RESTRUCTURING IN THE SOUTH AUSTRALIAN WINE INDUSTRY — 1961-1984

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Without doubt the last two decades have witnessed substantial transformations in the structure of the South Australian wine industry. For example, there has been the decline of the U.K. export market; the shift away from fortified wine production, and from red to white table wine consumption; the rapid increasse in wine sales, in large part as a result of the introduction of the 'bag in the box'; and the rapid rise of the South East of the State and other cool climate regions and stagnation or decline in some of the older established regions such as metropolitan Adelaide and the Barossa Valley. In the face of these and other transformations (such as price discounting and the emergence of large wholesaling and distribution companies) it is not altogether surprising that, as cause and effect, rapid and radical change has been the hall-mark which characterises those organisations at the locus of the wine industry - the wineries themselves. Not only has there been a substantial increase in the number of operating wineries but also a large number of the older-established and independantly-owned family wineries have changed hands, sometimes several times. The prime concerns of this paper are first to document the nature and extent of these births, deaths and changes of ownership (marriages and divorces) in South Australia's wineries from 1961 onwards and then to offer some explanations for these changes. Such an endeavour is part of a much larger research project which entails the examination, over time, of the fluctuating relationships between the grape-growing and the wine-making sectors as the wine industry in general undergoes, and responds to, major shifts in direction (in terms of production, consumption, marketing etc.)

The Births, Lives and Deaths of South Australia's Wineries

There was a net increase in the number of South Australia's wineries from 69 in 1961 to 130 in 1984, most of the increase coming between 1971 and 1981 (Figure 1), and most in the Southern Vales (from 14 to 43). In order to fully understand this growth pattern, the analysis breaks it down into three components - births, deaths and1961 survivors.

In South Australia between 1961 and 1984,92 wineries were born (including three that were re-born). This constituted a phenomenal growth rate, births comprising no less than 133.3 % of all wineries existing in 1961. Moreover, large numbers of births were recorded in all regions, although in Adelaide and Barossa they were not responsible for at least doubling the number of wineries in each region. The major period in which these new wineries emerged was was between 1971 and 1981. Indeed, the number of of births in this decade alone (66, or 77.7 % of all births was almost equal to the number of South Australian wineries in operation n 1961. Since 1981, however the birth rate has fallen markedly.

Very few of the wineries that opened after 1961 had ceased to function by 1984. Only eight died and of these one was reborn, two converted to wine companies and one closed as part of a rationalisation programme to focus wine-making at another site. Thus the 'real' deaths only amounted to four, all of which were very small wineries which were in operation for a limited number of years. By far the greatest proportion of the deaths, therefore, were of wineries that were in operation in 1961. Again, however, the numbers of 'real' deaths (seven) were few - four very small wineries (one of which died twice) and two in the Southern Vales which were overseas-owned and whose closure in the early 1960s was associated with changes in the wine export market to the United Kingdom. Virtually all of theremainder of the deaths (15 out of 16) have been the result of rationalisation decisions on the part of multi-plant winery companies who wished to concentrate their production at fewer sites. These have been spatially concentrated in the Adelaide metropolitan area.

As a corollary, and the third component of this analysis of change, almost seventy per cent of all the wineries of South Australia in operation in 1961 have survived to 1984. Thus, in summary it can be noted that the dominant features for South Australia are high birth rates during 1971-81, reasonably low death rates, and relatively high survival rates of 1961 wineries and, especially, of births.

Changes in Ownership Status

Details of the ownership status of wineries in existence at the 1961, 1971, 1981 and 1984 vintages are given in Figure 2 and Table 1. As with the trends examined previously, the patterns varied considerably over time, region and type of ownership. For those wineries owned by private South Australian family companies (PSAFC) the dominant features for South Australia (Figure 2) were those of an absolute decline between 1961 and 1971, stagnation during 1981-84, but a major increase (of 76.6 %) for the intervening decade.

