REPORT OF PROCEEDINGS BEFORE

STANDING COMMITTEE ON STATE DEVELOPMENT

INQUIRY INTO THE WINE GRAPE MARKET AND PRICES

UNCORRECTED PROOF

At Griffith on Thursday 14 October 2010

The Committee met at 10.30 a.m.

PRESENT

The Hon. A. Catanzariti (Chair)

The Hon. Rick Colless
Reverend the Hon. F. J. Nile
The Hon. M. S. Veitch

CHAIR: Welcome to the second public hearing of the State Development Committee Inquiry into the Wine Grape Market and Prices. The inquiry terms of reference require the Committee to inquire into and report on matters associated with the wine grape market and pricing in New South Wales. As such, this inquiry is an opportunity for stakeholders to provide evidence about the factors affecting supply and demand for grapes. The Committee will also examine the role of the Wine Grapes Marketing Board, the potential for collective bargaining and codes of conduct, and whether there are any measures that could improve market signals which would be consistent with competition principles and legislation.

Yesterday the Committee heard evidence from stakeholders at Parliament House in Sydney. Today we will be hearing from Mr Brian Simpson from the Wine Grapes Marketing Board, Mr Phillip Alvaro, a solicitor here in Griffith, Mr Les Worland and Mr Stuart McGrath-Kerr from the Riverina Winemakers Association, and Mr Paul Pierotti and Mr Stephen Violi from the Griffith Chamber of Commerce and Industry. Before we commence today, I would like to make some comments about certain aspects of the hearing. We will have some in-camera hearings later this afternoon with some people who would prefer to give evidence in camera.

Committee hearings are not intended to provide a forum for people to make adverse reflections about specific individuals. The protection afforded to committee witnesses under parliamentary privilege should not be abused during these hearings and I therefore request that witnesses avoid the mention of individuals unless it is essential to address the terms of reference. The Committee has previously resolved to authorise the media to broadcast sound and video excerpts of its public proceedings. Copies of guidelines governing broadcast of the proceedings are available from the table by the door. In accordance with the guidelines, a member of the Committee and witnesses may be filmed or recorded. However, people in the public gallery should not be the primary focus of any filming or photographs. In reporting the proceedings of this Committee, the media must take responsibility for what they publish or what interpretation is placed on anything that is said before the Committee.

Witnesses, members and their staff are advised that any messages should be delivered through the attendants or the Committee clerks. I also advise that, under the Standing Orders of the Legislative Council, any documents presented to the Committee that have not yet been tabled in Parliament may not, except with the permission of the Committee, be disclosed or published by any member of such Committee or by any other person. Finally, can everyone please turn off their mobile phones for the duration of the hearing, including mobile phones on silent, as they interfere with Hansard's recording of the proceedings?

BRIAN ALEXANDER SIMPSON, Chief Executive Officer, Wine Grapes Marketing Board, sworn and examined:

CHAIR: In what capacity are you appearing before the Committee?

Mr SIMPSON: As the representative of the Wine Grapes Marketing Board.

CHAIR: Are you conversant with the terms of reference for this inquiry?

Mr SIMPSON: Yes.

CHAIR: If you consider at any stage that certain evidence you wish to give or documents you may wish to tender should be heard or seen only by the Committee please indicate that fact and the Committee will consider your request. Would you like to make an opening statement?

Mr SIMPSON: Yes. I also have an audiovisual presentation for the Committee that forms part of my opening statement. Members of the Standing Committee, thank you for initiating this inquiry into the wine grape market and prices, which I hope will effectively address one of the most important issues facing wine grape producers in the region as well as the rest of Australia. The board called for this inquiry as a means to enlist Government support to address what it believes is pure market failure. The board acknowledges that both sectors of the industry need to work harder to address many of the issues that have been identified through the various submissions to this inquiry and that each cannot exist without the other. However it is extremely disappointing to say the least that this process appears to have been boycotted by the wine processing sector as they believe that this inquiry is for the purpose of taking "shots" at each other.

When initiating discussions with Government the board presented this proposal along the line that it was healthy for the industry to rationally discuss these matters. Sadly, this view was not shared by wine makers. To elaborate on this matter further I would like to play some small audiovisual items for the Committee. I understand that the Committee has already been provided with most of this audiovisual and I believe it is important that these are replayed for you now to set the scene and to provide you with an understanding as to why wineries have declined to participate in this open inquiry and why more growers were not inclined to write submissions to this inquiry.

Third party audiovisual presentation

I will pause the audiovisual at this point. The concern we have is that there is a level of fear among grapegrowers about addressing such issues openly for fear of being branded a radical and therefore when their contract is up for renewal they may not get another. The board undertook quite extensive activity in advertising for the inquiry to enlist the support of our grapegrowers.

Third party audiovisual presentation resumed

We hope that level of assistance by the board will generate further responses from growers. The 40-something responses was a bit disappointing. The reaction from winemakers in the local media is somewhat different. This is a two-minute video from the local news.

Third-party audiovisual presentation resumed

It is plain to see that the inquiry receiving open and transparent responses from growers was threatened from the outset by the comments made and the veiled threat that wineries may use the current industry position not to renew agreements on the basis of a grower having kicked up a fuss. For wineries to state that they have looked after growers while terms of trade have eroded is erroneous. Wineries have maintained their throughput to meet markets while altering legally binding contracts unilaterally, varying supply agreements and dishonouring written contracts, all at the expense of growers. The concern of growers is founded by a long history of poor relationship development led principally by the region's wineries—those that write the cheques.

The existence of black-booking in the region is real. Through the course of the past week I was told of a grower who was placed on a verbal suspension from a winery after having the audacity to inquire during a private meeting as to why they were the lowest-paying winery in the region. The meeting was suspended and he was asked to leave their premises and they would meet to decide whether they would take his grapes in the future. The relationship should be a symbiotic one between grower and winery; however, the realities of the industry often see growers chasing the market price on one hand and wineries reducing intake during oversupply situations. For many growers it seems that their vineyards are at times a carcass that is picked over at the behest of wineries and their staff.

In my role as chief executive officer I have been asked in one instance by the general manager of a winery to choose which growers they should kick out due to their potential oversupply; told on another occasion that if the board mentioned a winery's actions to the media they would take it out on the growers and not buy a single bunch in the season. Others have threatened verbally to buy all fruit externally from the region if the board did not back off when it was only reporting the concerns of growers in the regional media. The board's argument has not been a bid to seek the Government's support for fixed pricing mechanisms, as this is a relic of the past. The board seeks appropriate legislation to maintain statutory provisions for terms and conditions of payment in the Riverina and across New South Wales for all fruit sales and a mechanism that will enforce the notification of wine grape prices well prior to vintage. Such legislation will address the concerns associated with market failure that exist in this industry.

As it currently stands, wineries with a contract that complies with the board's definition of a contract can readily alter the payment terms. Growers are powerless in enacting contractual law to recoup unpaid funds, as doing so would see them branded as having kicked up a fuss. The existing legislation of the board that was designed to be transitionary to a full and open market cannot force wineries to pay. It can require wineries that have not paid to pay a penalty interest amount but it does not force payment. The board is required to act appropriately to recoup funds through legal recourse. This mechanism protects growers' anonymity in the event of many growers being disadvantaged by their winery through a late instalment, which occurs annually. The penalty interest was legislated to enable growers to recover sufficient funds which, through the act of non-payment, forced them into a breach of an overdraft. This is a genuine issue, as grower financial activities are generally timed around the board's terms and conditions of payment.

Grower anonymity is critical in that if they take legal action as an identifiable individual the wineries will force them out of the winery. It has occurred and will continue to occur in many ways. With regard to the board's legislation in the year 2000, the Wine Grapes Marketing Board was subject to a New South Wales Government-run competition policy review. The board in its submission to this review funded a study by Associate Professor Bill Richards of the University of Sydney that conclusively showed that the provision of statutory terms and conditions of payment provided a net public benefit, plus meeting the requirements of competition principles as prescribed by the National Competition Commission.

Statutory terms and conditions of payment reduced transaction costs for the industry and delivered savings to all sectors of the industry whilst assisting to maintain a balanced, across-the-board approach to terms of payment. New South Wales governmental staff disagreed with the findings, as the wine processing sector also disagreed with the findings. Therefore, we have lost the full powers. It was obvious from the outset that agreement would not be achieved with wineries that fundamentally wanted to remove the board and its so-called interference with their varying business practice.

This current inquiry is important for our industry and the board hopes that either statewide legislation can be recommended or through COAG the New South Wales Government can assist in the mandating of the wine industry code of conduct, with the inclusion of set terms and conditions of payment. In conclusion, I would personally like to thank members of the Committee and the chair, Tony Catanzariti MLC, for your concerns, efforts and willingness to deal with these matters openly and frankly for the benefit of our industry.

CHAIR: Several submissions have referred to oversupply as the primary driver of unsustainable wine grape prices. What other factors do you see as influencing prices in the wine grape market at present?

Mr SIMPSON: The behaviour of major retailers in Australia is a major factor in that the way they treat the wine processors in their marketing and negotiations in getting shelf space impacts on their bottom line and that is pushed back through to the grower.

CHAIR: Can you elaborate a bit on that?

Mr SIMPSON: Absolutely. I feel that the market dominance we have in this country of the major retailers—principally Coles and Woolworths, through their various outlets—has forced rock bottom prices into the industry. Wineries are now forced to buy shelf space and to buy promotional access to those wines—three for one or three bottles for the price of two or buy a case and you will get a Magnum bottle for free. All these have eroded winery margins and the only opportunity for wineries to recruit that margin and to stay at a level is to dig into the primary producers who support them. We have seen the cascading effect of that.

CHAIR: Your submission seeks the introduction of legislative instruments to remedy many of the problems being faced by wine grape growers that are not typical of a market with current structural supply and demand problems. Can you explain the problems you have identified and can you also elaborate on the legislative solution you envisage and how this will remedy these problems, and will the legislative solution be consistent with competition policy?

Mr SIMPSON: Many of the problems identified I have touched on in my submission. The opportunity for wineries in this region to unilaterally vary contracts—by that I mean the grower signs an agreement to supply, for example, a three-year rolling period each year, and the terms of those contracts are altered by the winery with no negotiation with or consideration of the grower. They are simply handed out—these are the new terms. Other wineries, and I will name them if the Committee wishes—I have evidence to back up these statements—have gone out into the market and contracted with fixed prices and fixed tonnes per hectare only to alter those when it comes to harvest. The growers who challenged those have been told, "If you do challenge them you will not have a home when the contract expires." They are basically powerless because their whole infrastructure is geared up for wine grape production. I think there needs to be an independent authority that allows growers anonymously to deal with these issues, and a wine industry code of conduct would appropriately deal with that. Organisations such as the Wine Grapes Marketing Board would become a mouthpiece for taking certain action against wineries where they behaved in that way.

Another example was in the season just past. One of our supply companies contracted all of its growers at a very low price—it was only $150 per tonne, it was excess fruit. The growers then went to deliver. Some of them were able to take their fruit in at $150 under the existing contract. The winery then altered the contract and said, "We cannot take your fruit, we have to do it now at $100 a tonne, take it or leave it." The growers challenged it and said, "We have a legally binding contract signed by both parties." They said, "That is fine. We will not honour that. We will take your grapes next year as a consolation and we are only going to take them at $100. Take us to court if you wish." No grower took legal action against his winery. This was raised to us as the Wine Grapes Marketing Board and none of the growers wished us to take legal action on their behalf, which was disappointing. We challenged the winery regarding the compliance of that contract in relation to our Wine Grapes Marketing Board (Reconstitution) Act and asked to see the amendments of these contracts, and many of the amendments were only signed three or four months after the deal had been reduced. So, instead of agreeing at the weighbridge for a lower price, growers were just forced into taking it and then forced into signing something at the end of the document, and that is an appendix in my submission.

CHAIR: How is the code of conduct managed and how is it working at the moment, or should it be mandatory?

Mr SIMPSON: The code is a voluntary instrument and it is managed by industry. It is funded in part by the Winemakers Federation of Australia and Wine Grape Growers Australia. It is costing the industry $66,000 a year to run it through an independent secretariat based in Sydney. It is similar to the way the retail industry ombudsman system works. They receive a complaint or you lodge a complaint and then they take action. The cost of that, we have worked out, is $33,000 for one complaint last year. We received one. The growers are still nervous about the code because it is a voluntary instrument, there is no opportunity for wineries to be penalised for their actions and that is why we are seeking for it to be mandated.

The Hon. RICK COLLESS: In your submission you make the point that in the majority of instances the Riverina wine grape producers do not know the price they will receive until they deliver to the winery. Can you expand on that?

Mr SIMPSON: Yes. The prices are generally posted at the weighbridge. They will put the price up on a noticeboard when the truck drives in to weigh in and get their grapes assessed for acidity and sugar levels of the grapes. The price list will be on the weighbridge at that point. Deductions may occur at that time and they will be put on the docket. Many wineries decline to give growers copies or send them out prior to vintage.

The Hon. RICK COLLESS: We heard in evidence yesterday that prices substantially are a function of supply and demand, yet in your submission you say it is the domain of wine processors. Where do you think that apparent conflict is stemming from?

Mr SIMPSON: I think supply and demand does play into it and it is based a lot on where the winery's markets are. If they are in a low-end market they are generally a low-end payer for wine grapes. I have known instances of where wineries have deliberately reduced prices to take arbitrary action against growers for speaking out. So, for them to argue it is a function of supply and demand when it is individuals making these decisions is quite unusual. For example, a winery would have intake requirements for certain grades and if 100 per cent of the growers reached the top grade, those growers will not receive the top price. The wineries will pay the first growers in and you could identify who they are by their relationship with the winery at times and the maturity of their grapes, and others are left to have their grapes left out on the vines until they are very high in sugar level and their yields have reduced sufficiently that any price they get is not sufficient to recoup a profit.

The Hon. RICK COLLESS: Can you tell us how the price of grapes varies? I accept there will be a variation here according to the variety as well, but I am more interested in the variation that occurs between cool, temperate regions and the warm inland regions, and what are the reasons for that variation?

Mr SIMPSON: Most of it is in relation to where the end value is. You look at the cool, temperate regions being the higher end product lines, wines that can be cellared for a longer duration and therefore they have greater levels of tannins, et cetera, and they generally yield less than the inland regions, which are more fruitful and more flavourful products.

The Hon. RICK COLLESS: Are we talking about yield per hectare there or yield per tonne of your product?

Mr SIMPSON: No, generally the litres yield is similar across regions, but it is yields per hectare. Tonnes per hectare is generally lower in those cooler regions. Many of them are managed differently. They are in higher rainfall areas, therefore irrigation reliance is minimal, but their inputs are higher. They have to spray more times so therefore the cost of inputs is higher. Many of them hand-thin grapes. They go around and hand pluck leaves. In this region we do not need to employ such activities; it is mostly mechanised so that we can produce better yields per hectare. But in the last 10 years our yields have declined considerably, in an endeavour to increase the quality of the grape and therefore the quality of the wine that will be produced.

The Hon. RICK COLLESS: Do the wineries in this part of the world buy a lot of grapes from the cool, temperate regions?

Mr SIMPSON: I understand they do, yes.

The Hon. RICK COLLESS: Do they therefore pay a higher price for those grapes?

Mr SIMPSON: That is correct.

The Hon. RICK COLLESS: So it is fair to say that those grapes are of a higher quality, have a higher value, and so on?

Mr SIMPSON: And they will go into bottles within $35 to $60 a bottle, whereas the average bottle price out of here is around $6 to $8 per bottle, as well as the servicing of the bulk or cask market that is quite predominant in this region. If I could back that up with the comment that most of them do not buy fresh grapes to process into this region; they will buy the wine or they will have it processed at another site which is closer to the harvesting area and to where they have purchased it from, just for quality reasons.

The Hon. RICK COLLESS: Then they will bring it down here in barrels—?

Mr SIMPSON: They will bring it as must, in a stainless steel tanker.

