CORRECTED VERSION

PORT OF MELBOURNE SELECT COMMITTEE

Inquiry into the proposed lease of the port of Melbourne

Melbourne — 13 October 2015

Members

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Mr Daniel Mulino — Deputy Chair	Mr James Purcell
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Mr Damian Drum	Ms Gayle Tierney

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Research officer: Mr Anthony Walsh

Witnesses

Mr Damien Sheehan, Chair, Wine Victoria Board, and

Ms Rachael Sweeney, Executive Officer, Wine Victoria.

The CHAIR — I declare open the Legislative Council Port of Melbourne Select Committee public hearing. This hearing is in relation to the inquiry into the proposed lease of the port of Melbourne. I ask that all mobile telephones now be turned to silent. I welcome Ms Rachael Sweeney, the Executive officer, and Mr Damien Sheehan, the chair of Wine Victoria.

The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty. All evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders.

The committee has allocated 45 minutes for this session. I invite you to make an opening statement if you wish. The committee will then proceed to questions. We also thank you for your written submission.

Mr SHEEHAN — In terms of an opening statement from Wine Victoria, in our industry it is well known that we have been struggling for the last 10 years or so with supply and demand issues. There have been a few reasons that have contributed to that. One of those has been the exchange rate, which has come off recently, but there are also domestic issues that have been compounding that fact — the retail market has consolidated drastically, so it has certainly changed the environment for our industry to operate in.

Victoria has 800 wineries, and a lot of those wineries are small wineries, so profitability is an issue. The smaller the winery, the tougher that environment is. One of the solutions that we see in returning our sector to profitability is in the export market, so that is why there is an interest from our industry in this issue. We see exports of Victorian wine as increasing at the moment. They contributed to about a quarter of wine exports in terms of dollars created in the last 12 months. That sort of growth is exactly the type of response that we are looking for.

In terms of the lease of the port of Melbourne, we are mainly concerned about the charges and the impacts of charges that are affecting our industry. In exporting, the wine industry charges the receiver one figure, which ties up all of the freight costs as well as the cost of the wine, the cost of the goods, so any increase in something like charges at the docks means that, the way our industry works at the moment, we would have to absorb those costs.

We would welcome, obviously, efficiency improvements to the port of Melbourne. That is going to be fantastic for the Victorian wine industry but there are also advantages for Victoria in national terms in attracting more investment in the wine industry as a major port for export. Currently South Australia uses the port of Melbourne for a lot of its export. Our own business — I am from Rathbone Wine Group — is headquartered in Port Melbourne, and we have a winery in Margaret River in Western Australia and we export through the port of Melbourne. That is an example. Other wine businesses might see advantages in doing the same. We would look forward to that sort of environment being created for the Victorian wine industry. Thank you.

The CHAIR — Thank you. Ms Sweeney, did you wish to make any — —

Ms SWEENEY — No, that's fine.

The CHAIR — Okay, great. Thank you very much. To understand you correctly, you say a quarter of the production by value is subject to export?

Mr DRUM — A quarter of Australia's exports come from Victoria.

Ms SWEENEY — About 25 per cent of the industry is based here in Victoria and 60 per cent of our product is actually created for export. So 40 per cent is domestic.

Mr SHEEHAN — In the last financial year, premium wine grew in many markets, generating almost $450 million — a quarter of the value of Australia's wine export market — from Victorian wine.

Ms SWEENEY — The key objective really of our industry is to move, obviously as the dollar has shifted, and really make sure that we are making the most of the international market. Obviously the key component of doing that is to make sure that we are targeting that premium end of the market. Obviously that is a fairly competitive space, but it is probably equally and probably more competitive where we are sitting at the moment where we are competing against other countries which have, I guess, lower production costs than we do and also I suppose have probably a better ability to move their stock into the key markets, particularly in the North America area, which is where we see a lot of growth coming from.

The CHAIR — And that is predominantly a bottled product being exported rather than a bulk product?

Ms SWEENEY — Our market has predominantly — I suppose because of the exchange rate — moved into that bulk component, so there are businesses within Victoria that would export as low as 60 cents a litre for wine, but that is not the market that we want to continue to move in and obviously it is not a competitive market that Victoria can play in as well.

Mr SHEEHAN — It is not sustainable for the industry and it is a bad outcome as a result of the supply and demand problems that we have faced. Sustainably and profitably we need to be operating in the bottled segment of the market but probably a category higher than the larger volume bottled product which you would see coming out of the warmer inland regions. Victoria has 21 regions. We have most of those regions operating in a very small segment in the export market, which is great for our profile worldwide if those wines are getting out there, but we need to encourage that and support that to happen.