Table 1
South Australian Wineries, by Type of Ownership Status, 1961-1984

Type of Ownership Status	%of all South Australian Wineries			
	1961	1971	1981	1984
Private South Australian Family Company	73.9	59.5	64.3	65.4
South Australian Public Company	1.4	5.1	3.9	8.5
South Australian Partnership	2.9	3.8	9.3	6.9
Co-operative	8.7	10.1	6.2	3.1
Out of State	10.2	19.0	14.0	13.8
Not Classifiable	2.9	2.5	2.3	
2.3				

For wineries operating under different forms of ownership the numbers involved are much smaller, and the trends more diffuse and, at times, even perverse. Nevertheless, certain major characteristics do stand out. Firstly, what can be immediately recognised is the growth, 1961-84, of wineries owned by either South Australian-based public companies (SAPC) or South Australian partnerships (SAPs). The SAPC wineries expanded in absolute number (from 1 to 11, 1961-84) and as a percentage of all South Australian wineries (Table 1), increases which were especially notable in the Barossa (from 0 in 1961 to 7 out of 11 SAPCs in 1984) and for the period 1981-84 for South Australia. In contrast, the number of SAP-owned wineries fell in this latter period, although the decline was not of such a magnitude so as to offset the gains made earlier (Figure 2).

Secondly, and set against these growth trends, there can be detected the radically different changes of fortune of South Australia's co-operatively owned wineries. Whilst these grew from six in 1961to eight in 1971 and 1981, half have now changed status and two of the remainder have been forced into a merger. Moreover, unlike the SAPCs and SAPs which are found today in four of the six regions, their demise has been spatially selective. Whilst co-operative wineries have at some stage existed in all regions except the South East, by 1984 they only survived in the Murray.

Thirdly, and perhaps most significantly, there has been the increase (of 157.1 1961-84) in the number of wineries owned by out of state (OOS) interests. Numerically, they are particularly dominant in the Barossa (from 2 in 1961 to 7 out of 18 in 1984) - as were the SAPCs - although by 1984 they were to be found in all regions (their sole

representative in the Murray being, however, a very recent arrival which went into receivership). Numerically also, the greatest rise was between 1961 and 1971, at which time their percentage contribution to the South Australian total of all wineries also increased (Table1). Since 1971, though, there has been limited net growth or stagnation so that, correspondingly, their relative share has also declined, especially in the Southern Vales. Nevertheless, in the Barossa their relative percentage contribution has continued to increase.

All of the changes in the ownership status at the four terminal years can be attributed to the concurrent occurrence of changes in three types of wineries - those that were born, those that died, and those that survived but changed hands. Here brief consideration will first be given to the ownership status of those wineries which opened. Subsequently, a more comprehensive and in-depth analysis will be presented of the patterns and trends relating to the transfer of ownership or takeover of South Australia's wineries.

Information regarding the ownership status of wineries at the ime of their birth or death is given in Figure 2. For the births two features are particularly significant. Firstly, nine were of OOS wineries which were to be found in five of the six regions: not all, therefore, of the increase in out of state ownership of South Australia's wineries can simply be attributed to the take-over of existing enterprises. It needs to be recognised, though, and this is the second point, that by far the greater proportion of births were either of SAPs (13.0%) or of PSAAFCs (75.0%). This was especially so in the Southern Vales, a trend compounded by this region recording only one death of a PSAFC winery.

Of the 161 wineries that either existed in 1961 or which were born subsequently, 47 experienced at least one change of ownership (29.2 %) very few of the 1961-84 births changed hands (12 out of 92). Perforce, therefore, most of the changes in ownership (74.5) occurred amongst the 1961 wineries. Indeed, over half (35 out of 69) of all 1961 wineries changed hands, a trend that was most marked in all regions except the Murray and, to a lesser extent, Adelaide. Although in almost one third of these cases the wineries later died,1961 wineries which changed hands and survived were in all regions by 1984, especially in the Barossa (which had half of them).