The Hon. RICK COLLESS: In your submission you also talk about the need to have early price notifications on a regional basis rather than from individual wineries. On what sort of dates do you think those prices should be notified?

Mr SIMPSON: I think July, for a winery to call out a minimum price that they ideally would not shift from. Growers are putting in 70 per cent of their input costs before they harvest the grapes. Their first costs come in the cooler months when they start pruning, and pruning can be quite intensive or the crop can be minimally pruned. So you can vary your costs from the very outset. We can often use the winter months to even "mothball" vineyards that are non-desirable varieties. so they can hibernate them, so to speak, with minimal inputs in terms of fertilisers and chemicals from that point in time. But growers really need a better idea of budgeting. For wineries to swing sometimes 200 to 300 per cent from season to season does not give them a lot of opportunity.

The Hon. RICK COLLESS: I notice in your submission that you talk about that price variation of some 200 per cent between wineries. Do you think that is just the result of grapegrowers being uninformed about the sorts of prices that are being offered by various wineries, or is it a deliberate ploy by the wineries to confuse the growers, or what?

Mr SIMPSON: No. It is very active in this region. Growers know what each winery is paying. Invariably the Wine Grapes Marketing Board receives pricing lists from wineries. I have examples here for the Committee to look at if they wish. Growers come into our office and ask for copies of those lists, so they know exactly where the market is sitting. We have seen low, low prices being offered for excess to contract grapes, and that is by opportunistic winegrowers in general and winemakers that are trying to take advantage of the situation, and buy at a low price to process. There is an anecdotal comment by wineries that their tanks are full when the price is X, but that at Y, which is lower than the cost of production, they can fit everything in. The supply and demand tends to be distorted, and that is where I believe the market failure is in this instance.

CHAIR: Do you feel that that might be a case of the wineries taking a bit of an advantage and saying, "We will average this out"?

Mr SIMPSON: Absolutely. Wineries know the growers' yields and they know their area. I know that a lot of wineries go around and report to their growers on a case-by-case basis, "This is what you return on your farm." In some instances they say, "We know that you have excess water and the trade market was this, therefore you are viable." There is an understanding by many wineries of what level growers need to continue to survive, and they are just keeping them in many terms just kicking over, so that they will continue to come back each year. Therefore, if price notification was made earlier and the growers knew that there was no opportunity, they could then minimise their inputs, perhaps look for off-farm work to subsidise their own business structure, or even diversify, remove vines, and get into the productive areas.

The Hon. RICK COLLESS: When they "mothball" vineyards, do they do that in an attempt to focus their expenditure on the more valuable products?

Mr SIMPSON: Absolutely, yes. And you would have an idea of what is in demand or more valuable as an indication of those minimums being offered in the year. That obviously could change. From a starting point of July, the market may shift and chardonnay, for example, may be in stronger demand and that price may lift from where it is sitting and almost double. It is a tricky market to predict. The wine industry in Australia has been run basically by marketing people for many years, but without their really understanding where the consumer sits in all of this.

Reverend the Hon. FRED NILE: Mr Simpson, thank you for appearing before the Committee. Obviously some of this material is sensitive, as you indicated in your opening statement about criticism of the wineries. Are you aware of any instances of grapegrowers being victimised by the wineries, or put on a blacklist?

Mr SIMPSON: Yes. I know of wineries that have had black books and have joked about it over dinner that that grower or this grower—I would prefer not to name names, if that is okay—that they have those growers on the list. We compare lists, to make sure that that grower, who is an opportunistic grower—or a "radical", as coined in the video footage from Dean De Bortoli as someone who chases the open market—that they make sure no-one takes his grapes from him. So there is collusive behaviour at times.

Reverend the Hon. FRED NILE: That is what I was coming to. Are these wineries working together?

Mr SIMPSON: They can be collusive in terms of retribution. I have a copy of a letter that was received by a grower from one of the companies and delivered to my office. He declined to attend a meeting with the winery. They hold one-on-one meetings after vintage. They had already announced to growers that prices next year would be down, and the grower said, "Well, there is no point in my attending this meeting, I know where we are sitting." They said, "Well, you have not attended this meeting. We no longer will take your fruit."

Reverend the Hon. FRED NILE: Even at the lower price?

Mr SIMPSON: Yes. And this is a grower that had supplied the company for, I think, 25 years. I think he has now removed his grapes.

Reverend the Hon. FRED NILE: You are having this conflict with the wineries. How many wineries are involved in this negative attitude?

Mr SIMPSON: It is probably about six in this area.

Reverend the Hon. FRED NILE: I noted that in your opening remarks you hesitated as to whether you would name wineries. There must be some that are cooperating, or are they all similar in their attitude? Are there good and bad wineries?

Mr SIMPSON: There are definitely wineries that are very open and transparent in the way they do business with growers. But, for example, Orlando Wines—which is an internationally owned company and, I would have thought, was one of the best wineries—in their behaviour in the last few months they have now withdrawn from this region. They will be closing their winery, after three months ago advising growers that they would not be selling their facility and leaving. So they have changed, and that is a business decision they have made as a company. With regard to other wineries, growers are fearful of talking about them. I have heard of instances where a grower was sitting with his mate over a beer at a local establishment and complaining about the behaviour and treatment he had received. He was overheard by a staff member of that winery, and he was kindly asked to leave the winery; he was not allowed to deliver grapes there again.

There have been other instances where we have had private meetings with growers in our office and half an hour following that meeting a number of those growers were called up by the winery and were asked, "Why were you complaining to the Wine Grapes Marketing Board about our behaviour?" There are a lot of instances where either wineries receive information from existing staff members or other growers use it to curry favour, we believe, with the winery by reporting on outspoken people. It is a cultural problem.

Reverend the Hon. FRED NILE: Which wineries are the most exploitative, in your opinion?

CHAIR: We can go into camera if you wish.

Reverend the Hon. FRED NILE: Perhaps you can deal with that at the end of your evidence.

Mr SIMPSON: And during the in-camera session this afternoon you will hear from those growers that have been exploited the most.

Reverend the Hon. FRED NILE: They will fill that in?

Mr SIMPSON: Absolutely. My submission highlights blatant areas, such as De Bortoli Wines with their contract variations, Casella Wines with their contract variations, and Nugan Quality Foods. I have documented and reported on those and I have evidence to back up the statements in my submission, which I could make public to this Committee. I have no problem about that.

Reverend the Hon. FRED NILE: Is some of that being driven by overseas interests who own these wineries, companies that do not perhaps have as much interest in Australia's wellbeing?

Mr SIMPSON: Orlando Wines is the only overseas company that was physically based here. The Riverina is a different industry in terms of the Australian industry. It is different particularly because of the prevalence of family-owned wineries here that started out many years ago. Because the operators, directors and general managers live among us, I think there is a level of friction. Perhaps it could be said that a lot of people with silver spoons in their mouths that have come back to run company businesses are now resenting growers and perhaps like to treat them as the farmers they are below, as opposed to working alongside them, together.

The Wine Grapes Marketing Board has tried to forge grower consultative groups amongst each winery. Orlando has had quite a successful one, but other wineries have declined to do so. They do not want to meet with representatives of their grower base on a regular basis to discuss issues in common; they would rather tell them what they are going to have to do on a year-by-year basis. It is very hard to break those rules of the "us and them" situations that we see in this industry.

Reverend the Hon. FRED NILE: With regard to the winery that closed down, is there any possibility of your forming a cooperative and taking over the winery? Is that financially possible?

Mr SIMPSON: It would be financially possible, but under our current legislation it is not allowable. As far as growers forming a cooperative is concerned, I think given the history of this region in terms of co-ops forming and then closing disastrously, having the effect that growers lose money, a co-op does not curry very good favour amongst our grower community—sadly, because it could work. Having said that, the industry is in oversupply, there is no doubt about that. This inquiry obviously will not address an oversupply situation, but hopefully it will address some of the behavioural issues we are experiencing.

Reverend the Hon. FRED NILE: The oversupply means that the grower with the better quality grapes obviously is in front?

Mr SIMPSON: Potentially.

Reverend the Hon. FRED NILE: With a greater opportunity of having the wineries taking his product?

Mr SIMPSON: I would like to think so, but it is not always the case. We have many growers with very, very good quality fruit that cannot find a home for it because the winery will not take any more grapes because of the situation in terms of their marketing. Under the new licensing regulations, a lot of the growers are turning to wine processing themselves and having the fruit processed into wine, and then reclaiming the wine equalisation tax [WET] rebate that is available under Federal taxation law, and surviving that way. But that is continuing the oversupply situation that we are seeing in the industry, and continuing to drive down retail prices and therefore farm gate prices.

Reverend the Hon. FRED NILE: And now the increasing imports are direct competition?

Mr SIMPSON: I understand that one in three bottles of white wine are currently imported into Australia, and we will become more and more of a target for imported products. The Australian community does not look at the label for "Australia", as they could or should.

Reverend the Hon. FRED NILE: You just referred to this in your comments. I was struck by the individual on the overhead presentation using the term "radical" to describe a grower, in suggesting that these are very radical people. It seems to be a strange label to be used in discussing grapegrowers.

Mr SIMPSON: Yes, I find it unusual, too, that someone who is seeking to be open and transparent and to chase the market—it is a free and open market—and look for competition and look for the better price is termed "radical". There are growers out there who follow the market on a year-by-year basis. It has been very difficult in an oversupply situation, but many of the major wineries have them listed and they will not take grapes from them. That is a result of the fact that when times were difficult for those wineries and they could not pay top price these growers moved to another winery where they were getting the best return.

Reverend the Hon. FRED NILE: It seems as though there is an urgent need to have some arrangement. I know your board is probably trying to do that but the wineries will probably say that you represent the growers. You almost need a third party to try to bring about a different attitude and spirit of cooperation in the Riverina. The way it is developing is serious and how do you head that off?

Mr SIMPSON: It was disappointing that comments were made to the media that this inquiry was an opportunity to snipe at one another. It was not meant to be that. In my discussions with some individual wineries, once we understood the inquiry was to be launched, the view was that this was great. The wineries could use this as an opportunity to look at the retail sector in terms of grape pricing and how they managed that.

I fear that wineries, like growers, are scared of the market chain above them. I know that Coles and Woolworths do some retribution of their own, so it is similar to the way the growers sit underneath the wineries.

Reverend the Hon. FRED NILE: So they would be pitting one winery against another winery to try to get them to reduce their prices for the supermarkets?

Mr SIMPSON: Exactly.

The Hon. MICHAEL VEITCH: Chair, at the outset I want to say that if the Committee decides to take in-camera evidence from Mr Simpson I have a couple of questions that I would prefer to ask in camera to follow up some of the questions put by Reverend Nile. Mr Simpson, yesterday we heard evidence about the South Australian legislation. Are you familiar with that legislation?

Mr SIMPSON: Yes, I am.

The Hon. MICHAEL VEITCH: We heard comments to the effect that maybe one of the Committee's recommendations could be to have that legislation rolled out in New South Wales. My issue with that is that replicating other jurisdictions' legislation sometimes has inherent and unintended consequences. What are some of the failings of that legislation that you know of?

Mr SIMPSON: A lot of the instruments within that legislation are no longer used, so they have become defunct. The Minister can set a minimum or indicative price. Unfortunately that is no longer used because of the dominance of wineries in that State and their relationship with the political parties or the Minister at the time. The other failure of that State legislation is that I do not believe it is inter-territorial. A South Australian grapegrower can sell his fruit to a New South Wales winemaker under different payment terms, so they can contract out of the State legislation. Another failure with that legislation is that it entrusts the individual grower to take the legal recourse on themselves. Growers inherently will not take legal action against the person they are selling their grapes to because retribution will follow. They need the anonymity an organisation such as the Wine Grapes Marketing Board has been able to provide when we use it in a collective sense.

We have been able to act on the comments of one grower and benefit 30 or 40 individual growers. I have had wineries advise me that if that grower comes forward they are gone, but wineries are very reluctant to kick out all the growers. There is strength in numbers if they stand behind one organised piece of legislation. The Act is an instrument that specifies the terms and conditions of payment, which I like, but the ability to contract out of that is very much the downside. I think wineries should be competing on the price they pay for grapes, not on when they pay for them. At the moment the Wine Grapes Marketing Board is pursuing one winery that still owes growers in this region $600,000 for grapes from last year. We have taken liquidation proceedings against an organisation—

The Hon. RICK COLLESS: To a single grower or a number of growers?

Mr SIMPSON: To two growers in that instance, but there is $4.2 million owed to growers in other States by the same company. The board was also informed yesterday that there is a winery that cannot pay. Our final payments from the board come today. I have cheques ready to post in my office and one of the wineries cannot pay its growers. They are happy to pay the interest but that is all the penalty they get. There is no opportunity to stop them from behaving this way in future years. They could fail to pay and then take grapes again next year. The South Australian Act allows the Minister to prohibit a purchaser from taking further grapes if they have not made full compensatory payment for previous seasons, and I think that is needed because a lot of banks have their teeth heavily into wineries and their processing facilities and I know from some of the big collapses in South Australia that the banks basically told those companies, "Buy the grapes, then we'll liquidate you."

The stock is in, the property of the grower has been transformed into wine and it is very hard to return that property to the grower. That is where issues arise such as contracts needing to have retention of title clauses, but it is very hard to enforce given blending and processing. It is transitionally no longer a wine grape, it is wine; and it is very hard to chase that. It would be ideal if we or an independent authority could report to Government that a winery has not paid and we are pursuing legal action and they cannot buy any more grapes. That would not prevent them from being a business operation. They could buy wine, and wine is a very different product in terms of how it is traded in this industry. Payment for wine is generally based on quality. The sample is received by a purchaser, they taste it and decide they want to buy it, pay the money and are sent the wine. It is money upfront in many cases unless there is a good business relationship and then the terms of trade could go to 90 or 120 days between wineries. Growers that deliver as early as December get their first third in May, their second third in June and their last payment in the middle of October.

Under the South Australian legislative terms the payments are a bit closer. The first payment is after 30 days, the second payment is at the end of June to coincide with the end of the financial year, and the final payment is on 30 September. Pretty much 90 per cent of Australia's wine grapes are sold under those payment conditions. There are wineries around here that do not use those terms and contract out of the board's terms and are paying in four instalments. I have had examples over the years of eight or nine instalments. One winery used to pay its growers once a month, and trickle it. Growers can set up their businesses for those sorts of mechanisms, but I go back to the competition aspect and I think that wineries should compete on the price they pay for the product and the markets into which they are selling the wine. If they all paid on the same time frame and growers could structure their business, the transactions costs and litigation in this industry would be a lot less and growers would know where they stood on a year-by-year basis, regardless of the price they were paid.

CHAIR: I asked this question of someone else yesterday: Is it time for fidelity bonds to come back into the picture? You may remember that in the Sydney markets years ago there were fidelity bonds to make sure there was some security.

Mr SIMPSON: We can get credit insurance and there are companies that will offer that at a price, but many are only offered to listed companies because of the inherent risk. I do not think fidelity bonds are used anymore, it is just credit insurance. I have had many organisations contact the board saying, "We will act in this area if you wish", and when I name the companies that we would like to look at this they say they are not listed or they have a flag on the books regarding that business and they cannot cover it.

The Hon. MICHAEL VEITCH: There has been a lot of talk about the contracts between growers and wineries. I am from the bush as well and I understand that often in the agricultural process it is a verbal contract as opposed to a written contract. Is that the case here?

Mr SIMPSON: Yes. That has generally been the case.

The Hon. MICHAEL VEITCH: So, there are very few written contracts in this arrangement?

Mr SIMPSON: No, currently probably 60 to 70 per cent of our industry has written arrangements in place. Some of them are just supply contracts that say you will deliver your grapes for the duration of the contract and then it will roll into another year, but there is generally not a minimum price. There are contracts that name a minimum, but that is a third of the cost of production. They are for the distillation price, so at worst case the grower would get a consolation and cover his harvesting costs if the winery was to go backwards.

