. This is not fair to regional growers. We believe that a judicial independent tasting panel with ombudsman powers would assist grape growers expose any deliberate conspiracy to lower grading and therefore prices within a region.

c. Relevance of the Trades Practises Act 1974

We are sure the resources of the major corporate wine companies extend to the best in legal advice. We believe that there has been a general talking down of grape prices between the companies and this has been accelerated by the exposure of the so called glut in the press.

d. National Grape Growers Body

For us growers, the representation of grape growers on a truly Australia-wide basis in a funded association, with each of the key regions and states having a voice, is essential to the survival and growth of the industry. The industry is already heavily burdened with levy payments. However, we would consider a further direct cost as reasonable if matched with government support on the usual dollar for dollar basis. We also believe that the buyers of grapes must also make a contribution to this process and be subject to any levy as users of the product. However, in the market place a further burden on any grower's already difficult

financial state could meet with rejection in principle or simply meet a complete lack of ability to pay.

We see that there is a role for the representation to come from the regional bodies such as ours, the Mudgee Wine Grape Growers Association, and that some growers would propose that the funding for the national body should come from the association's treasury if they are already paying a voluntary local levy. The government has a role in ensuring that there is an adequate and fair appeal process available to growers when small farmers are being financially abused at the hands of powerful corporations.

Thank you.