For the purpose of this analysis, seven of the 47 ownership changes are not significant. Five - two of which later died - moved from PSAFC to SAPC status but with no change of control (for example Wolf Blass Wines), whilst two moved from SAP to PSAFC because one partner bought out the other. Of the remaining 40 changes, 31 were of 1961 wineries, nine of which died, and the other nine were births, one of which died.

Of the 40 significant winery changes, almost half experienced only one transfer of ownership, whilst for nine others the initial transfer was subsequently followed only by take-over change involving the parent company (for example, the transfer of Rouge Homme from the Redman family to Lindemans and the subsequent take-over of Lindemans by Philip Morris). For the remaining twelve wineries that changed hands more than once the patterns are, to say the least, extremely convoluted and diverse, with some wineries experiencing up to four ownership changes (for example, Middlebrook and Reynell). Yet one common thread runs through all of the ownership permutations, and that is that each winery was, at least for part of the time since 1961, in the hands of out of state interests - a topic which will be returned to shortly.

When viewed over time (Figure 3) it can be seen that the temporal distribution of all alterations to ownership status exhibits a distinctive pattern of a small flurry of activity in the early 1960s, a major peak around 1970-72, and a smaller but more sustained one from the late 1970s onwards. In addition, more detailed analysis of temporal variations reveals further distinctions in so far that all except one of the births that changed status involved transfers only between South Australian companies whereas virtually all of the 1961 wineries that changed have, at some stage, experienced out of state ownership either directly or indirectly (for example, whilst the ultimate new parent of the Barossa Co-operative winery is an Adelaide-based public company, the head offices of its subsidiaries which exercise immediate control are located interstate). Indeed, of the 1961

wineries that changed hands and survived only one has been free of out of state ownership.

More specifically, the out of state involvement has often been from overseas. Twenty , mostly major , South Australian wineries have at various times come under the umbrella of foreign, normally multi-national, ownership, albeit that often this has been under the auspices of their Australian-based wholly or partially owned subsidiaries. However, no fewer than eight of these overseas conglomerates have subsequently departed from the South Australian wine industry. This has resulted in their pulling out, often with burnt fingers, from eleven wineries, sometimes after only a relatively short period of ownership and control. In the Southern Vales this has particularly been the case in that overseas interests in seven wineries there have been terminated. Thus what remains today are nine overseas-owned wineries (five in the Barossa, two in Clare, and one each in the Southern Vales and the South East.) and nine inter-state owned wineries (three in the South East, two in the Barossa, and one each in the other four regions). From the early 1970s, therefore, what we have been witnessing is the emergence of a tentative trend towards 'buying back the farm', epitomised by the departure of Dalgety and, most poignantly, by the recent purchase from Rothmans of the Reynell winery by Hardys, the largest private family wine group in South Australia.

Evaluation

On the basis of the foregoing analysis what has been selected for special consideration is
(1) the substantial growth in the number of small 'boutique' wineries and;
(2) the involvement in the South Australian wine industry of out of state and, especially, overseas interests. Several of the factors and forces behind these trends are evaluated and assessed here, particularly in terms of the impacts of government policy and the economic pressures for adjustment through rationalisation and restructuring in the South Australian winery sector.

(1) The Growth of Boutique Wineries

In large part the rapid rise in the establishment of new wineries, notably during the 1970s, can be attributed, in the first instance, to the relative ease of entry for new enterprises into the wine-producing sector. A small commercial winery can be operated by a single owner who may need only to employ additional labour at vintage (Semler, 1963, 29) - and even that labour may be available by recourse to family and friends. Moreover, in comparison with other industries, the minimum capital investment required to commence operations is relatively low. Such auspicious circumstances are, however, merely necessary but not sufficient conditions whose existence can be invoked to account for the high birth rate amongst South Australia's wineries.It is necessary, therefore, to go beyond merely noting that there was little or no impediment to entry. From this endeavour what emerges are two distinct factors, the first having greater relevance in the early 1970s, and the second in the late 1970s.