The CHAIR — Presumably the bulk exports, 60 cents a litre, that would be incredibly — —

Ms SWEENEY — That is at the lowest.

The CHAIR — At the low end. That would be incredibly price sensitive as far as shipping and related costs.

Ms SWEENEY — Yes, that is right. Obviously that is a very small component of our industry and not one where we want to operate continually. But where the market, particularly in North America and certain parts of China, actually sees Australian wine more in that bulk component in the lower end of the market, to shift that is going to take some time. To remain competitive throughout the coming years as we try to deliver against these strategies, we want to make sure that our industry can remain in a state where we are not losing producers, and we currently are losing producers. There have been lots of figures done, but anywhere between 60 and 90 per cent of our industry is currently not making a profit, depending on which figures you are actually looking at. So to move our industry from a low-profitability status to one which accurately reflects the value of our product — and we are seeing it domestically and growing internationally as a premium producer — we do need to be mindful of any shifts that might take place while that is occurring and make sure that those that are most vulnerable are not put at risk while they currently have export markets available to them.

The CHAIR — Mr Sheehan, you referred in your opening comments to product produced in South Australia being shipped via port of Melbourne. What is the driver of that?

Mr DRUM — Western Australia. You said Margaret River?

The CHAIR — I think both Margaret River and South Australia, you referred to?

Ms SWEENEY — Both, yes.

Mr SHEEHAN — If you set up a business that has several wineries involved — and that is not abnormal — obviously you are looking for synergies. Our business has two wineries in Victoria and our headquarters is therefore in Victoria. The synergies we are looking for, we have built a fairly significant asset in Port Melbourne for warehousing, so to take advantage of that we need to export through port of Melbourne.

The CHAIR — So that is driven by the internal structures of the business —

Mr SHEEHAN — Yes. Our business structure requires — —

The CHAIR — rather than an inherent benefit of the port of Melbourne over Adelaide or Perth?

Mr SHEEHAN — The business case needed to be in favour of coming through the port of Melbourne, and it was — but it was certainly something we had to look very closely at.

Ms SWEENEY — Equally I suppose we are not dissimilar to most other industries. It is the largest container port in Australia, and obviously there are efficiency gains that can be gained through that access. We do not have direct details of the volume of wine that is going out through that port, but we can certainly find that out for you if that is of interest.

The CHAIR — Yes, thank you. That would be very interesting.

Mr MULINO — Thank you for your submission and for your evidence. You have indicated that supply chain costs are critical given how competitive your industry is. I just wanted to look at a couple of aspects. The first is the economic regulation of the various charges that you might face, either directly or indirectly. Do you support the strengthening of the economic regulatory regime from a price-monitoring regime to one which is stronger post-lease?

Ms SWEENEY — We would have to say that we have not looked at this in finite detail, but obviously any situation that will increase costs for our producers at the moment is going to be one we would need to see a really strong case for — because of the delicacy with which are moving from a case of being really unprofitable to one where we are chasing export markets, we would need to see some detail around that. Part of our submission did highlight that we probably were not able to pick up some of the detail around what the actual impacts on our industry might be, so we would be very welcoming of seeing any data that responds to that sort of situation.

Mr MULINO — But as a general principle you would like to see the economic regulator having as much teeth as possible and as much detail in a pricing order around which they operate?

Mr SHEEHAN — I think we are right to have transparency, but it is difficult, without having that sort of detail that we need, to talk to our industry about where we stand on those impacts. I suppose we have not had that discussion for, in principle, which way we sit in answer to the question you are asking. I do not think we can give a clear direction about that.

Ms SWEENEY — The most competitive situation would be beneficial to Victoria more broadly, would it not?

Mr MULINO — Yes, okay.

Ms SWEENEY — That is right. Regulation, I suppose, can be a two-edged sword. Where there is too much regulation, that can reduce competitiveness, and where there is not enough, that can obviously also make things uncompetitive. The finite detail with which that regulation sits would be something we need to consider.

Mr MULINO — Another aspect is the supply chain costs arising from the capital investments. One of the arguments that has been put by some is that it is going to be a lower cost for the state — at least for some time, for 10, 20 or 25 years, possibly — for port of Melbourne to increase its capacity rather than to build a new port. If that was the case, would you support incentives being put in place such that the new lessee would have the right incentives to increase capacity at the port of Melbourne to facilitate growing exports?