The Hon. MICHAEL VEITCH: Do any of the contracts refer to the code of conduct?

Mr SIMPSON: Yes. Casella Wines' new contract refers to the code of conduct in saying that the contract does not comply with the code of conduct and any inference that it does is denied. Orlando Wines, which still has contractor growers in this region, is a signatory to the code of conduct, but they have been very reluctant to advise growers how to use the code of conduct when disputing prices or quality provisions at the weighbridge. We are trying to educate all wineries and their staff on how to use it so they know to advise growers of the processes under the code.

The Hon. MICHAEL VEITCH: The payment schedule you just articulated was referred to yesterday as 30-30-30. I asked someone yesterday whether there was a more optimal payment schedule if we were to either legislate for or recommend a mandatory code of conduct that had the payment schedule in it. Is there an optimal payment arrangement for growers other than the 30-30-30?

Mr SIMPSON: We do have a winery in this region that pays 100 per cent after 30 days of delivery. They are an American parent-owned company based in Griffith and they are surprised at the payment terms being in three payments of a third each. They say, "We can pay for it now." They are paying fair and reasonable prices to growers and the returns are quite good, but for me to recommend to this Committee that 100 per cent after 30 days would be ideal for growers would probably incense a lot of wineries that rely on holding off those payments. It is their biggest input cost. Some of the wineries are buying $16 million to $25 million worth of grapes in a season and to come up with that capital and pay in one instalment would be prohibitive, especially when they are trying to respond to a market and develop their business.

Reverend the Hon. FRED NILE: They do not have that money until they sell their wine.

Mr SIMPSON: In some instances they do not but a lot of them have the asset. They have the backing to do it.

The Hon. MICHAEL VEITCH: I am from Young, which is in the Hilltops region, and I think some of the growers there sell to wineries here.

Mr SIMPSON: Yes.

The Hon. MICHAEL VEITCH: I am trying to get a feel for the statewide picture, if it is possible, as opposed to just the Riverina. Can you explain how the Riverina differs from the other winegrowing regions? I have not heard other regions talking about this issue of selling their grapes to wineries. What is the difference? Why is the Riverina different?

Mr SIMPSON: There are major differences. In the Hunter Valley, wineries predominantly own their own vineyards and they have a small number of independent growers that deliver to them. The opposite occurs here. Fifteen per cent of our production is owned by winemakers and the majority, 85 per cent, is independently grown by grapegrowers, and lots of them. Being a soldier settler area there used to be 1,100 grapegrowers in this district, and those farmers would have had other crops and commodities on their small blocks. That has been rationalised and growers have focused on just one crop and not diversified. In the Young, Hilltops and Cowra-Mudgee areas most have been fortunate enough to have a bore or river access, but they still have fat lambs running in the paddocks. Our growers do not have that. If you drive around here you will see no fences on farms. They have maximised their cropping capacity on those blocks. Many of the rows actually form part of the boundary. They are heavily reliant on monoculture that is either grape or citrus and some have diversified into other commodities such as prunes, which is more predominant in this area.

The Hon. MICHAEL VEITCH: Has there been much aggregation within the settlement blocks?

Mr SIMPSON: Generally not. The capital costs of recreating irrigation inputs and drainage points are very difficult. Most of the growers' development in this area has been on greenfield sites, on the outer reaches of channels and rice country. Another issue that sees why we are different to many other regions is that we are predominantly family-owned wineries in this area and most of the others are corporate structures. We have real farmers in this area, whereas most of them are what we coin the phrase, Pitt Street farmers, all doctors and lawyers, lifestylers. Grape growing for growers here is not a lifestyle choice; it is a business to us, but many of them have had to diversify and find off-farm work.

The Hon. RICK COLLESS: What size are the settlement blocks?

Mr SIMPSON: They are 50 acres generally. An average sized farm around here is about 27 hectares now so we still have quite a heavy reliance on those smaller farm holdings. I have 25 growers producing nearly 1,000 tonnes each and more. We have growers who produce 6,000 and 7,000 tonnes of grapes themselves over large tracts of land, whereas to do that on small-scale as a business interest, the blocks are that small you have the house on each block, it would be too capital intensive to buy that sort of land. So, restructure in this industry or in this area will be difficult as we move forward with issues such as the basin plan and trying to get better economies of scale to meet declining terms of trade.

The Hon. MICHAEL VEITCH: Can you talk us through the impact of the national competition agenda that has been going on now for a couple of decades or thereabouts? Some of the evidence you have been giving this morning and some testimony we heard yesterday, I have to say personally, does not sit too comfortably with me about how it is with the national competition principles in Australia at the moment. Do you see issues with the national competition agenda and the arrangements here in the Riverina for the winegrowers and the wineries?

Mr SIMPSON: I do. I think the national competition is probably rolled out on the interpretation of individuals within departments and how they interpret the principles themselves. The net public benefit clause should have been explored more in terms of the legislation and activities in regions such as ours. Look at the history of our area. We have been a heavily regulated area in terms of farm size—a productive area and what you could do with that productive area and what sort of irrigation you needed, and then we have this competition policy, which has basically benefited the bigger end of town, the retailers, the large processing facilities and, as I said before, processors are now being impacted by the dominance of the retailers.

While the formation of the ACCC was well intended I think it is very much a toothless tiger in the way it acts. There have been examples in this region from the poultry processing industry of how bad it has behaved and with the water market the ACCC has been more detrimental to the development of our area. The irony of the competition policy was not lost when the person who set it up then went on to work in all these other areas—Professor Hilmer—and I think it has been detrimental to the longer term. We used to operate vesting in this area. That was prior to my engagement with the Wine Grapes Marketing Board—

The Hon. MICHAEL VEITCH: That was pre-2000?

Mr SIMPSON: It was pre-2000; 2000 was the last year that the Wine Grapes Marketing Board could have used vesting as a mechanism to negotiate for the sale of the crop and it declined to do so to let the market open up in appreciation of the competition policy principles being rolled out. Since then we have seen wineries come and go and a lot of growers leaving the industry. I think it has been detrimental to agricultural Australia. In a past life I made that point very clear to the then Labor primary industries Minister, Richard Amery, and while he was very sympathetic, it was legislation and States were being withheld funding by the Federal Government. For the South Australian Act to have survived throughout the competition policy, and it probably would not have received the rigours that we received in this area, and that Victoria lost theirs at the same time, and the whole industry has just fallen over in terms of how negotiations are formed and how prices have developed. I think we have lost that link between growers and winemakers as a result of competition policy.

The Hon. MICHAEL VEITCH: Do you think the South Australian legislation is outside the national competition framework?

Mr SIMPSON: I understand it was reviewed and I understand it stood the test or the State of South Australia took a loss in terms of its competition policy dowry payments from the Federal Government which, for a State that is heavily reliant on wine grape production it could probably afford to do so. They are very protective of their primary producers in that State and national competition policy has been detrimental to primary production in Australia in my view.

CHAIR: What education activities does the board do with or for the growers?

Mr SIMPSON: For a start we try to communicate with them on a regular basis, and I have examples in my evidence here regarding how newsletters and the number of times we have set out items and articles about contracts, about what to look for in contracts, how to negotiate with wineries in terms of what to look for, how to get your point across about your business structure. We have developed our own contract and some growers have tried to use that at wineries but it is a one-way street, the winery offers the contract.

CHAIR: Do you get any help or support from the old Department of Primary Industries or Industry and Investment?

Mr SIMPSON: No, and we have not asked for support in that way. Contracts are individual to the grower. I would say 30 per cent of my time during pre-vintage is taken up in discussions, one-on-one, with growers as opposed with getting them together. Contracts are very personal instruments that growers do not want their neighbour to know that they have, perhaps, a better return. So it is a lot of one-on-one. We have explored contractual meetings, having meetings to discuss business skills and the Department of Primary Industries has offered in the past, but growers are less inclined to turn up for those things.

(Evidence continued in camera)

Reverend the Hon. FRED NILE: Are there any recommendations you would like us to make as a priority?

Mr SIMPSON: Only those as set out in my submission, thank you. I believe we need legislation. To enact legislation in our region alone would be to put us at odds with the rest of the State. Statewide legislation would be appreciated. As I understand it, terms of trade and terms in regard to payment terms in other areas of

New South Wales are the industry standard. The vast majority, over 95 per cent, follow the South Australian Act. In our region we are seeing a deviation from that, because the legislation allows them to deviate. When I talk to big companies in Adelaide about the terms of payment, they say, "Why is Casella Wines doing so well?" I say, "He is paying his growers in four instalments and you are having to pay three, so his cash flow immediately has a competitive advantage." National competition policy was to try to prevent people having a competitive advantage over others.

The Hon. RICK COLLESS: That is distinct from bully boy tactics though, is it not?

Mr SIMPSON: That is true.

CHAIR: Yesterday we took evidence from one of the other regions. They felt that anything we do should be region by region, rather than across the whole State. The different regions have different ways of doing business and we have the situation where they were paying up to $1,000 a tonne, whereas in the Riverina area probably the highest was around $350 a tonne. They felt that if you apply it across the State, you could disadvantage people in other regions. Do you have a problem with any of that?

Mr SIMPSON: Yes, I do have a problem with a statement like that. We are not looking at pricing; it is price disclosure and when they are going to pay for the price that they have taken over the weighbridge. I believe that price disclosure, if it is managed on a regional basis, because of maturation times, would have to be staged, and then it becomes an unwieldy instrument. Therefore the board has recommended an earlier date, of July.

The concerns we as an industry would have about using such an early date is that you are likely to get ridiculous minimums, so it gives growers no understanding of what the market is. We have seen examples of that in 2004 and 2003, where our legislation required winemakers to notify a price, and we were just getting $100 for everything. It gave growers no opportunity at that point of time to renegotiate, and it was false. If they did it in July, the growers would say, "Well, I am not going to grow it." They would not have 70 per cent of their business costs sunk into it. They could say, "That's it, I'll push it out." The winery would then regret that decision and learn, "Next year, let's be more realistic about the process." I believe it is a national thing that needs to be addressed. If nothing else, I am hoping that this Committee, if we cannot have something that is statewide, that we use the COAG to push for this mandated code. It has been two years that we have had the code, it has been seven years in the making, and it is costing industry money. It is a good tool. It is not going to fix everything and the behaviour of everything, but it will allow industry to move forward in the partnership, I believe.

CHAIR: Thank you for your evidence today. Hopefully we will come up with some recommendations. It will not be easy, because we need to look at the ACCC guidelines as well. In any event, we will do our best.

Mr SIMPSON: Thank you very much.

(The witness withdrew)

(Luncheon adjournment)

PHILLIP JOHN ALVARO, Solicitor, sworn and examined:

CHAIR: In what capacity are you appearing before the Committee?

Mr ALVARO: I am appearing as an individual, although in saying that when I put in my submission I noted that I act for the Wine Grapes Marketing Board and I have acted for individual growers. But the submission was made on my behalf, not on their behalf, and put my views on some of the matters that I thought might be germane to the inquiry.

CHAIR: Are you conversant with the terms of reference for this inquiry?

Mr ALVARO: I have read them but I do not have them before me. My submission was about the matters that might be relevant that leapt to mind when I first read them. I know it is an inquiry into pricing in this area, contracts, what can be done about developing certain codes of conduct, and other matters.

CHAIR: You are pretty spot on. I point out that if you consider at any stage that certain evidence you wish to give or documents you may wish to tender should be heard or seen only by the Committee please indicate that fact and the Committee will consider your request. Would you like to make an opening statement?

Mr ALVARO: Yes, briefly. What attracted my attention when I put in the submission was that there has been progressive deregulation in this area in relation to the marketing of wine grapes, which followed obviously from the report of Mr Samuels in the 1990s, or perhaps before that. The view was expressed at the time that this would lead to long-term contracts and greater attention being paid to the individual needs of wineries and growers so that they could have something that suited everybody and that would be mutually beneficial. However, in my experience, the reality is that that just has not happened. There are very few long-term contracts, they are price-only contracts and sometimes they are unkindly referred to as Clayton's contracts—the contract you have when you are not having a contract—because they generally are not enforced. I have never seen anyone sue on a contract in this area for 15 years—I started in 1995—and that is a long time. Not one dispute has ever reached court or been adjudicated by a court. It is mainly because they are so short term. Most growers, if they feel they have been badly done by, are not willing to risk either alienating the existing winery they are going to or getting a bad name, if you like, that prevents them from taking their fruit to other wineries.

It is also very expensive. One thing I did not mention in my submission that has come to my mind since then is the sheer expense. It is a perishable product and when you have to prepare a case to find out what your loss is you have to get an assessment in the vintage. If the fruit is going to go off you have a short window of opportunity in which to make an assessment as to what sort of damage is going to be incurred by reason of the fruit being lost because it cannot be delivered. If you are looking at relevant expert evidence, they will charge for every centimetre they travel, so if you are looking at getting someone from Sydney, Mildura or further afield, or even South Australia, you will be looking at fees in the region of $5,000 to $6,000 before you even know whether you have a loss that is worth litigating about. Obviously it is not worth your while to take on matters that do not involve a reasonable sum of money. It is not worth the expense. The profit is not there and it is not worth the time, trouble and effort.

CHAIR: Do you want to add anything further or shall we ask questions?

Mr ALVARO: No, ask a few questions.

CHAIR: In your experience, are these so-called contracts the norm that growers will accept and sign and abide by or are they something that really needs to be more properly and professionally done, and can it be done?

Mr ALVARO: What generally happens is they are professionally drawn. Some of the bigger wineries have professionally drawn contracts. They are either done locally or some go to Sydney firms to draw them. They are usually quite detailed. There are shorter versions, which are usually done at short notice for the coming vintage—what used to be called spec fruit—but generally speaking they are fairly thorough. Sometimes they do not exist at all, they just say, "We'll take your fruit." That happens particularly in mid vintage if there is any fruit on offer. If there is some cheap fruit on offer, particularly if it is a variety the wineries want and need, they will take it, but you might get a very small price for that.

CHAIR: In your experience in the area you have certainly seen a lot between growers and wineries and you have heard a lot about what conversations go on. Why is it you feel there has not been any real action taken within those contracts and yet there are growers out there who are really saying we need to have something done, and this is what this inquiry is all about. What seems to be the problem?

Mr ALVARO: It is cost prohibitive, the expense. As I said earlier, just to get your expert evidence together you can spend $5,000 or $6,000 to find out whether you have a claim which is of sufficient quantity or sufficient amount to be worthwhile litigating. The second, and I think the most important thing, is there is real fear about not being able to find a home for your grapes in the years to come or getting a bad name amongst other wineries so you cannot take your grapes elsewhere. Even growers who have a long-term contract genuinely fear that if they sue on their contract, when their contract expires they will not be able to get a fresh home for their grapes. You have to remember a change in variety of grapes takes three years and even at the end of a three-year period, that variety may no longer be required even though the winery might have stated to you at the time that it wants you to plant that particular variety.

CHAIR: So, legally what would the growers have on their side to fight that bullying, for want of a better word?

Mr ALVARO: If there is a contract—and, as I said, that is not very prevalent, particularly long-term contracts—there are other remedies which I did not specify in my submission, but it would be misleading and deceptive conduct under the Trade Practices Act. There would be harsh and unconscionable conduct, again under the Trade Practices Act and also under the Fair Trading Act. They are remedies that are not usually pleaded, to be honest with you, because they are difficult. They are not simple. If someone says I agree to buy X amount of grapes for a certain amount in the coming season, those scenarios I was talking about is where the winery would say I want you to plant Chardonnay and you will have a home for your grapes in three years time. When the three years comes up they say, no, it has changed now, we do not need it any more, thanks for coming but we will not be taking your grapes. That is where I think there is a case for misleading and deceptive conduct and harsh and unconscionable conduct, but they are difficult causes of action to run. They do not run in the Local Court. They are usually reserved for the Federal Court or Supreme Court actions and, let us face it, unless you are a big grower, if you have done $30,000 or $40,000, you just live with it.