On the one hand, it is readily apparent that many of the new small wineries founded by family companies or business partnerships were a direct response to the boom in wine sales of the late 1960s and early 1970s (Lewkowicz and Ruse, 1974, 4). New people were attracted to an industry which displayed both high growth performance and romance. At the same time, and in part contributing to the rise intheir number, the new smaller producers benefited from "... the belief by many table wine consumers that the best wines are produced by small producers - a direct reflection of the European industry where the majority of the wine is produced by small vignerons" (Kidd, 1979, 159). On the other hand, in less expansive times in the late 1970s, a number of grape growers moved into wine production either because they were having difficulty selling their wine grapes or because they wanted to improve upon the low income derived from grape growing by embarking on a vertical integration strategy. In general it was the former which was the more pronounced incentive, particularly when the large propriety wineries, for whatever reasons, periodically reduced their grape intake from private growers - the imposition of higher taxes, increases in the minimum prices for grapes, the coming on stream of large company vineyards, or the need to lower production in the face of rising stock levels and

falling sales figures. In these circumstances, some grape growers with no outlet, or at least no secure outlet even in the short term, chose to set up a winery on their own account to process grapes and sell their wine, a trend which was the most in evidence in the grape-growing region under most duress in recent times, the Southern Vales.

What, perhaps, has been the more surprising is the very high survival rate of these new ventures. As indicated earlier, there have been very few real deaths of wineries, and this is despite the repeated predictions that many would have to disappear in the face of a combination of adverse factors - the repeal of Section 31A of the Income Tax Assessment Act 1, the economic recession, rising inflation levels, declining wine consumption growth trends, price discounting, and the difficulty of raising sufficient capital in an era dominated by tight monetary policies. In 1977, for example, a Senate inquiry declared that "...over the next 5 years or so a degree of rationalisation within the industry will have to occur, with some winemakers being forced either out of business or to contract their operations back to a manageable liquidity level" (Senate, 1977, 51). Indeed for many it almost became an article of faith that rationalisation and reconstruction were necessary for the very survival of the industry and that this would inevitably entail the emergence of a less fragmented and more co-ordinated pattern through the closure of many of the smaller and less viable wineries. Whilst some regarded this as a desirable outcome in and of itself, for most observers it was an inescapable, although unfortunate, consequence of Federal taxation policy. For example, Richard F. Haselgrove, then president of the Australian Wine and Brandy Producers Association, was moved to comment that it was possible to come to the conclusion that the Federal government had deliberately restructured the industry by making an effort to reduce the number of winemakers (Australian Grapegrower and Winemaker, November 1979, p.1). Haselgrove went on to point out, though, that if this was the case then it was entirely accidental because any planning behind the government action was sadly lacking.

This was not an isolated view. In the long term many believed hat unless Section 31A concessions were re-introduced in some form then only the largest winemakers would survive. Now it can be argued that the long term has not yet arrived or that there is truth to the story that to make a small fortune in the wine industry it is necessary to start with a very large one. The fact remains, however, that hardly any of the new ventures have failed so far and, for those that have, other prospective vignerons have generally stepped into the breach, attracted no doubt by the glamour and excitement of the industry (rather than 'bottom line' considerations).Thus, contrary to much of Marxist thought, from Hilferding onwards, small capitals have not been driven out by larger capitals.

(2) Out of State Involvement.