Ms SWEENEY — Are you asking whether or not we favour increasing the capacity of port of Melbourne over the creation of a new port?

Mr MULINO — If that was the lowest cost way of increasing capacity over the medium term.

Ms SWEENEY — If cost was the only driver, I guess that we would have to look at what the benefits for our producers would be if there were two ports in place. Again, considering the economic case around that — just an either/or basis — is not something we probably have the detail of at the moment. But from the point of view of increasing capacity, as we are obviously increasing capacity ourselves from an export point of view, we would look to see where the most competitive port would be from that perspective. Are you also referring to the guarantee put in place for 15 years regarding the export charges?

Mr MULINO — No. I guess what I am getting at is that obviously you are facing cost pressures. As a general principle, you would like Victoria's capacity to increase in the least-cost way, as a general principle?

Ms SWEENEY — Yes, of course. Absolutely.

Mr MULINO — So obviously if it was the case that that was through the port of Melbourne for the next, say, 10 or 20 years, it would be good for the lease and also regulatory arrangements to provide incentives for the lessee, the new operator, to increase capacity.

Mr SHEEHAN — Certainly, and as you just put it, our industry would be supportive of increases in efficiency that bring down the costs of freighting. Through capacity building you get those increases in efficiency. I guess that we would say that yes, we are supportive of it, but I do not think we can go any further.

Ms SWEENEY — I guess the in-principle position you have put to us is one that we would definitely support, but obviously the devil is in the detail in some of these sorts of issues, so from our perspective it is hard to know what that detail looks like at this particular stage. Price is one indicator, and obviously that is something we are very mindful of, but what would be the other unintended consequences of those actions, it is hard to determine at this point.

Mr MULINO — Okay, thanks.

Mr BARBER — You know that the fees and charges associated with the port, which is the thing that you guys face, are going to increase under various different methods. Some of the fees will be capped at inflation for a certain period; others will be, after that time, regulated in various ways. You are describing an industry that is currently unprofitable in a large part. I presume you guys do it for the love as much as for the money.

Ms SWEENEY — Indeed.

Mr BARBER — Can you tell us a little bit more about what you think then your path is back to profitability, particularly what are the kind of sensitivities, either it be a change in the exchange rate or the entrance of a new competitor, that influence when you start to lose market share, so that I can get an idea of how to compare that to what will inevitably be steadily rising costs from port charges, depending on whether it is CPI or something else? How much of these two things affect the way you are going about getting back into profitability?

Mr SHEEHAN — We have got sort of short-term issues that we are facing immediately, and that is to do with the perception of Australian wine in the export markets. We need to address that so that we can start increasing market share in the higher price categories. Currently, as Rachael has already mentioned, the larger markets like the UK and the US are still seeing Australia as producing wine primarily in the cheap category and do not really look for products from Australia in those higher categories. We need to overcome that, especially the Victorian wine industry which has a lot of operators in that high a price category. To encourage and increase export out of Victoria, we need to make sure that we do not have any unnecessary impediments to getting wine on the docks and over to those overseas markets.

In the long term, when we are in a position where we are able to have more power in the price negotiation, I would say we can share and absorb increases in the freight costs more equally. Currently, at this moment, we are not in that position, so we would be absorbing any increases in costs and at the same time still be in a situation where we are exporting in that lower price category, which is the lower margin category. It is a short and long-term problem and we need those higher price categories where there is a greater margin, which means that we have got more power in the price negotiations, but it means we have also got the margin there to cope with price increases.

Ms SWEENEY — Just to put some figures around that, obviously we are chasing $7.50 FOB and above, which is not currently where we have sort of got the majority of our industry sitting. It has grown. The largest component of our industry grew in the $2.50 to $4.99 market, so it grew by 35 per cent over the last year, but I guess the reality of what Damien is also saying is that these are long lead times. At the same time, when you are sitting at a point where I think the largest share of the US market is $2 a litre — and that is the recognition of Australian wine in that market — for us to even begin the point of getting into the market from a market access point of view and then gaining the recognition of that is something we want to put our time and effort into but also too with the FTAs that have now been signed and more people being able to move into the more emerging markets, which Asia generally is, any prohibitors for them being able to do that is something that will set us back from that point of view as well.