I know it is a difficult situation. Being honest here, the wineries do not always know which way the wind is going to blow in three years time. Wine can be fashionable, like anything else. Red can be in, some other variety can be out. It is difficult. The point I was getting back to earlier, in 1995 this was the theme. We got contracts, long-term contracts, and they worked together, wineries and growers, to make a better return for all concerned. That has not happened, and I just find that a little disappointing, because I think it can happen but the short-term money motive prevails. You are looking to make a profit for this year, you are not worried about what is going to happen in three years time. I think that is why it has happened in this area to date.

The Hon. RICK COLLESS: On the deregulation, in your submission you made the point that deregulation is supposed to foster closer working relationships between wineries and growers to their mutual benefit.

Mr ALVARO: Yes.

The Hon. RICK COLLESS: What is the reality?

Mr ALVARO: As I say, it has not happened. It has been very one-sided. It has been more or less take it or leave it. These are the conditions for this year. Grape is a perishable fruit. You cannot store it and cannot crush it. You have to sell it now or not sell it at all. It will rot on the vine. If they call the shots, they call the shots. To be fair to the wineries, to a certain extent that is a reflection of supply and demand, but what I have found fairly difficult was when the area was fairly buoyant in terms of prices and there was demand, some of the growers stuck to their wineries even though they were getting a lesser dollar. You might well appreciate how upset they feel when the situation is now reversed.

The Hon. RICK COLLESS: The loyalty is not returned?

Mr ALVARO: The loyalty is not returned. And I see a downside for the industry as a whole if there is no—if not expressed at least implied—loyalty or working relationship between winery and grower. If a grower comes in to me tomorrow and says, "They promised me this" about taking through for the future, I would say two things: Are you going to get a contract which is satisfactory to you, not satisfactory to them. It cannot be one of those one-sided contracts where they can arbitrarily downgrade the price, arbitrarily push you into delivering late so the tonnage goes down, or the other mechanisms they use to reduce the price. It has to be fair. Get them to sign that and you will find no-one will do that, none of the wineries will commit to a long-term contract, particularly now that the major corporate wineries have virtually left the area.

The other thing I would say is if they are not willing to make that promise or that obligation to you, just sell it to the highest bidder. Make the money while you can when you can. Experience has been that when times change for the worse, they will not remember, they will forget about it. To a certain extent that human nature and understandable, because it is their bottom line, but they cannot say to you now they will look after you when you know as well as I do if times get tough and circumstances do change that that will be forgotten. It is very hard to enforce. I cannot talk about specific cases because obviously there are obligations of confidentiality and privilege between me and my clients. But it does become very expensive. I was not talking hypothetically of those figures. Just to make an assessment is an enormous sum of money for a grower to fork out upfront to find out if he has a worthwhile case to proceed with.

The Hon. RICK COLLESS: So, the assessments you are talking about are assessments of the fruit, is that correct?

Mr ALVARO: Yes. If you are going to argue a case and you have a contract and the fruit goes off you have to be able to have a look at the fruit and find out what tonnage you had.

The Hon. RICK COLLESS: Before it goes off?

Mr ALVARO: Before it goes off. It is very hard to do when it is rotting and when it has gone, and it is rotting on the vine.

The Hon. RICK COLLESS: What sort of scientific assessment occurs of the fruit at the point of delivery? Is there a colourimeter or a Bricks reading or moisture content? What sort of things do they look at?

Mr ALVARO: They can be determined. They have devices for that but the real difficulty has been with colour. That is very subjective.

The Hon. RICK COLLESS: When you say it is subjective, the winemaker comes and casts his eye over the grapes and gives his impression of it rather than some scientific assessment of the colour?

Mr ALVARO: Yes, that is precisely what it is.

The Hon. RICK COLLESS: Do you know if any work has ever been done in an attempt to have a more scientific assessment of the colour?

Mr ALVARO: I think there has been, but it is a matter of memory for me; I cannot remember exactly what occurred. But my memory is that it was all too hard in the end.

The Hon. RICK COLLESS: For the wineries, or for everybody?

Mr ALVARO: For everybody. It is obviously very subjective. The other difficulty is that you get the colour into the vineyard, and both parties can make an assessment then, but what happens when the fruit is first delivered is that it goes over the weighbridge and then it gets crushed. Most wineries do not have individual storage for individual growers; they are all put together.

The Hon. RICK COLLESS: But that would not be a problem, as long as the fruit was properly assessed before it was delivered, would it? If there were a scientific assessment of the colour, the sugar, and whatever else you it is they look for, it would be a simple matter of documenting that load and saying it is worth so many dollars per tonne. That is the way a lot of other agricultural commodities are marketed. Wheat, for example, is marketed on protein and colour.

Mr ALVARO: Yes.

The Hon. RICK COLLESS: And soya beans are marketed on oil content, and so on. So it is not an uncommon practice in regard to an agricultural commodity anyway.

Mr ALVARO: No. They usually deal with the field. They usually test the sugar level before they allow delivery. It is just that if you have a very busy vintage and trucks are coming in over the weighbridge, I just wonder how practical that will be.

The Hon. RICK COLLESS: But is that any different, really, from when there are trucks lined up at silos delivering wheat? The same thing applies to any commodity, really. Perhaps the grapes are a little more subject to deterioration if they are not delivered within a certain time.

Mr ALVARO: Yes. There is a preference for harvesting at night and delivery in the morning. It used to be very much so that grapes were harvested during the day, but now it is almost exclusively harvesting by machine at night because they keep the coolness. On a very hot day, grapes can start fermenting on the way in from the farm.

The Hon. RICK COLLESS: If you had the task of drawing up a generic contract for growers and the wineries that was to reflect the needs of both groups, how would that be structured, do you think, and what sort of product assessment criteria would you include in that?

Mr ALVARO: If it was a short-term contract, I think a price should be nominated. If it is a long-term contract—and I am talking about 5 to 10 years—I think it would be unreasonable for the wineries to specify a price because price is volatile. Then you would be left with a term like market price, or a reasonable price. Those two expressions can be interchangeable, but in certain circumstances they do have different meanings. But that would be a fair way of approaching it, instead of what we have at the moment. It will virtually end up being a supply contract, with no prices nominated, or if a price is nominated it is so low that it does not mean anything. But, to be fair to the wineries, they usually pay above that nominally low price at the weighbridge.

Reverend the Hon. FRED NILE: Thank you for your attendance, given that you are under so much pressure. In your submission you say you are in favour of collective bargaining and you think it would work. Could you explain how it could work?

Mr ALVARO: It would assist us, because the individual grower would not have to front up and negotiate with his winery. The board could perhaps act, although it could be someone else who could hear the various concerns and the grape growers association could possibly fill that void. But at the moment, individual wineries will issue one contract and say, "This is what we are proposing." They send out a letter to all their growers, either with a contract or just a note or something like that, and say, "This is what you are going to get." No-one could go there and say, "We don't like it. Can we change this?" It is very much take it or leave it. I know there might be some trade practices difficulties with it, but in my opinion in this area the wineries are the price takers; they in fact determine the price more than anything else. So it would be hoping to redress the balance a little bit in that way. Although, I must be honest with you, I do not think it is a panacea; I do not think it would solve everything, because when push comes to shove no-one can force any winery to take your fruit. Even with vesting in this area, when the board owned the crop, that still did not mean that any winery would be obliged to take the fruit. But the way it was done in the past is that a realistic price was set and very rarely was there a problem. If there is fruit out there at a realistic price, the wineries will take it. That is my opinion; that has been my experience.

Reverend the Hon. FRED NILE: The other point you have made in your submission is that you support a compulsory code of conduct, not a voluntary one?

Mr ALVARO: Yes, I do.

Reverend the Hon. FRED NILE: Would that work?

Mr ALVARO: It would help.

Reverend the Hon. FRED NILE: Wineries who support that would have to become signatories to it, would they not?

Mr ALVARO: Yes, they would. But with a compulsory code of conduct they would have no choice. What I am concerned about is that there would be more notice given to growers when things were changing. My experience has been that sometimes they will change the price mid-vintage. Growers have no chance about negotiating then. You have got the fruit there and it has to be delivered or it will go off. So they will say, "Look, this is the price we are offering you. If you don't like it, go away." That is pretty tough. Sometimes I think it is in breach of contractual arrangements; sometimes it is not. I think it is also potentially harsh and unconscionable under the Trade Practices Act to engage in that sort of behaviour. But again, if you are not looking at large sums of money, it is just not worth your while.

The reason why I thought a compulsory code of conduct would be of some value is that the code would say you have to stipulate your prices early; you cannot change them midstream. So everybody knows where they stand. If it was done early enough to allow the grower to go out and find another place for his grapes, or another home, that would be more reasonable than just saying, "You have a home for your grapes but we can't tell you what the price is. But you are still obligated to deliver."

Reverend the Hon. FRED NILE: You have already been critical of the situation where sometimes the price is established at the weighbridge and the grower does not know, even as he is delivering it?

Mr ALVARO: No, he does not know.

Reverend the Hon. FRED NILE: That seems totally unfair. The grower cannot even back up?

Mr ALVARO: He cannot. That is part of the problem. The grapes have to be delivered or they will go off. As I was driving here I heard on the radio that the Australian dollar is creeping even closer to parity. I think that has made it a real difficulty, to be fair to the wineries. But, to put it in context, this has been happening since the dollar has been at around 60¢. The problem we have now is not solely due to, if I could call it, capricious conduct of the wineries but also the fact that our dollar is slowly creeping up to parity. But that will change; it is a fairly volatile sort of thing.

The Hon. MICHAEL VEITCH: In your opening statement you were critical of the deregulation, the national competition principles, and the framework of policy that has been in place over the last 15 years or so. Can you explain how you consider having a regulated or set price fits in with the national competition policy framework for governments in Australia?

Mr ALVARO: The problem is, it does not. That is the problem. It has become fairly clear that if you are going to fix a price, that would probably be in breach of national competition policy and the principles and you would have to seek essentially an exemption from the Trade Practices Act to get over it. Technically speaking, any State government can veto it if they wish to do so, but the practical problem, as I understand it—and it has happened in the past—is that the Federal Government says—

The Hon. MICHAEL VEITCH: It is a financial penalty?

Mr ALVARO: It is a financial penalty. It is not a strict legal impediment, but the reality is that if the Federal Government will not pass on the money, the funding, or whatever it is, most State governments will not do it. It just depends how controversial the issues are. As I said, the Retail Leases Act does actually have some restrictions on the capacity of landlords to increase rent.

The Hon. MICHAEL VEITCH: Are you familiar with the South Australian legislation, the Wine Grapes Industry Act 1991?

Mr ALVARO: Not a great deal, to be honest with you. But I am aware that they had terms of payment, and that was it.

The Hon. MICHAEL VEITCH: I was about to refer to the clause relating to the terms of payment and the payment schedule. Given your experience with this industry, what do you think is the optimal payment schedule? If we were to try to enshrine some process, either a mandatory code of conduct or legislation, what would be the optimal payment schedule?

Mr ALVARO: It is a matter of opinion. To be honest with you, I think it would be either three payments or four payments.

The Hon. MICHAEL VEITCH: Across a calendar year?

Mr ALVARO: Yes. Much the same as what we have now. I cannot remember. Obviously the wineries need to have a bit of time to move their produce. There has been difficulty with payment in the past, but it has usually been overcome. The existing Act, I believe, has interest payable when there has been default for late payment, and it seems to have worked. The worst thing is that, in the circumstance where there is a default by a winery and they have not got the money, that is where any penalty in the Act or anything like that would have absolutely no effect whatsoever on the outcome for the individual grower.

The Hon. MICHAEL VEITCH: My last question relates to unconscionable behaviour provisions. If the legal fraternity were to bring a case against one of the wineries for unconscionable behaviour in their negotiations and dealings with the grower, what are some of the things you would have to prove in the court?

Mr ALVARO: Unconscionability is such a wide term. There are no fixed criteria. That is what makes it difficult to litigate, because it lacks precision. Everybody has a different point of view as to what is unconscionable and not unconscionable. The thing I would look at is whether, say, a mandatory code of conduct was breached. That is one of the things I was thinking about when I was writing my submission. If you have a mandatory code of conduct and you go before a court or tribunal, you say, "This is what the code of conduct says. It is mandatory, and it has been breached." It is a good starting point.

The Hon. MICHAEL VEITCH: In your view, one of the steel rods for the industry would be to have a mandatory code of conduct?

Mr ALVARO: Yes. Everybody would have a different view as to what is unconscionable in a certain set of circumstances. I personally feel it is very tough on growers for them to be told to plant chardonnay and then in three years time when the fruit comes into production to be told, "We don't want it anymore." I find that to be very tough. The winery would say, "We don't need it when we haven't got a market for it. Why should we buy a product we can't sell?" Some might have a different view as to whether that is unconscionable or not. I personally feel that it is a little bit tough.

The Hon. RICK COLLESS: The problem, really, is the issue of short-term contracts versus the long lead time to get a crop?

Mr ALVARO: Yes. It is not easy. I am not here to pretend it is easy for the winery. But what has been troubling me is that some of these growers are selling their grapes for less than the cost of production. That cannot be sustained. Admittedly, it is probably not a large amount but it is significant. It is a worry.

CHAIR: I have a question that you may not want to answer in an open forum. Given the problems the industry has as a whole, in your profession do you come across such a significant number of people that the area should be concerned? You do not have to answer that if you do not want to.

Mr ALVARO: I do not mind answering that, but I am not sure what you are getting at. I have noticed that the larger growers tend to do better than the smaller growers. If they have volume they can negotiate better deals.

CHAIR: What I am getting at is, is there a significant percentage of growers that are facing financial hardship because of the system that is in place today?

Mr ALVARO: I would have to say yes. If your product is being sold for less than the cost of production you have a real problem. Even if it is a small part of the crop you would still have real difficulty. The problem with grapes is that you cannot let your vines die. People have talked about mothballing and cutting back but you still have to water them, and that costs money and perhaps increasingly so given other developments. This is not the forum to discuss those.

The Hon. RICK COLLESS: Five thousand other people are.

Mr ALVARO: Yes, it is being discussed elsewhere. If the cost of water goes up, so obviously will the cost of production.

CHAIR: I am conscious of the time and that you have to go. We will have questions that we will put in writing to you. Would you be able to provide answers within 21 days of receiving the questions?

Mr ALVARO: I have no difficulty with that.

CHAIR: We do not want to cut you short but we understand you have other commitments. Thank you for your time and your contribution.

(The witness withdrew)

(Short adjournment)

STUART RODNEY McGRATH-KERR, Public Officer/Secretary, Riverina Winemakers Association, and

LESLIE KENNETH WORLAND, President, Riverina Winemakers Association, affirmed and examined:

CHAIR: Welcome and thank you for coming in this afternoon. I know you have had a big day already and I hope we can make it a little more enjoyable.

Mr WORLAND: It has not been so far.

CHAIR: Mr McGrath-Kerr, what is your occupation?

Mr McGRATH-KERR: Consultant.

CHAIR: In what capacity are you appearing before the Committee?

Mr McGRATH-KERR: I am Secretary of the Riverina Winemakers Association and I am appearing on behalf of that organisation.

CHAIR: Are you conversant with the terms of reference?

Mr McGRATH-KERR: I am.

CHAIR: Mr Worland, what is your occupation?

Mr WORLAND: I am the public relations and wine education executive at Casella Wines.

CHAIR: In what capacity are you appearing before the Committee?

Mr WORLAND: I am the President of the Riverina Winemakers Association.

CHAIR: Are you conversant with the terms of reference?

Mr WORLAND: Yes.

CHAIR: If you consider at any stage that certain evidence you wish to give or documents you may wish to tender should be heard or seen only by the Committee please indicate that fact and the Committee will consider that request. Would either or both of you like to make a brief opening statement?

Mr WORLAND: We have put in our submission and that contains what we want to say.

CHAIR: Several submissions have referred to oversupply as the primary driver of unsustainable wine grape prices. Your submission refers to it as a chronic oversupply relative to market needs. What other factors do you see as influencing prices in the wine grape market at present?