Certainly in earlier times it would appear that the industry was a very attractive investment proposition, as witnessed by the takeover of old-established large family wineries by even larger, joint-stock, multi-product corporations, most of which had not previously been associated with wine production. Between 1970 and 1972 no fewer than 16 operating wineries were taken over by out of state, invariably overseas, companies so that in the 1973 vintage 12 overseas-owned wineries were responsible for 21.4% of South Australia's crush (Lewkowicz and Ruse, 1974, p. 4). Whilst such transformations can be regarded favourably as part of the move from cottage industry to the competitive consumer goods market (Hesketh, 1982, p.4), the South Australian government was alarmed and so set up a working party to examine the issues surrounding the preservation of the State's family-owned wineries (Lewkowicz and Ruse, 1974).

For those enterprises that sold out it would appear that the major motivating forces were either those of particular family situations (the owner(s) retiring and other family members not livingor interested in the business) or because of financial problems, notably the need to obtain additional capital to inject into a rapidly growing industry. As the Senate Inquiry noted (1977, p.26) "because of high costs associated with production and capital maintenance, exacerbated by taxation changes, reduced cash flow in individual firms requires them to seek a parent which will finance their operations". Similarly, it has been suggested that takeover offers were often attractive to firms which, in response to

increased demand for wine, had over-committed themselves by stretching resourses beyond their financial limits (Short, 1982, p. 8). Undoubtedly, the prospect of making substantial
capital gains was an appealing one. Grant (1972, pp. 72 and 75) commented at the time that

> ...during the period of rapid growth in the industry any profit from a family winemaking business had to be ploughed back to finance new equipment, extensions, additional stocks of wine etc. As a result he family was locked in financially and found it difficult to get any cash out of the enterprise. An additional inducement to the family winemaker to sell out was that the profits which had been ploughed back over the years would be recovered, or more than recovered, free of taxation.

Moreover, the takeovers were not opposed by the State (through the Federal Foreign Investment Review Board, for example), so in this respect at least the government was doing what the industry always claims that it wants -to be left alone to its own devices, free of government interference. Indeed, subject to the conditions of the sales contract, families could sell out and, if they so wished, start again as Redman and Ingoldby did.

In contrast, there is considerable disagreement as to the reasons why the acquiring firms moved into the industry. In broad terms two different sets of factors have been proposed - those 'external' to the industry and those 'internal' to it.The primary external consideration is that the aquiring firms were embarking on a programme of growth and diversification (Grant, 1972; Lewkowicz and Ruse, 1974, p. 10; Senate, 1977, p. 8; IAC, 1979, p.17), something which played a key role for tobacco companies seeking a hedge against possible future restrictions on the growth of that industry (George, 1972, p. 5). In turn this diversification can be seen to be a function of

(1) the need by individual companies to lay the foundations for renewed capital accumulation by shifting investments into more profitable sectors and ventures, and

(2) changes in the global economy - the growth in the scale of production, the rise of international corporations and of corporatist management practices, improvements in communication and banking systems - which have facilitated such offshore investments.

Of the internal factors which have been held to be responsible for the takeovers in the early 1970s three can be highlighted. Firstly, there are the distinctive characterisitics of the industry itself which made certain firms vulnerable targets for takeover offers. This was a time of rapidly rising wine consumption, trends which indicated "...enormous growth potential and promised substantial profits" (George, 1972, p. 5) yet many of the existing firms appeared to some to not be able to take advantage of the situation either because of complacency on the part of old-fashioned and tradition-orientated family firms (George, 1972, p.5) or because of a lack of marketing expertise and liquidity because of financial over-commitment. From the late1960s onwards it was recognised that what was required was a massive capital influx in order to develop new vineyards to meet increasing demand and "...to re-equip an industry that had changed little in many years" (Southern, 1976, p. 2). In response, Southern continued in emotive terms,

> at the whims of chairmen of large companies with money to spare, or as a result of the more practical demands of marketing men who could see the growth potential of wine, big corporations, mostly multi-nationals, began to snap up the great names of Australian wine.... Out of the blue, as it were, the bids came and the locals accepted.