There are a lot of people who are considering that now. It has become more competitive for us to go into some of those markets, but obviously trade agreements are only one component of that, and the resources required to set yourself up in the market are a completely different thing. The loss that is retained by a business when they are trying to get into those markets — and it can take 5 to 10 years to do so and to be profitable in some markets — that is where we do not want to see these issues. Obviously, and a question we probably do not really understand is, if there are increases in the fees and there is a view to privatisation, is there are also an efficiency dividend that is being proposed as well back to, I guess, users of the port, because that is obviously where this debate will come down to from our perspective?

Mr BARBER — Are those figures you quoted inclusive of the costs of freight when you put it on this end or delivered to the other end?

Ms SWEENEY — The FOB charge is the charge that is incurred by or the charge that has been — —

Mr SHEEHAN — It is the other end. That is the distributor or whoever your agent is in the overseas market. That is the cost at the final point of delivery.

Ms SWEENEY — That is what they are paying per litre of wine and that includes the freight charges.

Mr BARBER — I am just try to think of the prices I have seen for our wines in some of the supermarkets over there.

Mr SHEEHAN — They retail for three bucks.

Mr BARBER — There would not be much more left over for your profit after you have delivered it.

Ms SWEENEY — So which market are you referring to?

Mr BARBER — UK, US.

Mr SHEEHAN — The UK market is probably one of our tougher markets and we have been in a position for a long time now where we are price-takers and I would say that there has been plenty of instances where wines have been sold at FOB prices that are not profitable prices, but it is a volume proposition, giving some cash flow, I suppose, to the business and to allow them to trade their way out to a profitable position. But as I was alluding to before, it is that issue that we do not have much power when we are negotiating our prices, and the UK market in particular will always bring your price back down according to tariffs and changes like FOB changes.

Mr BARBER — Do you know how much of your costs are port fees? It is probably not on your invoice from the freight companies.

Mr SHEEHAN — Yes, we are collecting that information now, not having actually tried to collect that information before, and we are a long way off probably being able to answer that right at the moment, but it is certainly something that we intend to be able to provide to you.

Mr PURCELL — The amount of product that goes through the port of Melbourne, is it mainly containerised?

Mr SHEEHAN — Yes.

Mr PURCELL — So it goes into containers. Whether it is bulked or bottled, it still goes into the export market via containers.

Mr SHEEHAN — Yes.

Ms SWEENEY — And a lot of it is bottled overseas too.

Mr PURCELL — So the higher end would be bottled and the lower end would be obviously bulk. One of the issues that I am keen to consider is the long-term development of the port and when it gets to capacity and some of those issues, and also particularly the products that go through it. The figures that you give here in your background — the third dot point — show that up to 90 per cent could be unprofitable. Is the industry growing?

Ms SWEENEY — It depends. Are you talking about size of producers or number of producers or profitability?

Mr PURCELL — Quantity.

Mr SHEEHAN — The area under vineyard has been decreasing. It is probably starting to slow down. Therefore, the total volume produced out of the state has decreased as a result.

Mr PURCELL — The figures we have here say that 65 per cent of the industry is not making a profit. That could have been 90 per cent in 2012–13. Do you have 10-year figures on those sorts of things?

Mr SHEEHAN — Yes.

Mr PURCELL — Do you know what they are?

Ms SWEENEY — Sorry. New figures? There is a very complicated tax mechanism in place that is currently under review at the federal level, which is the wine equalisation tax. Figures that recently came out as part of that review put it that somewhere around 70 per cent are still very unprofitable when it comes to our industry. The review may shift those figures, depending on what the federal government does in relation to the wine equalisation tax. But it is fair to say that a fair majority of the industry — somewhere between 65 per cent and 90 per cent, depending on the figures that are looked at — are still unprofitable, currently speaking.

Mr PURCELL — So your predictions for the future would not see the industry growing significantly? In business I am not sure that it would attract too many people in if 90 per cent of existing businesses are currently making a loss. Where do you go looking?

Ms SWEENEY — We do believe that the industry will start to grow. One of the key factors has obviously been that the Australian dollar has made us extraordinarily uncompetitive, and that has been particularly where we had a really strong market in the US. There have been businesses like Brown Brothers who would say they had an enormous amount of infrastructure in place in both the UK and US markets, but when the dollar started to drop they had to significantly reduce that infrastructure that was in place.