Mr McGRATH-KERR: There are a number of factors with the industry now being two-thirds overseas sales. The returns to exporters are very heavily dependent on world prices, particularly with the large volume of wine sold at low end values. Something like 80 per cent of all wine is sold at less than $45 a case freight on board [FOB], which is less than $4 a bottle, so you can see there is not much in it for anyone once you take packaging, freight and all the rest of it out of the equation. Of course, there is competition from other New World producers, particularly Chile and South Africa, which we understand have much lower costs of production than Australia as well. That is one factor. The second factor is exchange rates. As you are all aware, we are heading towards parity with the US dollar. Three and a half years ago when I went to Europe with my family £1 cost me $2.50 and now I think it costs about $1.70. Wineries are price takers in overseas markets and receiving £3 or £4, or whatever the return might be, is clearly much lower in Australian dollars. All exporters are facing that, I guess.

Mr WORLAND: As far as exports are concerned, as you know the wineries here are all big wineries in comparison to other areas and a lot of them are very much involved in exports. The high Australian dollar has killed us at present, with the oversupply, plus we have a similar situation in New Zealand. The biggest selling white wine in Australia today does not come from this country. It comes from New Zealand, where there is huge oversupply and they are offering their wines at very low prices, which a lot of the wineries here have taken up because one of their varieties is the flavour of the month and people want it. There is competition here from the supermarket duopoly, who are buying it in bulk as cleanskin labels and also with their own labels on it, and allowing more imports to come into the country. Imports are now about 12 to 15 per cent.

CHAIR: What do you see as the key factors influencing prices in the wine grape market at present?

Mr WORLAND: For us it is market forces. Most wineries, particularly from this area, have individual needs. There are little wineries, medium sized wineries and big wineries. As far as varieties go, some wineries might need chardonnay and some do not. Chardonnay is in huge oversupply but that was not always the case. It was the flavour of the month. We can look back to when the Government allowed a lot of orange concentrate to come in from Brazil, which basically killed the juicing industry here overnight. Tony will tell you that everybody pulled out orange trees and put in grapes because grapes were the crop that was going at the time, particularly one or two varieties that were the flavour of the month. Now with the New Zealand wine, chardonnay is not the flavour of the month and we are stuck with it. It is still popular in America and we are able to sell chardonnay to America but not everybody in this place has a market for chardonnay, so their prices will vary according to their needs.

Mr McGRATH-KERR: Another factor is there is quite a diversity of sales structures among wineries in the area. While four are very large, Casella for example is 95 per cent export, I think, and it is all fully bottled, a company like Burton vineyards—I am guessing a little here—could be 80 per cent bulk wine, so it is basically processing and selling on to another bottler, so they do not have any brand ownership in that sense. Companies like De Bortoli might be 20 per cent export and 80 per cent domestic market. They are very heavily represented in the cask sector and, as you know, you can pay $10, $12 or $13 for four litres of wine in the cask sector. Again, the profit margins there are a lot lower than if you are selling a $15 or $20 bottle of wine. McWilliams bottles all its product but is very heavily into the domestic market. There are different sales mixes and different price points that they sell into and each has a different need and a different capacity to pay higher or lower prices, depending on whether they have got strong brands or they are basically price takers at the commodity end, say, the cask end.

CHAIR: The Winemakers Federation of Australia has supported the wine industry code of conduct. What do you see as the barriers to adoption of the code by winemakers?

Mr WORLAND: It is something for individual wineries. We have an unspoken code of conduct, which most of our customers would know depending on which winery they supply. It is something we could adopt if they wanted to do something across the board and get it in place but at the moment most of the wineries have a good relationship with their vignerons, the people who grow the grapes, and they would be well aware of what they can do and cannot do, whether they should spray or not, and all those things. They are issued with spray diaries and they get visits from grower liaison people all the time to inform them, whereas in the old days grapes would come in and be rejected. Very few of them are rejected now because if they are not good enough they do not leave the vineyard. I am sure they are all very conversant with that. It is the same with the amount of material that comes in that is not grapes—bits and pieces of wood and other things, which we call "molp". That is the only thing that comes in with the grapes that is not determined before the grapes leave the vineyard. That can lead to rejection or lower prices depending on the scale of it.

The Hon. RICK COLLESS: Following up the matter of product assessment, which you were getting to when you answered the last question, is there a better way of having a more scientific assessment of the product either prior to its leaving the vineyard or prior to delivery, particularly in relation to colour, which was raised as an issue. Basically it is a visual assessment by the person accepting the delivery.

Mr WORLAND: It is a visual assessment, but it is not only that. The grapes are tested—

The Hon. RICK COLLESS: Tested for?

Mr WORLAND: For colour, because colour, depending on the anthocyanins or the pigments in the skin, is what we need to sell wine at a particular price point. If they do not come up to a colour standard—and again this might vary with wineries because people like De Bortoli and McWilliams are big cask and bulk people and we are not, so we might ask for a higher colour standard than somebody else for a particular variety.

You need to have that pigmentation or ripeness in the skin so we get the colour we want and the consumer demands for a particular variety, otherwise it gets downgraded and if we take it we do so at a lesser price.

The Hon. RICK COLLESS: What is the nature of that test? How is it done?

Mr WORLAND: It is a laboratory test. It is done with a machine. I am not conversant with that, it is a winemaking technique, but when they come into the weighbridge it is done there and then and they are given a slip of paper that shows the colour. If it is acceptable they know they are going to get a certain price. If it is not, they are told, and the prices are there at the weighbridge every time they come in.

The Hon. RICK COLLESS: Is the sugar level done?

Mr WORLAND: The Baumé, the acid, the temperature and the sugar are done, and they know all this. If the grapes are a little bit flabby or too ripe we are able to adjust at the weighbridge.

The Hon. RICK COLLESS: We took evidence earlier that suggested that prices vary by as much as 200 per cent for the same quality fruit going into the same wine and destined for the same market. Is that an unrealistic assumption?

Mr WORLAND: From individual wineries?

The Hon. RICK COLLESS: Yes, from different wineries.

Mr WORLAND: They are not going into the same wine. It is the same variety of wine but it is not going into the same wine and is not sold under the same label. As we said before, the company I work for is a big export company. We would require the grapes to come at a certain Baumé, a certain sugar level. We have a contract that says it should be a certain amount of alcohol. The amount of sugar in the wine determines the amount of alcohol you have in your finished wine. Some of the people that do not have those restraints and are domestic and have to compete with another 2,000 little wineries often do not have the economies of scale that we have, or they do not have dripper systems and are still on the old flood systems, so they do not get the quality we would require.

The Hon. RICK COLLESS: But is it a reasonable assumption that grapes that have the same characteristics and the same measured parameters should be sold for around the same price? I would not expect to see a 200 per cent difference.

Mr WORLAND: No, I do not think so. It is not reasonable at all because there is an oversupply situation.

Mr McGRATH-KERR: Two hundred thousand tonnes were not sold at any price last year. That is one issue, regardless of the quality of the product. The other issue is, as I said before, each winery operates in a different set of markets with a different set of product mixes and has a different tier of demand, if you like. If you go back seven, eight or ten years, when grapes were in short supply, and the big corporates like the Orlandos and Hardys came into the area and paid much higher prices for the same grapes or probably even worse grapes, that simply reflected their need to secure supply. They were prepared to pay a premium. Other wineries do not have the same profitability or are maybe more into processing wines, such as McGuigan and the Australian Vintage company and so on, and they take the next tier down.

They do not actively compete to get a particular volume of fruit but they will take the next layer down. It may well have the same physical characteristics but the person paying $600 or $700 a tonne only wants a certain volume of that. The rest of it is still there but it will probably go into a cheaper product because that winery is not as profitable and is operating with lower gross revenues and therefore cannot afford to pay a higher price regardless of the physical characteristics of the grapes. You know yourself with the wines you buy in the marketplace that you may drink a $7 bottle of wine and think it better than a $15 bottle of wine. They may well be very similar but you prefer the brand or some characteristics of the product other than the physical nature of the product it is made from.

The Hon. RICK COLLESS: When you say the industry is in chronic oversupply, what are the circumstances that led to that situation?

Mr McGRATH-KERR: It goes back probably to the 1990s, when exports just started to take off in the late 1980s and early 1990s, and we went from a country that produced only for the domestic market, produced 400,000 tonnes of grapes, and the Chardonnay boom started. You might recall Neville Wran saying he would like to sip, I think it was, a Rosemount Chardonnay. Back in the 1980s the Chardonnay boom was the first one. There was a white wine boom that went up to, say, 1995. After that the steam went out of that and the red wine—the French paradox they talked about—started to take off. In that same time you had the Federal Government brought up the wholesale sales tax to 30 per cent, I think, from 20 per cent, and negotiations in 1993 to mitigate that to a staged system, 2 per cent a year. As part of the trade-off for growers they gave them tax breaks for the establishment of vineyards, which was quite a good incentive. In the wine and citrus industry high prices were being paid for grapes in the 1990s, virtually all the way through—massive returns, supernormal profits for any growers to encourage planting and tax breaks for doing it.

By 2002 the industry was starting to head into oversupply—that was the message—and steadily went more and more into oversupply until 2007 when the drought hit. We had a short year and a lot of the stock went out of the system, so things tightened up momentarily but the fundamental production base had grown from 500,000 tonnes to two million tonnes of grapes and the markets, by the time you got to the mid-2000s, and as we get towards the end of this decade the exchange rate started cutting again and we started to lose returns. The demand for Australian wines started to plateau and we had picked all the easy fruit, as they say. Exports started to plateau off and all of a sudden we are into a period after 2007 of declining sales. As sales declined what happens, too, that reduces your need for stocks. You have a certain stock requirement as sales are growing. You not only have to cover your sales in the coming year but also the growth in sales for the coming year. As sales started to fall not only don't you need the grapes for the declining sales, you feed them out of stocks first and then buy grapes to top up second. So, that magnifies the downturns and that is the situation we have got ourselves in.

Basically we are selling Australian wine, about 11,000 million litres or gigalitres of wine in irrigation terms, and that needs about 1.5 million tonnes of grapes to produce 1.8 million to two million tonnes of grapes. That is where the fundamental imbalance is. It was to a large extent driven by Federal Government policy and it is very reluctant to change that. The MIS scheme is estimated at 10 per cent plantings.

Mr WORLAND: It is estimated that 16,000 hectares were implanted under these managed investment schemes that should never have gone in, which amounts to 200,000 tonnes, and it is still there.

Mr McGRATH-KERR: And they are still in the ground, the grapes do not go away.

Mr WORLAND: They gave the incentive. Normally as soon as the grapes go in the ground you had to wait for four years before they grew, before you got any tax deduction. They gave it straight away.

The Hon. RICK COLLESS: We took evidence that suggested that some wineries have encouraged growers to plant a particular variety, only in three years time when they started to produce to be told that that variety is no longer in demand and we do not want your grapes.

Mr WORLAND: That is the whole point of it. It is the fashion. We have four years to grow grapes to anything like a commercial tonnage, so we are looking to see. We have looked at Chardonnay and we thought that Semillon Blanc was going to be the next. We thought maybe Riesling was going to go. So when the public decides that is it, it will go very quickly and start within a year or so. If you do not have those plantings, because everybody wants it, that is good if you have some in.

The Hon. RICK COLLESS: So we are in an industry that is plagued by short-term market trends and long-term—

Mr WORLAND: Very much enforced by it.

The Hon. RICK COLLESS: So how should the industry be restructured for the mutual benefit of both growers and winemakers in that regard, to try to overcome that issue?

Mr WORLAND: When we are looking at wineries asking people to put in particular varieties, they would be contracting growers to put them in. The wineries themselves have a few. We have grape plantings and, varieties you probably have not heard of yet, but one thing that Argentina has at the moment is Malbec, which is their basic variety. They are starting to make some inroads in the United States. They are close to there, it is cheaper, it is getting in there. There is not much Malbec left around here, we have pulled it all out I think, but we have some, and we have made a Malbec ready to go into that market because we are anticipating—we have been told by our import there—that this red is starting to take off, people are starting to like it and if it starts to go we are going to be flat strap to try to keep up with demand.

The Hon. RICK COLLESS: So if you make a contract with a grower to plant some Malbec and in four or five years time it does not meet your preconceived market expectations, do you still need to take those grapes off them at contract price?

Mr WORLAND: If he has a contract, yes, definitely.

The Hon. RICK COLLESS: Do you write contracts in that regard?

Mr WORLAND: We certainly do. There have been a few examples of big companies who take a lot of money to sue, saying we do not want to know about it, but generally I know our company—I do not know of any who do not honour contracts. If you are a grower who has been loyal, we look after you, our company particularly. I know a lot of people look at what Casella put up and they say why are we not getting that? Only one reason, you are not with us, you are not one of our growers. A lot of the smaller companies and things like that, the Casella family has done it tough. They have become quite wealthy. John realises at the end of all of this, the oversupply, that he is going to need all those growers again because we had to have at least 160,000 tonnes a year. We crush 10 per cent or 11 per cent of the nation's grapes in this one little winery out there.

The Hon. RICK COLLESS: What proportion of your grapes each year are sold under a contract and what proportion are sold—

Mr WORLAND: They are all under contract.

The Hon. RICK COLLESS: All your suppliers are under contract to you?

Mr WORLAND: Yes.

The Hon. RICK COLLESS: What is the term of those contracts? Are they one year, two years, three years?

Mr WORLAND: It can be up to three years. Mostly about three years, but what has been happening lately is that the tonnages have been capped. Normally in the past, in the good years, we would ask for a budget and a guy would say I am going to bring 100 tonnes of a particular variety. We would say it then, if it was a good year or whatever, and he brought in 120 tonnes, we will take the extra 20. For the last couple of years it has been capped so when the other 20 tonnes came in, we say sorry, you are up to 100 tonnes and that is what has been happening with it. Rather we would take it, but then again early in the piece, when wineries still had some demand, they would sell that 20 tonnes somewhere else.

Mr McGRATH-KERR: I just want to add one other comment to the current surplus or imbalance. There is an imbalance of production in Australia. One thing that happened in the 1990s and the early part of this decade, a lot of people planted grapes in areas that were not traditionally grape growing areas, like Cowra—Mudgee expanded and is now a traditional area—South Australian areas and places that never had grapes before.

Mr WORLAND: South Coast.

Mr McGRATH-KERR: Unlike these areas, which are dedicated farms for horticulture, they are grown as part of mixed holdings, with dairy or cattle or sheep or whatever, and those plantings were encouraged at the time because there were good prices and so on. As those prices have come back, those growers have found it less and less attractive. What has happened is the grapes basically stay in the ground. They do the minimal amount for them. They have the other activities and incomes and basically they just sit on the grapes. The normal market force of low prices, which everyone is feeling at the moment, is dampened in some respects because you would expect a more rapid exiting of people out of the industry if prices were unviable but they are not doing it basically because they are just hanging in there. That is in areas where they have alternatives. That feeds through into these areas because wineries would sometimes prefer to take grapes out of Cowra and places like that and pay the prices they would pay here because they may perceive the fruit to be of a better quality. Whether it is or not it is more a judgemental thing. So, that surplus of fruit is driving up prices, and we are not seeing in New South Wales, for example—and I am the executive officer of the New South Wales association, so I am reasonably familiar with this—great rates for adjustment in terms of vineyards being pulled out in those areas where the grapes are now not really needed because they cannot grow for the price points that the Australian market is now in. That is one of the imbalances we have.

Mr WORLAND: They are largely responsible for the oversupply.

Reverend the Hon. FRED NILE: In your submission you said there is a need for a sharp reduction in grape supply. How do you achieve that—by owners selling up and moving on?