We are starting to see that people are reinvesting into international markets, and particularly into the US. It is seen that the US is now a good target for us, and also the UK, while still being tough, they are informed consumers as well, so we certainly see that the product that we have got will be able to be re-entered into that market at an appropriate price. It will just require significant infrastructure investment from not only the industry body — which is the Australian Wine and Grape Authority — but also from the individual businesses and, we hope, in partnership with the state and federal governments as well to reshape the markets we currently have at the moment. But yes, absolutely, we do see a growth scenario occurring, particularly in the trade space, because with the way in which our industry is structured at the moment we are in a state of oversupply. There are certain mechanisms that are currently in place that will reduce that level of oversupply, but without getting into that really strong export space, we certainly feel that it would be harder to return to that level.

Mr PURCELL — Yes.

Mr SHEEHAN — If we do address our issues and succeed in returning to profitability, it makes it obviously a more attractive industry to be a part of. Victoria has great natural assets for viticulture and for the production of wine. The 21 regions we have, the styles of wines we produce, are right now very appealing for the international markets. It is a category where the price categories that we need to operate in are growing. So all the elements are there for success. It is just time and making sure that the infrastructure is there to deliver.

Ms SWEENEY — And obviously China is our largest export market, and what we are starting to see also where people are putting infrastructure in place in those markets and investing in them is that the consumer is becoming more aware. The level of product that we produce here in Victoria, not just the extremely high-end price point that they have associated with some of our producers, but also the younger generation is reaching out and trying new products as well, which we see as an exponential growth product for us.

Mr ONDARCHIE — I have two questions: one for Damien and one for Rachael. Firstly, Damien, how is the 2013 Cliff Edge shiraz drinking?

Ms SHING — I should call a point of order on relevance here.

The CHAIR — Related to the terms of reference, Mr Ondarchie?

Mr SHEEHAN — Well spotted. Great to have a supporter in the room.

Mr ONDARCHIE — Rachael, as you rightly said earlier in your testimony: the devil is in the detail for an industry that has major exports to China, the UK, the US and Canada, to name the top four, and 12 000 jobs in Victoria directly and indirectly. What does price pressure in a 70-year monopoly on the port —

Ms SHING — It is a 50-year lease.

Mr ONDARCHIE — fifty plus 20-year lease monopoly for the port mean to growers and what is the impact potentially on their businesses and on jobs?

Ms SWEENEY — Obviously the way you have just described it there is something that makes our future uncertain. We have a strategy that we are putting in place and it is one that we believe will be an extraordinarily good thing for not only our growers but obviously for all of Victoria as well. But for me to sit here and commit one way or the other about what that actually means for our industry is very difficult, but in theory and in principle that would not necessarily create the best environment for us to be competitive.

Mr ONDARCHIE — You said in your submission that there are some other things that you are wanting to know about, such as on-dock trail delivery, on-dock facilities, plans to increase the port around Dynon Road. All those are unanswered right now.

Ms SWEENEY — That is right.

Mr ONDARCHIE — So does that create some concern for your industry in terms of its viability for exports?

Ms SWEENEY — Viability is probably not the way I would couch that particular statement, but obviously for an industry that is focused around export, we really do feel that it is important to understand what the legislation may mean for our industry over the long term. We support the Victorian Farmers Federation in trying to understand that detail. We are a small industry association and one obviously focused on some key areas, but obviously we would be very keen to understand what this actually means for our industry and would welcome detail on that.

Mr ONDARCHIE — So would we. Chair, I have no other, other than to reserve my right to talk a bit more about Mount Langi after we have finished.

The CHAIR — Thank you, Mr Ondarchie.

Ms SHING — Thanks very much for your submission and for the further evidence that you have provided orally to the committee today. With the wine industry holding on somewhat precariously to a state of profitability across as large a swathe of the market as it can in recent years, it has, as you indicated at the outset, been besieged on all sides by a really difficult exchange rate, a lot of market competition internationally, oversupply in terms of grape and wine product — despite the fact that we all know in Australia just how good the product is. Having all of that as the backdrop and noting just how very skinny the margins are in a positive direction, if they are in a positive direction, for individual growers and producers, what is it more broadly that industry is doing to turn that around?

Rachael, you raised the initiatives that are being drawn upon to encourage growth and to encourage greater market penetration in emerging markets such as China — and Asia more broadly is another significant consumer that is there to be opened up as a market. But where the margins are as tight as they are, where things are as potentially volatile as they are, based on what you have to play with, what are you doing more broadly, what is happening more broadly to actually turn that around? Because the lease of the port of Melbourne is one thing, and we have seen in recent times that there have been announcements around additional regulatory safeguards around a best practice approach as far as taking the regulatory framework into the highest threshold in comparison to other Australian ports. But all of that is not necessarily going to turn things around in any sort of wholesale away when you are faced with an industry that at its core has had so many challenges. So more broadly, what is the plan for turning that around and capturing that really good-sized chunk of the markets as they are emerging?