Mr McGRATH-KERR: I think that is really up to the market and the individuals within the industry. The staple we quoted was one from the joint forum of the winemakers association and the marketing board, put out about a year ago now, saying, just to reinforce the message coming through, do not think there is going to be a quick turnaround. The dynamics of the industry 10 years ago were a lot more rapid than they are now, with oversupply worldwide now and competition from other world markets, particularly in export and New Zealand. All the forum thought it could say was to tell growers that this oversupply was going to continue for quite some time unless there is a more rapid reduction in production because the alternative of sales increasing rapidly to pick up the surplus did not seem to be in prospect, given the sort of sales competition.

Reverend the Hon. FRED NILE: How do you see that happening in a practical way?

Mr WORLAND: Basically these people who are looking at and sitting on the fence with his other source of income have to get out of the thing and stop sitting there, sitting on the grapes.

Reverend the Hon. FRED NILE: Change the product they are growing?

Mr WORLAND: Yes, or they should not have been in it in the first place. They have planted in the wrong spot, got the wrong varieties, and I think they have to realise the quicker they do that and realise they want to get out of it the better. It has been the romantic view of a lot of people, particularly a lot of professional people, that they would like to have a little winery and a little restaurant, and things like this, and there are over 2,000 wineries now in Australia, and many of them—probably the great majority—crush less than 100 tonnes of grapes. They are finding now they have to work seven days a week and it is not working out. Because of the economies of scale they have to sell their bottles of wine at $20 a bottle, and that is not what the market wants at the moment. The market wants to be able to go and buy a bottle of wine, bring it back home and drink it. But the people who are taking it home are putting it under the stairs—when can I drink it? All this mystique and snobbery about wines are not what the contemporary wineries, the wineries who are making money and staying in and doing the exports now, want. They say you go and buy a product, it has a screw cap on it, it is nice and fresh and fruity, enjoy it and take it back.

What the rest of these other wineries have not realised is even though they might have wines that are world's best by quality and standard, if people cannot afford them there is not much point. These wines have been out there for 10 or 15 years. They have been in the marketplace and they are saying why are people not buying them? There is only one reason why did they are not buying it—they cannot afford it or they cannot pull a cork on those sorts of bottles every night. They want something that is a nice fruity glass of wine, and that is what we are providing. Around here is more contemporary. We are doing wines that are easy to drink, approachable, you have it with your meal and enjoy it. They are varietally accurate and we can do it in big volumes because we are hooked up with the three major irrigation areas, the Murrumbidgee, down around Mildura and over to the Riverland. They were all desert areas before they were irrigated, before the three irrigation schemes came in, and we get grapes of the same style from those three, which means we are able here to make big volumes of good quality wines from all these three areas. That is why you see on bottles "South-eastern Australia" because it is all blended from these regions and we can supply markets like America. Too many of these people think, "I will get into exporting." They go into America and they say they will take 100,000 cases. We only make 20,000 cases, and straightaway not a lot of people can export and that is the problem now with the domestic market. You have over 2000 wineries in there and the only way they can grow is to take market share from one another.

CHAIR: What about cooperative marketing with smaller wineries?

Mr WORLAND: That is what they are doing at the moment as far as cleanskins are going. They are getting together, backed by Woolworths and Coles, and saying we will take your grapes, and they do not want to put their label on it, they want to put a cleanskin label on it because they are getting $15, $20 a bottle for it. They do not want it in the marketplace at $8 or $7 to compete with the likes of this area, because when the oversupply happens people say we used to buy your wines for $7 or $8 a bottle, what do you mean, it is now back to $15 or $20? That is not on.

Mr McGRATH-KERR: The Wine and Brandy Corporation and the Winemakers Federation in a statement said they do not see an increase in the volume of sales is likely to happen rapidly enough to alleviate oversupply. So, their view and their focus has been on the restructuring agenda of encouraging growers in certain regions to be aware of the economics of growing grapes in their area and also of the latent demand for wine from their regions based on the current market mixes there and saying to them, "If you are not making a quid now, it is not likely to change in the near future." At the end of the day the decision to adjust in or out of the industry really rests with the individual. I do not know how you can accelerate that other than put information before people.

Reverend the Hon. FRED NILE: It has created tensions, as you just said, with those 2,000 people coming in who are not really dependent on the money from it? They are knocking out the people who are dependent as their livelihood?

Mr WORLAND: Yes. And this is a problem for us. The Winemakers Federation is largely based in South Australia where they make all these Gucci sorts of wines, as I say. They are saying we should cut back on the water and things like that, go ahead with this plan but cut back on the water because their interests are to promote these sorts of wines that sell at $15-plus, whereas your market is 80 per cent-odd of $15 and under at the moment. They are not looking at what the people want. To be successful, you have to look at what the people want, not what you think that people want. You ask any winemaker from those areas that make the best wines in the world. It is like people that make home-made beer: "You taste this; it's terrific." They say, "Mate, this beer is fantastic!"

The Hon. RICK COLLESS: Your own beer is always the best?

Mr WORLAND: Exactly. And they are the same. At least we have got over that cultural cringe where we thought the French made the best wines in the world. For year after year, the winemakers here tried to make a pinot like burgundy, until they finally woke up that they are never going to do it. You could get the cuttings, bring them out here and plant them, but they are not going to make the same wine. Then we said, "Well, let's make our own wine." You put the French up there as a benchmark and you put a benchmark there that means you cannot do better than that, but you ask them now and they will say, "We make the best wines in the world." And I am sure we do. But at the moment the marketplace does not want those wines; they are not requesting them. It is tough. People do not have a lot of money. They do not want to buy a bottle of wine, put it under the stairs for three years and say, "I wonder when I can drink that." And then when you do try it, you have missed it, or the cork has leaked. You say, "Damn. I spent $50 on that bottle of wine and it is ruined; I never got any enjoyment out of it."

Reverend the Hon. FRED NILE: You have already made a comment about the impact of the retail sector, for example Coles and Woolworths, even having home brands.

Mr WORLAND: Yes. When we started out on that, Coles and Woolies began as our customers. They are now our competitors, very much so. The same occurs in the United Kingdom. It is a very difficult market there, because you have four big supermarkets there that control 85 per cent of the marketplace. They start at the top and say, "We want to sell your wine for that. We have got an importer, we have got a middle man, or whatever. Can you do it for that?" They say, "No, we can't do it for that." They say, "Sorry, we'll go to someone else." We want to be in there, to get it down people's throats and get them to know who we are. But you do not make any money in the United Kingdom; you can ask anybody here. But at least we are turning it over, and maybe things will change there. They are very much influenced by the French still. But it is very difficult.

Export at the moment is very difficult, particularly with the dollar the way it is. We are in the same situation here: they are in the marketplace. With the dollar up that high, if we drop our price—and part of our strategy is not to drop our price. People hate to see things fluctuating up and down. Then they will say, "Wait a minute, you had it at that price." So we have a mark where we have a price that we want it to sell at—not that you can time that, but we would recommend that that is a good price for it. If it is on special—we would not like to see it go $1 or $1.20 below that mark, but only have it there for a month and then get it up again. Because once they get used to it down there they say, "Wait a minute." That is the way it is.

Mr McGRATH-KERR: You can see yourselves when you go to the supermarket and do the shopping with your wives how many Coles and Woolworths products are in the marketplace replacing the IXL or the Heinz products and so on. More and more shelf space is being devoted to the Coles brand and the Select brand. The same thing is happening in wine. You will see a James Busby and a Smiths Estate and all these others. They do not exist in terms of vineyards or anything else; they are just names. They are basically essential to the retailers that try to cream off some of the brand value that the wineries have developed in their own names, to take that from them.

Mr WORLAND: You can walk into some of the big supermarkets at a particular time and see wine for $24 a case, or $2 a bottle. That is nowhere near cost of production for us, let alone paying a grower to buy the grapes.

Reverend the Hon. FRED NILE: Where are they getting that price from?

Mr WORLAND: They are getting it from desperate people who want some sort of cash to turn over. It is probably from these other areas we are talking about. As I say, we have to have some cash. These people are mercenaries. They get out there and buy these things. Like that guy in America, "Two-buck Chuck". You might have heard about that. There was an oversupply in the Napa area near California. He bought up very good quality wine and sold it at $2. He did not make a lot of money, but he sold a huge amount of wine. That was his turnover: it was bulk. He was saying, "Look what I can do. Here are all these wines you are paying $A18 and $A20 for. I am selling them for $2, and it is the same." They are saying, "Gee, this isn't too bad", because it was good. But it is not sustainable. They will do that, make a buck, and the next thing you will not know where he is. It is like the guys who are selling ostriches, or olives, or tea trees. They come in, plant too much, and set up these managed investment schemes. I remember the guys with the ostriches. They were supposed to build an abattoir. They had ostriches they had paid $18,000 a pair for. Where is the abattoir? They did not build it. They said, "Sorry about that."

The Hon. MICHAEL VEITCH: Do the winemakers here purchase grape product from the other regions?

Mr WORLAND: We certainly do. We have 500 growers.

The Hon. MICHAEL VEITCH: What is the pricing structure regarding the purchase price for the grapes in the other regions? It is on the same basis as the local growers, under the contract?

Mr WORLAND: It is on the same basis, but it is also based on the fact that if you put a wine in a bottle and label it from that region, because of the history and the prestige that that region has you can get a better price for it. Whereas, this region here has always been a bulk region. Until such time as we got refrigeration, it was too hot here. We could not make nice, approachable table wines until such time as we got the infrastructure in and paid money for refrigeration and things like that. Now we can make them, so fortified wines have gone out—apart from the fact that they were highly alcoholic. But we did that as good as anybody. Back in the 1950s and things, in Australia that is what we did. You would see port, sherry, and all that sort of stuff. When you went to hospital you got a glass of sherry or something. But now they are restricted because it has gone out. People would sooner have a nice, fruity glass of wine, because they know that if they go out and have a port or sherry or something they might be over the limit if they had to drive their car.

The prestigious regions have prestige for maybe one or two particular varieties. If you buy those particular varieties—cabernet, shiraz or, from the Hunter Valley, semillon, or from Eden Valley, riesling—you can expect to get a better price in the market place if it has "Eden Valley" on it, rather than just blend it away. You pay too much for the grapes in the first place.

The Hon. MICHAEL VEITCH: A number of the submissions and the evidence we have heard from growers yesterday and today has suggested that the South Australian legislation, the Wine Growers Industry Act 1991, should be enacted in New South Wales. Firstly, are you conversant with that piece of legislation?

Mr McGRATH-KERR: Yes. It puts a minimum price, and they also have to pay within a certain time if they cannot take grapes the following year.

The Hon. MICHAEL VEITCH: That is right. Could we have your views about having that legislation enacted in New South Wales, or taken up as a potential piece of legislation that perhaps COAG should look at?

Mr WORLAND: Would the ACCC have something to do with the setting of a minimum price?

The Hon. MICHAEL VEITCH: That was my next question. By the way, I have been asking all witnesses about that. If I could have your views on the matter.

Mr McGRATH-KERR: If the wineries can get a minimum price for their product into the supermarkets, I suppose it would be something you would like to think about. But I do not think they are ever going to get that, so I do not see why you would apply—

Mr WORLAND: I think the great majority of growers are very happy to get a reasonable price for their grapes, and that they really could not care less what happens to them after that. They are not really interested in the fact that we have to market it, we have to buy dry goods, we have to buy bottles, and we have to do all this. They have gotten rid of their grapes, they are happy, and that is fine. I think maybe there is something where we could involve them more, and make them aware of what happens after we take the grapes. They see that we have big wineries, and trucks coming in here and there, and we have big success overseas and things like that, and they say, "They must be making plenty of money."

CHAIR: How do you change that culture?

Mr WORLAND: We have staged most of the forum things that are here. They can come and talk to us. We are quite happy to listen. And I am sure they speak to their own guys. If we are going to exist—and we are going to need the growers on the other side of all this—we need them to be in cooperation and to try to fit in.

CHAIR: That really gets to the crux of our terms of reference. How can we get the balance right between the wineries and the growers, to ensure they get a reasonable return? As you say, you are going to need one another all the time, and in particular times you need one another even more so. How do you believe that can be achieved in this area?

Mr WORLAND: Again, it gets back to which winery you are with. When chardonnay was the favourite everybody wanted chardonnay. A lot of guys pulled out varieties and put in chardonnay. So they became basically a one-variety farm. When nobody wants chardonnay, they do not have anything much to fall back on. A lot of these people have another industry that they are going along with.

I remember that back in the late 1990s a lot of guys did not sign contracts because they wanted to get extra for their grapes. They would be on the phone saying, "Orlando is paying $100 a tonne more for cabernet. I'll go round there." There was a demand; we needed the grapes. At that stage I did not hear any grower complaining that the wineries might have been paying them too much.

The Hon. MICHAEL VEITCH: Mr Worland, may I go back to your comments about the ACCC.

Mr WORLAND: It is just something that I thought would negate us forming any sort of pricing across the board.

The Hon. MICHAEL VEITCH: You may or may not want to answer this question on the public record. Is there any collusion at all on the pricing arrangements between the wineries when they purchase grapes in this area? Or is it more about a flow-on effect, whereby the growers sell their product and they say to their mate over the fence, "I have just sold this grape variety for X amount."

Mr McGRATH-KERR: I do a survey on behalf of the Riverina association to get an average price for the region. The Wine and Brandy Corporation also does a similar exercise, on a slightly smaller sample. What you do notice—and there are only about 18 wineries that are significant players in the area—is that the prices vary widely within varieties and across varieties. So there is a huge variation. But generally speaking, Casella is the market leader. For strategic reasons, they have said they need 160,000 or 180,000 tonnes of grapes. So they want it, and they have got the investment. A lot of the others pick up further down the chain. So the prices will vary. To me, that suggests that there is no collusion.

If you went back 12 or 15 years, everyone paid the same price, which was the minimum price as set by the board—until such time as demand overtook it, and that was when the industry was buoyant. When the industry was buoyant, you did not need it, and then when the industry was not buoyant it was probably more of an impediment. I am not sure that the South Australia legislation is in any way active at the moment.

The Hon. MICHAEL VEITCH: It is just that we have had a lot of people talk about it.

Mr McGRATH-KERR: I am not sure that there is any price in the marketplace. What you hear is that growers down there are complaining about getting $100 a tonne. So, whatever that price is, it must be pretty low. I thought it was more to do with ensuring that people who could not simply buy the grapes and not pay, and then come back in again, in which case the grower gets nothing. But it would be very dangerous, because in this situation in the river land, particularly in Mildura where the oversupply is much more significant than here, that is where the big oversupply is, you would drive buyers away from this area—not necessarily the ones who live here, but the others, like the Orlandos, which have just closed their processing facility. Every time a contract locally came up for renewal, and they are crushing them in Mildura, why would they bother taking them out of this area, particularly for the minimum price? There are some dangers in going down that path, I believe.

The Hon. MICHAEL VEITCH: The other aspect of that legislation, but also in the voluntary code of conduct, that we have had a lot of people talk about is that there is a payment schedule. I think it is 33:33:33. We have heard other testimony that whilst that is a preferred payment arrangement, it is probably not the most optimal for the growers. For the winemakers, what would be the optimal payment schedule to the growers if there were to be some sort of mandated or legislated payment schedule? Is it the South Australian model, or is it 33:33:33?

Mr WORLAND: Again, we have different marks to anybody else. We know what we can sell our wine for. And we have budgets, we have cash flow, and we know how it is going to go. Therefore, we have a top line that we can pay for grapes of a particular variety. But that might not be the same top line for somebody else, because they do not have that market, or they do not need any chardonnay. They have an oversupply of chardonnay, but their growers still have chardonnay. What can we do? We say, "We can only give you some money. We know it is below cost and things like that, but there is not much we can do because we still have all the chardonnay we have to sell. If you can get a bulk buyer for it, but it is obviously going to be down around your cost, apart from the grapes that they take in." So it varies all the time. I do not think you can have anything set like that.

Reverend the Hon. FRED NILE: Do you pay the grower over the 12 months period?

Mr McGRATH-KERR: I think that legislative ones for growers are outside the contracts, so they are still under statutory terms. But we do not know the details of individual contracts of our members with the growers; it is between them.

Reverend the Hon. FRED NILE: In principle, what would it be in general terms?