Mr ONDARCHIE — How is that relevant to this terms of reference? We are talking about the price impost of this sale, not about the strategy of the industry to turn around.

The CHAIR — Order! Mr Ondarchie.

Ms SHING — Sorry, through the Chair, where the initial comments have been made in relation to just how tight the margins are, just how difficult it is, and just how tricky any sort of price impact will be as a consequence of the port of Melbourne, I would be really interested to hear more broadly the context in which that is occurring and also the proactive action that is being taken by the industry to turn that around, because I think it all comes together to best understand what the financial situation and the viability — which is a word that you used earlier — will mean for the industry at large.

The CHAIR — Thanks, Ms Shing.

Mr ONDARCHIE — Sounds like you are trying to justify your cost impost on business.

Ms SHING — No, not at all.

The CHAIR — Mr Ondarchie, I will allow the question. It is relevant to the opening statement that Mr Sheehan made.

Ms SWEENEY — The Australian Wine and Grape Authority, commonly known as Wine Australia, is our statutory authority, which receives the levies that have been collected from industry, and also there is some R and D component of government funding. I will talk about the market strategy that is in place, and it is something that the industry is very committed to. We have offices in all the different markets and part of the strategy we will try is to push forward our best product into those markets, to engage through an educational program within those markets around some of those key influences, and in addition to that to also support industry where they have got infrastructure in place to be able to extrapolate that out as well, so, inbound and outbound missions that industry runs quite regularly, in addition to advertising and marketing campaigns and also what is called an immersion program within these industries around those things like sommeliers, buyers, all those people that actually create the buzz around the industry.

We believe that the product exists; it is not a supply issue, but it is definitely a demand issue, so trying to increase demand around those people who see wine as, I guess, a luxury product will have a knock-on effect throughout the industry. It might sound a bit esoteric to people who are not familiar with the marketing side of things, but it is a pretty traditional strategy that is put in place and is one which we believe there will be strong market growth around. When people do actually see what we have got here in Victoria they are extraordinarily surprised by that, in addition to the fact that with the on-farm situation the R and D component is being kicked up. Damien can talk about that; he is the expert there.

Mr SHEEHAN — There is plenty to say, in answer to your question — to be honest. It has been addressed by the industry. As of 10 years ago they started looking at how to address the supply issue, which I think has been addressed, and now we are looking at the demand side. But in the meantime we have to look at the assets, so R and D, biosecurity issues, all of those things are being addressed at state level but also at national level. In particular we are looking at ways to improve productivity from the farm gate, so there is investment by that. We pay levies. Every grower and winery business pays a levy that goes into a pool of funds that is run through Wine Australia, so they cover off on the research and development, and also on the marketing activities of the industry. It has certainly taken the attention of our industry over the last 10 years on how to address this profitability issue.

Ms SHING — What are the time frames for anticipating that turnaround in terms of bottom-line and individual grower growth?

Ms SWEENEY — I guess the reality is we are seeing a bump already, which is really extraordinary. In the higher end price market we are actually seeing that is where the strongest growth is.

Ms SHING — Can you talk us through a little bit to do with the way in which that growth has occurred? That upswing which we have just recently encountered, how is that manifesting?

Ms SWEENEY — It quite clearly has come down to the fact that the US market is starting to return and the UK market is also starting to return. We are so much more competitive because of the Australian dollar as well, but equally too companies, again like Rathbone, and also Brown Brothers and Treasury, have been doing the work on the ground in markets like China. The growth in those Asian markets is great, and it really is just a strategy that we have been putting in place, as Damien said, probably for the last at least five years to demonstrate where the product is actually meeting a premium-style consumer. Does that answer your question?

Ms SHING — Yes, so my final question or request for comment would be: would it be fair to say then that an increased economic regulatory framework in terms of oversight to actually put those safeguards in place for the proposed lease of the port of Melbourne — that would be comparatively much stronger than any other port around Australia — would in fact lend a competitive advantage to achieving the sorts of things that you are talking about in terms of market share?

Ms SWEENEY — Again, as I said, I think one of the issues that you often find with these sorts of questions, and I suppose when we cannot see the detail around it, it is hard for us to comment, but again where the regulation is put in place in a manner which allows industry to remain competitive and allows industry to make the most of the markets that we are trying to pursue without creating a barrier for smaller producers — and that is where I think the growth will come quite strongly in our industry — so without creating an additional burden for them to be able to overcome, we would see strong growth in that.