Mr McGRATH-KERR: A lot of the wineries are working on 180-day terms now. With export, they are not getting paid for 90 days after they export. The wineries have to process the stuff in January-February, pay for a processing agent, and wages and all the rest of it, before they can get any income from it. It basically sits in stock for a year to a year and a half, because that is the stock holding period that exists. There are a lot of pent-up cash flows in the system, and that is the thing that kills the wineries more than anything else, particularly in exports. From a winery's point of view, the longer they can put off any payment and the shorter the time in which they can get payment from their customers, the better.

Mr WORLAND: Our company exports nearly 70 per cent to the United States so apart from buying all the dried goods, bottles and things like that and paying the growers, there is another six or eight weeks on the water and then there is the importer and the distributor. The distributor does not want to use his money so he wants to get the product out into the marketplace and get paid for it and then he will pay the importer who will then pay us. If you cannot survive for five or six months exporting you cannot make it.

Mr McGRATH-KERR: If you bring in a system that makes a winery in this area pay more rapidly than, say, a winery in Victoria or South Australia, then wineries here would have to sell more rapidly at lower prices to offload the product. That would obviously drive down returns and reduce the capacity of the industry to pay reasonable returns compared to growers in other areas. It is a very delicate situation.

The Hon. RICK COLLESS: Can you expand on that? How steep is the spike in your sales income? Is it a very definite spike?

Mr WORLAND: As far as the sales income is concerned? Our company has struck a product that we launched at the right time. As Stuart was saying, there was the demand for Australian export wines that started in the mid '90s and late '90s. We had the shrimp on the barbie campaign going for us and the 2000 Olympics. Lots of Americans came out to support their team and they went back and said, "Wow, we found this wine over there. We loved the Australian wines. They were nice and fruity and fresh."

The Hon. RICK COLLESS: On a 12-month period, is there a month of greatest income or is it spread evenly over the year?

Mr WORLAND: Generally it is towards Easter and Christmas, but mainly Christmas. But if you are exporting and you have not got all your product over there in October it will not get there in time for Christmas. You get paid in February or something like that. That is the problem with cash flow. Vintage starts here in February and, as Stuart said, the longer you can hold out the better, because you have all these other fixed costs as well. The fixed costs—cardboard, glass and all these things—have been steadily rising as well. That is what we need to get across to the growers. This sort of thing happens and some people are a bit better off than others.

The Hon. MICHAEL VEITCH: I am not sure whether you have had a chance to read the submissions on the Committee's website.

Mr WORLAND: No, we are tied up with water.

The Hon. MICHAEL VEITCH: Yes, other matters. A number of the submissions refer to unethical commercial behaviour taking place and some of them even go to the extent of mentioning that blacklisting is taking place by the winemakers against the growers. I would like to provide you with the opportunity to address those statements or make your own comments. Are you aware of that happening?

Mr WORLAND: Not really. I have seen it reported in the media that some growers felt they had been threatened and they did not want to report things or the payments and things like that. There are good growers and bad growers and the viticultural officer might come out and say, "Your spray book says you didn't spray after that last lot of rain. You should have sprayed. What are you doing about it?" The grower might say, "I'm a bit short, I can't spray." They would warn the grower and say, "If you don't spray those we will come back and have a look and the grapes might be rejected", this type of thing. That is about the only way I have heard of people being threatened that their grapes might not be taken.

The Hon. MICHAEL VEITCH: Blacklisting does not happen?

Mr McGRATH-KERR: In what sense?

The Hon. MICHAEL VEITCH: It is mentioned in some of the submissions that—

Mr McGRATH-KERR: That no winery will take the grower's fruit? So all wineries collude to say we will not take his fruit? That is rubbish. Name them.

CHAIR: It has been mentioned in submissions.

Mr McGRATH-KERR: I am sure there would be cases of an individual having an argument with a winery where they do not have a relationship on a personal basis.

Reverend the Hon. FRED NILE: I think it was individually.

Mr WORLAND: They might have been renegotiating a contract and it might have been a guy who was sitting on the fence and saying, "You can have my grapes but I want whatever", and not happy and whingeing all the time, and the winery might say that when his contract comes up they might look at it and not replace the contract.

The Hon. MICHAEL VEITCH: How often do you renegotiate the contracts? Is there a rule of thumb—three years or five years?

Mr WORLAND: Some good growers would get longer than others but generally it is about three years. Again, varieties change and consumer demand changes.

CHAIR: There has been a suggestion that growers would particularly like a commitment to price, or even an indicative price at some stage. They are talking about having an indicative price about July. How do the wineries feel about that situation? Could that be arranged or is it the case you would need more time? They need to know where they stand because if the price is too low they may decide not to fertilise.

Mr WORLAND: We are in the same situation. We have to know too because things start to change. We are looking at forecasting sales to see how much we will need. We might say we expect to get a certain amount from growers in a normal vintage but we are going to be short of chardonnay so we had better buy some more. If some guys are on a cap we might say, "You said 140 and we only took 100, we might be able to take your other 40", or, "We've got too much, we can only take what is there." We have to look at that as well when they give us the forecasts. They have to look at their grapes and until they start flowering it is very difficult to see whether it is going to be good or bad. Then there is hot weather and everything that comes in and they get caught in a situation where they might say, "I was a bit conservative but now I've got more", or less, and we're banking on that. It is difficult to give an indicative price until you are right on the hammer.

Mr McGRATH-KERR: At 30 June each year, which is three or four months after vintage, wineries are holding one and a half years of sales in their tanks, which is enough to get them through to June and Christmas of the following year. They really have to make a judgement on whether they are going to sell all that wine in the next 12 months and six months beyond and whether they will continue to want it in a fairly competitive world market where two-thirds of those sales are overseas. It would be very difficult.

The Hon. RICK COLLESS: What is the earliest date you can realistically give that indicative price?

Mr McGRATH-KERR: It would depend on the companies. Casella's sales arrangements might be much more established than, say, Burton Wines. I do not know. It gets back to where the individual sits in the marketplace.

Mr WORLAND: If you are operating in a big country you are more likely to get more orders than someone operating in a small country because they are only small and cannot supply big quantities. Then all of a sudden they want more or less, or another competitor comes in. As I said, the Argentineans are starting to get into malbec. People start to like the tempranillos and all the European grapes, the Spanish grapes, and so on. There has been a bit of a run on that. It is a question of whether they can supply. They might have it all ready to go and the importer will say, "We don't want that anymore. We need so and so. Have you got that?" And we do not have that. Then you may have to buy it to stay in with that guy, which means you have to buy it at a premium price off somebody who also may want it because he will hear that it is needed. He will say, "No, I'll go and see that guy and sell it to him myself", and that type of thing.

Reverend the Hon. FRED NILE: So there is a contract for three years but not a guaranteed price?

Mr WORLAND: No.

Reverend the Hon. FRED NILE: Is that where the weighbridge business comes in and the truck arrives and the grower does not know the price until that minute?

Mr WORLAND: They would be talking to their wineries before that and they would know the prices before they brought the grapes in. They could not tell you what you were going to get in the third year and put a value in your contract.

Reverend the Hon. FRED NILE: So it does not happen very often that they only get the price at the weighbridge?

Mr WORLAND: I do not know that. That is something between the winery and the grower, but I would very much doubt that a grapegrower would bring his load of grapes in and look to see what he was going to get for it at the time.

Mr McGRATH-KERR: You might want to check this with the board but I thought contracts had to have some degree of determinability about them, so the grower had to know at a certain time, whether mid-December or the end of December, what his contract price was worth, or maybe it was the first week before vintage. I thought there was a time.

Mr WORLAND: That is what I am saying—right up to the gong.

Reverend the Hon. FRED NILE: This could be people without contracts.

Mr McGRATH-KERR: If they were without contracts I think they would just get prices on the weighbridge.

Reverend the Hon. FRED NILE: Is that a large percentage or a small percentage?

Mr McGRATH-KERR: I do not know. You would have to ask the board.

CHAIR: We are out of time. Is there anything you would like to add?

Mr WORLAND: Basically, one of the things we would like to see is the structuring of the board to consist of more than just growers. I think they should have a little more diversification and people from outside. While you have all growers there it comes down to one thing all the time—"We are not getting paid enough", and things like that. There might be a steadying influence from people from outside who can contribute a little more. As I said before, generally we need the growers and they need us. It is no good growing wine grapes if you do not have wineries around the place. Once we get over this situation and get supply and demand equalisation we will need the growers and they will need us. We want to look after the ones who will be faithful to us and if they look after us we will look after them.

Reverend the Hon. FRED NILE: Would you be happy to be on the Wine Grapes Marketing Board?

Mr WORLAND: No. Stuart was on it for a while.

Reverend the Hon. FRED NILE: You said you would like to have some relationship—

Mr WORLAND: We do. We have a forum each year and we are going to have another forum before Christmas to discuss the water issues. We organised the forum referred to in the submission and you saw what has come out of it. We said there was an oversupply.

The Hon. RICK COLLESS: On the issue of membership of boards, does your association have any growers as members?

Mr McGRATH-KERR: They are all growers. They all have grapes. Wineries own 20 per cent of the grapes.

The Hon. RICK COLLESS: What about the independent growers who do not have wineries?

Mr McGRATH-KERR: The Riverina Winemakers Association membership is based on processors. To be a member you have to have a processing facility in the Riverina.

Mr WORLAND: They make wine and they have vineyards associated with that.

Mr McGRATH-KERR: It represents the buyers really.

CHAIR: Stuart, would you like to say anything before we close?

Mr McGRATH-KERR: I just ask you to bear in mind that the grapes go into a processed product, which is subject to long sales periods as well. It is not like growing oranges where you pick them and sell them in the market and they are gone. The lead time and the planning time are a lot less certain, particularly in a market where two-thirds of your sales are dictated by external factors such as competition, foreign relationships and dollars.

CHAIR: On behalf of the Committee I thank you for your contribution this afternoon. We may have some questions that we will send to you. We would appreciate answers within 21 days of your receiving those questions. I know you are busy people but we would like to wind this inquiry up as soon as possible.

(The witnesses withdrew)

STEPHEN ANTONIO VIOLI, Executive Member, Griffith Chamber of Commerce, and

PAUL PIEROTTI, Executive Member, Griffith Chamber of Commerce, sworn and examined:

CHAIR: Are you conversant with the terms of reference of the inquiry?

BOTH WITNESSES: Yes.

CHAIR: Before we start questions there are a couple of things you should know. If you should consider at any stage that certain evidence you may wish to give or documents you may wish to tender should be heard or seen only by the Committee please indicate that fact and the Committee will consider your request. Would either of you like to make a short opening statement or would you prefer to you straight into questions?

Mr PIEROTTI: I will make a short opening statement. We do not represent the wine grape growers or the wine industry. We represent Griffith business in general. We are concerned there have been significant issues within the industry that have affected our economy directly. We have a number of pressures on our economy and they have been there for some time, with nine years of drought, water reform, et cetera. Our economy has been a pretty rocky road for some time. The grape prices issue obviously is another issue that affects all of us in business directly. That is our reason for our submission and our reason for being here today.

CHAIR: Mr Violo, do you want to add anything?

Mr VIOLI: No.

CHAIR: How important is the wine industry to the local economy of Griffith? Your submission states that the issues of oversupply of wine grapes and subsequent low prices affect not only farmers and the wine industry, it impacts on the total economy and the community. Can you please elaborate on the impacts on the growth of the economy and the community?

Mr PIEROTTI: The wine industry is one of the biggest employers of people in Griffith. On top of that, the grower base is a fundamental customer base. Irrigators in general, wine grapes, is the biggest crop in the area. It is shown even through the Judith Stubbs report for Griffith to be the most significantly reliant on irrigation farming as an economy of any region through the Murray-Darling Basin. In some ways, Griffith's economy is not very diverse. It is completely reliant on irrigation farming, so any irrigation farming that is directly impacted by low commodity prices directly affects our economy in total and has a massive effect on retail, manufacturing and services and industry. It impacts us all directly across the whole economy.

The Hon. RICK COLLESS: You suggest in your submission that growers and winemakers will need to work more closely together in analysing markets and at minimising the risk of oversupply, and so on. Have you any ideas as to how you could make that happen in reality?

Mr VIOLI: I will put my view forward about your comment. My family is quite a decent grape growing family. We have never had any problems with the winery in our case because we deal at a business level with a good business partnership. I think we are a perfect example of the grower and winery working together to achieve good outcomes. So, it is possible. That is basically the gist of what we are saying.

The Hon. RICK COLLESS: What process did you go through to end up at that point?

Mr VIOLI: We never had a problem with them. They always looked after us and we looked after them. We did the best we could in the capacity of growing. They did not take advantage of market forces or offered us less than what they should have. It was a fantastic relationship.

The Hon. MICHAEL VEITCH: It was mutual commercial respect?

Mr VIOLI: Absolutely, yes.

The Hon. RICK COLLESS: By your comments are you suggesting that is not happening in some parts of the industry at the moment?

Mr VIOLI: It seems that way.

Mr PIEROTTI: Stephen has direct involvement in the industry. He is talking about his family and his history. From a chamber perspective, and an overall perspective on the matter it seems to me, as a furniture retailer, if I saw on the front page of the *Area News* that La-Z-Boy called Paul Pierotti some name or something like that, it would be the worst thing I ever saw in business, and that sort of thing does not happen. In business our supplier relationship is sometimes a rocky road; sometimes an exceptionally good relationship, but that is never aired out into some public forum and some sort of public debate through media. I feel there has been a lot of that. We asked for our submission not to be listed on the website for that same reason, because as a Chamber of Commerce we do not want to be involved in some sort of public dispute that is just going to be used by the media to manipulate the whole situation further. I see this industry, growers and wineries, to be one industry and I think there are a lot of pressures on the industry. The last thing they need is division within. So I think they need to find that common ground and that unity. There needs to be probably a better process in communication so they can find common ground and gain that mutual respect.

The Hon. RICK COLLESS: Do you have members of your chamber who are winemakers and growers?

Mr PIEROTTI: Yes.

The Hon. RICK COLLESS: So do you see there is an opportunity there perhaps for the chamber to become more involved in trying to work out the parameters and to try to overcome the conflict in some sections of the industry?

Mr PIEROTTI: It is something we have not really considered. Our chamber has changed radically in the last few months, where we have had two business groups merge and a much stronger focus on larger issues like this. Before it was a fairly retailed focused business group and a fairly small base. But due to other external influences really, the Murray-Darling Basin issues and other issues like that, they have forced us to merge and combine and broaden our base and become a lot more active at a much higher level. So, in the past I would say that would not be possible; in the future I would say it could be. Right now, we do not have a critical mass of winemakers or winegrowers as members who would really give us enough of a balance to be able to do that fairly.

Mr VIOLI: Out of the 100-odd businesses we probably have how many farmers and the winemakers—maybe four?

Mr PIEROTTI: Winegrowers probably more, but out of probably 27 wineries we have probably three as members. But we never represented wineries or grape growers in the past. It was more a retail focussed organisation. It is now rapidly changing. I would not rule it out. I think it is something that could be considered but at this point in time we are not in a position to take that on.

Reverend the Hon. FRED NILE: Following up that point and the fact that you represent the chamber and various businesses, there have been problems already with retail prices for grape growers. A lot of them are suffering financially. If there is an economic downturn in the industry, what impact will that have on Griffith or is it having an impact already?

Mr PIEROTTI: It is already happening. It has had an impact for some time. It is at every level. You have wineries under significant pressure. When we have wineries like Orlando, mentioned earlier, close, that impacts our community, economy and jobs immediately. As much as they scaled down their operations over the years, when it comes round to vintage they are employing 60 and 70 people for three or four months and in a town like Griffith that is significant. We are talking about jobs and keeping young people in the town. We are talking about industries where there are further and higher education levels required, and those are all major concerns of the Chamber of Commerce because we have had a brain drain going on for ever really. We do not have universities and we do not have a lot of higher paid more executive roles. We have a lot of industry and labour positions but we are concerned that young people are leaving to university and not returning. So we very much encourage industry that has the capacity to employ people at higher level education, et cetera.