Ms SHING — Have you seen the government's statement that was released at the start of this month in relation to discussions with the ACCC to change various parts of the transaction as far as rent, as far as the way in which third-party negotiation/mediation could occur as far as rent disagreements and disputations would occur?

Ms SWEENEY — I have not seen that, but I am very happy to take a look at that with our economic adviser in our federal body and come back to you with the response to that.

Ms SHING — Great. That might be something to add to the questions on that list. Thank you.

Ms SWEENEY — Yes, absolutely.

Mr DRUM — My issues are pushed out into the future with this. Effectively there are a whole lot of unknowns in relation to the port of Melbourne. The current site of the port of Melbourne is currently trading around 2.3 million TEU per annum, with a growth rate over the last five or six years at 6 per cent year on year. If that continues, then we know we will reach a capacity, and we are not quite sure what capacity is, because we have had witnesses sitting where you are sitting effectively saying that capacity sits at around 5.3, and we have had other people come in here and say it could be as great as 8 million TEU. So there is this uncertainty about when we will max out at the port of Melbourne. But on those scenarios, whichever you take — whether you take an aggressive growth and a conservative capacity or whether you take a conservative growth and an aggressive capacity — that range will still be somewhere between about 13 years and 25 years when we are going to max out the port of Melbourne.

An honourable member — Some say longer.

Mr DRUM — The Labor Party says longer. However, irrespective, this is a 50-year lease, plus a 20-year potential extension. So we are going to need a new port. Has the wine industry thought about this: that we are going to sell the port, we are going to spend the money, and we are not making any provision for building or the preparation of a new port, and in fact we are putting in place a compensation clause, should any government in the future actually start operating a second port? Does that concern Wine Victoria, to look into that 15 to 25-year period and say, 'The port's going to max out, we have to go somewhere else', and yet this government is not making any provision or any plans for the future whatsoever, and in fact is going to spend the money and make it difficult for a future port to operate anywhere, other than the port of Melbourne?

Ms SWEENEY — I suppose in response to that we would say the strategic growth and the decisions around how we manage growth within Victoria probably sit outside the capacity of Wine Victoria to be able to answer in any sort of meaningful sense, but obviously if you brought it back down to the impact for Wine Victoria we do see that we are going to grow our capacity for exporting; both those that are doing it now and those that want to in the future will continue to grow. We would say it is beholden on the government to make sure that those facilities exist, whatever mechanism they put in place to be able to deal with that. So whether or not it is one port or two ports, the capacity must exist.

Mr DRUM — Sure. I think everybody realises that with the Australian dollar coming off, even though the wine industry is incredibly tight with its margins, I think everybody is looking at food and fibre produced in Victoria and Australia, and wine has been one of our leading export opportunities. I think that is just pretty much a standard observation. Therefore I think it is incumbent on Wine Victoria — Wine Australia — to ensure that access to those overseas markets remains competitive, efficient and the like.

Do you think we need to answer some of these unknowns prior to the sale, or would Wine Victoria be happy just to have the government go in, make the sale, spend the money and then worry about the future down the track? Would you like to have some of these answers clarified, such as what is capacity at the port — have some experts organise what it is, work out roughly when we are going to reach capacity — and then actually have a strategy for where we move after that, prior to making the sale go through?

Ms SWEENEY — And what sort of detail are you proposing that might come forward from such an inquiry?

Mr DRUM — The government is proposing that we have Infrastructure Victoria look at a second site. I think that is a great idea, because one side of politics says Hastings, another side of politics says Bay West, and then there is the current government that says, 'Let's just leave it at the port of Melbourne for 70 years'. So we do not know, but all I am worried about is that we have to have a second port somewhere, and that will be upon us in 20 years roughly. The lead time and the planning time is supposed to be around 10 years, so we need this work done, and the sharpest scenario is that we will need a new port in 11 or 12 years, and with a 10-year lead time we should be starting work next year to work out where the new port is going to go, and we will have to have some provision for it. Any port built around the world has government investment, and yet we are heading down this path where we will just put it all in the too-hard basket and we will let some other government worry about it down the track. That is a concern for us as we look at a whole range of industries, whether it be paper, dairy, wine, whatever.

Mr SHEEHAN — I guess as Rachael said, and it is probably all we can really say, we obviously need that capacity to remain open for us to grow as an industry. Our industry has not really had the conversation to answer your question directly.