So, the wineries have had pressure and then when you have grape growers who are making less than the cost of operations, obviously they do not have a lot of spare cash. They have a lot of pressure on themselves anyway with bank debt, et cetera. So, it impacts the economy directly. Most businesses in this town at the moment—this morning a lot of business people were talking to me—are between 40 per cent and 60 per cent down on last year.

Reverend the Hon. FRED NILE: That is retail?

Mr PIEROTTI: In retail, and last year was not a good year. So, when you are 40 per cent to 60 per cent down on a period that was already particularly bad, that is absolutely tragic. There are a lot of other influences to that. The uncertainty driven by the guide to the draft Murray-Darling Basin plan has a direct impact. So, there are other external influences but when you have a buoyant economy, as a retailer, back in the days when Chardonnay was earning $3,000 a ton-plus, there is an immediate impact on retail. When you look at businesses that are directly linked to agriculture, businesses like Collier and Miller, and agricultural businesses, MIA Rural, and all those kinds of businesses, they have been down for a long time and they are really struggling. Direct businesses are hurt first but the on-flow effect affects all businesses so the economy is in a pretty bad way in this town. It is the worst I have seen. Griffith is known to be quite buoyant and quite seemingly sustainable even in adversity. Sometimes when we had state and national or international recessions, it has not really affected our town. It has been an anomaly in a lot of cases. But right now we are in the reverse anomaly, unfortunately, and we have been hurting for some time.

Reverend the Hon. FRED NILE: We have heard reports that many of the growers have big overdrafts, outstanding loans, of $250,000. Would that be accurate?

Mr VIOLI: Any farmer, that is any farmer.

Mr PIEROTTI: Most farmers have had a lot of pressure for some time, so that would be accurate. The same applies to business, though.

Mr VIOLI: Any farmer around Griffith, the average farm sold today is quite different to what it was four or five years ago but well over $1 million. A lot of farmers borrow that money, and water, when water was worth $4,000 a megalitre.

Mr PIEROTTI: Farmers were borrowing money to buy water at $2,500 to $4,000 a megalitre, and it is currently worth $700. So the equity in their borrowing has just gone.

Mr VIOLI: A variety of factors have contributed to large amounts of debt. Unfortunately for the grape grower, due to market forces it has made that worse, on top of the drought.

Reverend the Hon. FRED NILE: You were involved with the real estate area. Has it had an impact, with people selling up and moving out of Griffith?

Mr VIOLI: What I can say is that farms have definitely dropped in value. Whether that is directly affected, I do not know. If grapes were worth $1,000 a tonne, we would not be selling vineyards. There are transactions at $4,000 an acre now. I know that when we set up a vineyard in 2002, it was cost us about $6,000 an acre. If grapes were $1,000 a tonne, we would not be selling them at $4,000 an acre. Rice farms are even selling for $800 an acre as well, whereas probably six years ago a good farm was getting $1,200 or $1,300 an acre.

Reverend the Hon. FRED NILE: But there will not be buyers around, will there?

Mr VIOLI: It is a very hard time for real estate at the moment. I was on a farm until February this year, full-time. Then I moved off the farm to go into real estate. That is just my make-up: I followed my passion. On the farm, there is no investment money at all in town. The ratios of listings, from what I am led to believe, are double what they were this time last year, if not more. There has definitely been a drop in price, but that correlates with the $20,000 First Home Owner Grant Scheme at the end of last year, when nearly all properties dropped $20,000. It is hard to say, but I believe they are still dropping.

The Hon. MICHAEL VEITCH: In your submission you talk about the role of the Wine Grapes Marketing Board. One of our terms of reference is to look at the role of the Wine Grapes Marketing Board. Can you explain what you think are the additional functions or duties that the board should be looking at?

Mr PIEROTTI: We were just working within the terms of reference. Whether it would be a matter for the board or not could be questionable. I think the real issue is that we see that this area has been poorly marketed as a wine growing region. Primarily what has happened is that most of the major wineries have other wineries in the Yarra Valley, the Barossa Valley and the Hunter Valley, and they generally market their brands under those other regions and not so much in this area. In fact, there was one winery called Riverina Wines, but it changed its name because of the negative connotation to the name of the region. But I believe that this is an industry issue, not an individual winery or grapegrowing issue. I believe that if the same strategic market that has been done in areas like the Hunter was done in an area like this, there would be a potential for adding value.

There is a significant difference in growing patterns in Griffith. Going back 30 years ago, or even 20 years ago, Griffith was a bulk wine growing region. It grew big, lush crops with massive canopies and high yields. All the wineries influenced the growers to significantly change their practices and varieties so that they have higher quality, lower yielding, more premium grapes. That has worked to the detriment of growers right now, because they are not getting the premium prices for these premium products. But the fact is that there are significant amounts of premium wine in Griffith and it is being labelled and bottled under pseudo-names, like "South-Eastern Australia". A lot of the wines that I see bottled under Hunter Valley labels, and under Southern Highlands, Orange, Mudgee and other regions, are Griffith wines. It needs to be understood how big the Griffith wine industry is, so that you can really take things into account.

The argument is always going to be that we cannot label the bottle under its regional name because we are taking grapes from other regions. An example of that would be massive wines like Yellowtail, and that would be absolutely true in that case. In that case, yes, you would have to label that "South-Eastern Australia" because you cannot nominate this particular region because they take grapes from anywhere they can get them. We could go through hundreds of examples of bottles of wine that you could absolutely 100 per cent guarantee came only from the Griffith area, but they are not marketed under the brand. It may be to do with Griffith's notoriety. I do not know what it is. But there is a negative connotation. We do not have a good reputation as being a premium grapegrowing area, and I think there is poor marketing.

Mr VIOLI: We are known as a bulk growing area.

Mr PIEROTTI: I think we could do a lot better.

The Hon. MICHAEL VEITCH: Your submission talks about value-adding. The Hunter, for instance, value-adds via the tourism market, but that is in proximity to Sydney. What other suggestions for value-adding do you have? Is the board the correct vehicle for this, or is there some other vehicle that could be created and used?

Mr PIEROTTI: I do not know; you would have to talk to the board. The name of the board is the Wine Grapes Marketing Board, so marketing is part of their name. So I would assume that would be part of their charter and what they would be trying to do. I am not sure that they have the support that they should have to do that, whether by their members, the growers, or by the wineries. But from a business point of view, we believe that there is a great opportunity to create a true, valuable brand that will have recognition in premium product. This could be taken a little further. I do not believe that we have marketed Australian wine, or New South Wales wine, well in the first place. The most popular wine in Australia is that from New Zealand, and New Zealand wine does not pay the WET tax. So, is there price fairness across that?

Significant other issues are employed into what we are talking about. But I believe that if we really did have a strong and clever marketing approach to marketing our premium products—not all of our products—under a specific regional brand that had some sort of demand from the public, it would improve the value and price of those products, and we would be less price takers. We mentioned here the duopoly issue. The fact is that the grapegrowers are screaming about being price takers, not price makers. I think wineries are in the same position. I think the only way you can avoid being in that position without doing something radically from a government, probably Federal, level and doing something about the duopoly is to create a consumer demand and to be able to dictate the price of that premium product. So I think there is opportunity in that.

From the Chamber of Commerce we have another agenda, of course, because there is also the opportunity for tourism. I know we are a long way from Sydney and Melbourne, but the fact is that we are nearly in the middle of both and it is a quite interesting area to visit. I think our visitation numbers since 2002 have decreased. We do have good tourism, but the numbers have decreased. One significant factor is that our average stay was around the New South Wales State average, of around four nights, and our average stay now is less than two nights. So I think we have a long way to go in that area as well. There is a great opportunity for this area, because I think there is considerable interest in the wine industry. I think there is interest in agribusiness marketing, and agribusiness excursions and farm excursions, and I do not think we have managed that particularly well here.

The Hon. MICHAEL VEITCH: Often that sort of opportunity requires leadership. Have you previously discussed this with the board or the council?

Mr VIOLI: Never.

Mr PIEROTTI: We did discuss it with the tourism body of the council; we have discussed it with the regional development officer from council. But it has really fallen on deaf ears. Ultimately, it is all a bit too hard. We cannot get the wineries on board. Are the growers really going to support it? Do people really believe that there is a vision in this? And who is going to pay for it?

The Hon. MICHAEL VEITCH: Have you spoken to the Wine Grapes Marketing Board about this?

Mr VIOLI: No.

Reverend the Hon. FRED NILE: Most of the marketing is done by the wineries themselves?

Mr VIOLI: Yes. But that is just an opinion we have.

Mr PIEROTTI: This is something that we have talked to the regional development officers and tourism about for many years but we have never really been able to get any traction on it. When your questions within the terms of reference pointed to us that this is an issue that we are passionate about, and we have not really been able to make any inroads on it, we believe that there is a lot of opportunity and it could be good for all. But the mechanism as to how to put that together and who is going to fund it and all that is well beyond our capabilities.

Reverend the Hon. FRED NILE: Maybe the Chamber of Commerce could engage in leadership by bringing together all those interest groups, and set up a task force?

Mr PIEROTTI: Yes. But should that not be the role of the Wine Grapes Marketing Board?

Reverend the Hon. FRED NILE: I was thinking further than just wine; that is, marketing the Riverina and Griffith.

Mr PIEROTTI: Yes. There is also marketing Riverina by the council. We could do that as a joint-venture project and have multiple arms to that. We do have other significant marketing with tourism anyway, with all the hoteliers, restaurants, and all the other facilities. We are right in the middle of our biggest function of the year, which is our Festival of the Gardens. That is why the orange sculptures are up the street right now. If you have not seen them, they are very much worth seeing. We do have a number of events that are significant, and I think we could lever off to really ramp up this whole brand and regional issue.

The Hon. RICK COLLESS: Could you expand on your comments regarding the duopoly and the need for legislation on the retail food market sector and so on? Are we not in an era of more deregulation rather than more regulation, and is there not a tendency for people to shop with what is in their pocket rather than for what is probably the best product? I think that if you ask anybody in the street they would say the Coles-Woolworths duopoly is too big and should be controlled—and then they will turn around and walk into Coles or Woolworths and do their shopping.

Mr PIEROTTI: And they do that here as well. So we agree with you on that matter. But it is very interesting that you bring that up after we have been sitting for three hours listening to the Murray-Darling Basin Authority drop down the largest piece of legislation I have seen in the history of Australia. You are talking about deregulation, open market and freedom to the individual, after we have just been lectured with one of the worst documents I have ever seen in my life for three hours. At one point, here we are legislating to the point of wiping out entire communities, and at the other point we are talking about a high-value product like water—which we obviously do not have enough of for irrigation, farming, food and the environment, yet we are able to sell product for less than the cost of operation to major corporate entities who are controlling the products.

The Hon. RICK COLLESS: What we have is the wrong design, really, is it not? We have deregulation of things that probably should be regulated, and regulation of things that should be deregulated?

Mr PIEROTTI: It is a very interesting point, and it was raised twice with Mike, the chair of the Murray-Darling Basin Authority. He did not have too many answers to it. It is not within the charter of their whole job as to water reform. The fact is, as we know, if the commodity prices were higher we could probably crop less. Steve was talking about property sales. When I was younger in this town, a lot of the farms were 30, 50, 60 or 70 acre properties, with mum and dad and the son working on the farm. They are not commercially viable any longer. The farms are having to double their capacity and fully automate all production.

The costs of operations are significantly ramped up where they are fully automated. These are small factories with very few people working on them but with extremely sophisticated and expensive machinery operating them. The cost of operation is being increased incredibly for the farmer and he is being pushed to continue to grow, grow, grow and borrow, borrow, borrow while the price of his commodity is being pushed down consistently, even though it is using the rarest resource we have on earth and people come up with crazy plans like the one that was dropped in front of us today.

Mr VIOLI: I would like to expand on the duopoly issue in the sense that I have had involvement with vegetable growing in the past and I know that today an onion grower is getting $8 a bag for 20 kilos. Some onion growers were getting that 20 years ago. What do onions sell for per kilo in Coles and Woolies? They do not sell for 30c or 40c or $1 a kilo; they sell for a few dollars a kilo. There is a big disparity in the middle. Oranges used to be $300 a tonne, which is not bad money, which is 30c a kilo, but in Woolies they were $3.99 a kilo.

The Hon. RICK COLLESS: Why cannot local greengrocers go to the local onion producers and buy onions for $8 a bag and sell them for $15 a bag?

Mr VIOLI: They do that.

Mr PIEROTTI: There are significant internal distribution issues. Part of the problem when growers are forced to have large-scale production is they are using packing houses and delivery systems in volume. When the little greengrocer says he only wants 25 pumpkins rather than 25 tonnes there is not really the manpower or the capacity to handle small volumes because you are totally geared to this high-volume operation that you have been pushed into by the two major corporate entities. It should be said as well that these figures are the average benchmark figures on retail. The average profit of Foodworks like Rossi's Foodworks or the Driver IGA independent supermarket is up to 5 per cent. Very few make even that now. In the latest reports from Coles and Woolworths it is 24 per cent. They will continually push the point that that comes from improvement in efficiency, which they do have, so it is difficult to separate gouging and efficiency, but there is obviously something going on.

Mr VIOLI: Someone is making money.

CHAIR: Is there anything you would like to add? If not, I have a question. As part of the Chamber of Commerce can you tell us what the situation is with banks in the town at the moment?

Mr PIEROTTI: I asked the first question of the Murray-Darling Basin Authority today based on the *Australian Financial Review* newspaper this morning, which said on the front page there were eight regional towns whose survival was threatened and Griffith was number one on the list. They said the banks would be forced to pursue foreclosure immediately. If we are talking about financial institutions' confidence in Griffith and the market in the future, right this minute there is none, but it is probably unfair to blame that on the grape industry. That has a lot to do with the Murray-Darling Basin Authority. As a businessman I do not think it is a lot different whether you are a grapegrower or a winery. For me to ask a bank for an overdraft for stock purchases since the global financial crisis, I might as well forget it. If it is to purchase a property, they will value it, but if it is for stock, costs of operations or running costs, there is no money available. It has been extremely difficult for any regional business, and that includes grapegrowers because I see them as business people as well, with the pressure from banks since the global financial crisis.

Mr VIOLI: Especially with a lot of farms investing more into the land with drip irrigation and things like that. They have increased their debt levels and it is gearing up for the perfect storm.

Mr PIEROTTI: One thing we did not talk about is efficiencies. Most grape farms are fully tile-drained, the salinity levels are non-existent and the efficiency in growing crops is incredible. If anything, sometimes it is a bit too vigorous. Because of the sunlight and access to water it is a great growing environment. That is why this area is seen as the second biggest region in Australia, after the Barossa, for growing wine grapes. It is a great area and it has a lot of ability. The grapegrowers, of all farmers, were the first to really take up efficiency reforms and virtually all of them have full drip irrigation and are extremely efficient with their water usage.

Mr VIOLI: It was a big investment.

Mr PIEROTTI: One subject that has not been brought up is the accelerated depreciation rates for grape farms. A couple of years ago the Pitt Street farmers came in en masse with properties of thousands of acres of grapes, primarily driven by equity and super funds. Generally they were fairly poorly managed and inefficient. That has all stopped, as you know, because the accelerated depreciation tax advantage legislation has stopped. A lot of those players have left the market but the surplus wine issue, the wine glut, is a hangover from that. In some way whoever came up with the accelerated depreciation concept has got pretty muddy hands on this subject. Ultimately that is what is driving down the price of grapes and causing a massive oversupply.

CHAIR: Thank you for your contribution to the inquiry. If we send any questions to you we would appreciate a reply within 21 days of your receiving them. That is the end of the open hearings today. At four o'clock we will be having an in camera session and unfortunately we will have to clear the gallery to enable people to give evidence in camera.

(The witnesses withdrew)

(Short adjournment)

(Evidence continued in camera)