Mr DRUM — Sure.

Ms SWEENEY — I guess all we can probably do is provide you with the growth potential of our industry and what that might look like from a container export point of view. We have to be honest — we are one stakeholder, obviously, in the mix of many. I take your point that we are growing and we need to be able to maintain that access. We also need to be able to maintain, I guess, the potential for that access as well. So if it would be of interest, then we can certainly provide that information, which you can add to the figures you have obviously got from everybody else as well.

The CHAIR — Thank you very much.

Ms SWEENEY — But the strategy involved with that is something we do not have a comment either way on.

Mr DRUM — Sure. Thanks, Rachael. Thanks, Damien.

Ms TIERNEY — Thank you, Rachael and Damien, for being with us this morning. I just have a general question about the wine industry and then a question about the port specifically. It is pleasing to note that there is significant growth that is happening and about to happen in leaps and bounds in terms of wine export, and it cannot come, I think, too soon. I also echo some of the comments that people have made in terms of how when you are overseas people often end up buying Australian wine that they would not necessarily buy here at home, and I think that we can do a much, much better job in terms of showcasing what a wonderful industry we have in this country, particularly in Victoria. Part of that is the labelling that we need to inject and the education in terms of the breakdown of the regions within Victoria as well.

I also find it quite interesting that in Canada, for example, you have a much wider range of Australian product, and the prices seem to be okay, but in terms of some of the other more developed and developing countries there is a lot of work that needs to be done, so I would like to know what work you are doing in terms of Australian tourists, Australian travel agents, the shipping industry and a whole range of other areas in terms of educating the market about what great products we have. That is the question I have in terms of the industry and the importance of trading and exporting food and fibre to the rest of the world.

The question I have in terms of the actual port itself is that legislation has now gone through the Parliament to set up a body called Infrastructure Victoria. I am just wondering what your organisation's view is in terms of having a more independent body that analyses infrastructure proposals, as opposed to having to deal with the ping-pong arrangement that seems to go on regardless of what political party is in power.

Ms Shing interjected.

Ms TIERNEY — Yes, and we did see it in terms of the previous question that was asked of you. So I would like to know what your views are in terms of just trying to take infrastructure projects out of the hands of the short-term political imperatives of a particular political party or a particular government at any given time.

Ms SWEENEY — Again, our board does not have a position on this; I would just like to make that clear. But in principle I think Infrastructure Victoria is an excellent idea, and getting industry input through some of the people that have been announced as part of the board I think is a very good way forward in being able to plan for the future of Victoria. It is something where a partnership, obviously, between industry and government and community should have that discussion in that space, and strategy for how we are actually going to deal with the growth not only of the population of Victoria but also, I guess, of our more business-oriented needs is something that I think is an excellent thing for our industry. But, obviously again, that has obviously just occurred, so it will be great to see what the actual outcomes of that will be in the future.

Ms TIERNEY — So you would feel comfortable with Infrastructure Victoria being the major role player in determining or having a lot of involvement in determining the location of the second port?

Ms SWEENEY — I do not have a comment on the location of the second port.

Ms TIERNEY — No, it is about this independent body being the driver of that analysis.

Ms SWEENEY — In principle I would say to you that an independent inquiry with strong input from business is an excellent thing.

Ms TIERNEY — Is there any other comment about the industry generally in terms of improvements to the export volume or range?

Mr SHEEHAN — You did ask about how active we have been in terms of educating our market, I suppose, or creating more market opportunity for our industry. Wine Victoria has been working with the Victorian government on improving our market penetration in terms of tourists who are inbound internationally but also just in an Australian context as well. There are certainly strategies there that we are working on to increase market penetration, domestically and internationally.

Ms SWEENEY — And obviously just to the point that you had, each of the different markets have different rules and regulations in place, so obviously in Canada it is a different situation, with the government control of — —

Mr SHEEHAN — The liquor control boards.

Ms SWEENEY — Liquor control boards, so we are dealing with different market conditions in each of those areas as well. In relation to tourism as well, we see strong connectivity between the Restaurants Australia campaign, which is obviously driving a lot of visitation through to Australia, and we are a key component of the food and wine offering there. It is a very big part of a strong future for our industry.

The CHAIR — Thank you. Mr Sheehan, Ms Sweeney, thank you very much for your evidence this morning and for your written submission on behalf of Wine Victoria. The hearing has been transcribed, and you will have a proof version of the transcript in the next couple of days for any corrections you wish to make.

Witnesses withdrew.