Against this, however, Grant (1972, p.v) has observed that whilst the takeovers will provide the additional financial strength and marketing expertise then lacking "... many of the take-overs have been of financially strong companies with a good marketing organisation". And indeed it would be surprising if it were otherwise. Financially

insolvent enterprises with limited and poorly developed marketing networks are not particularly attractive to potential investors in a rapid growth era, and especially so when other riper pickings are available.

The second factor internal to the wine industry which has been suggested is that the catalyst for the rationalisation of the ownership structure of the wine industry was that the "...increased wine consumption and preference for quality table wines have made it possible for investment in large plants with attendant economies of scale" (Hesketh, 1982, p. 4). The hypothesised chain of events is thus from growth in demand --> increases in production threshold levels --> economies of scale and increases in efficiency. Moreover, it is a chain which in order to become operational required the entry of overseas firms in order to obtain the necessary finance to purchase the new capital equipment. Whilst this may be plausible, it does seem to me that the causative linkages are at best tenuous and, to a large extent, would be more in the nature of ex-post facto reasoning than an explanation of the motives underlying and influencing the takeoverdecisions of the senior management of the acquiring firms.

Thirdly, it was suggested that "...the structure of the wine making industry, when 31A was in existence, encouraged takeovers" (Senate, 1977, p.8), an assertion whose determination became one of the terms of reference of the Senate Standing Committee's report on Tax and the Wine and Grape Industries. It concluded in the affirmative, claimingthat "the undervaluation of assets because of 31A made winemakers prime targets for takeovers" (Senate, 1977, p. 59). This, the report explained,

> ...is because, by and large, undervaluation of assets relative to their true values, in the wine industry, or in any other industry, tend to make the business a target for takeover offers. This is particularly the case when stock constitutes a major part of a winemaker's total assets (Senate, 1977, p.40).

Whilst this is true, and whilst it is also apparent that the availability of concessional valuations under 31A would have facilitated and induced expansion in the industry, it nevertheless is felt this factor, by itself, is not sufficient to account for the takeovers of the early 1970s. At best it should be considered as a contributing factor.

The suspicion remains, therefore, that "...the initiating factor [in takeovers] appeared to be external to the wine industry" (Grant, 1972, p. 75). It is very unusual for the restructuring of capital to take place because of internal factors when that industry is undergoing a rapid period of growth and has ralative ease of entry to new firms. Rather, as was indicated earlier, where attention needs to be directed is at the processes responsible for the internationalisation of productive capital, the centralisation of capital in other sectors of the economy, and the attempts by transnational corporations to diversify their commodity range and/or embark on horizontal integration. Moreover, such an argument gains even more force when consideration is given to the period after 1973 when internal conditions radically changed for the worse.

With the repeal of Section 31A in 1973 wineries faced decreasing liquidity and hence the internal conditions were even more likely to result in firms either closing down or being taken over. And indeed in the newspapers and the popular press dire predictions and dark forebodings were expressed with regard to the ruin facing winemakers as a result of the abolition of 31A concessions. Such sentiments were echoed elsewhere. Lewkowicz and Ruse (1974, p. 5) warned that "... ill-judged government measures [such as changes in taxation policy] can worsen the economic climate for the industry and actually encourage more takeovers" and then went on to explicitly predict that "...the threat to the liquidity position of wineries (other than co-operatives) posed by the repeal of Section 31A of the Income Tax Act could bring about a resurgence of takeover activity within the next few years" (pp. 18-19), in so far that "... takeovers may become the most logical solution for private companies faced with severe liquidity problems" (p.22). The increased susceptibility to takeovers amongst family owned wineries was also stressed by the Senate Inquiry (1977, p. 59) which reported that,

..the repeal of 31A, combined with the effects of inflation, have placed winemakers in a liquidity squeeze and this has also made them vulnerable to takeovers... Winemakers believed that the repeal of 31A would cause some wineries to fall into the hands of large multi-national companies and lead to a restructuring of the industry. Co-operatives and public companies would then dominate the industry at the expense of proprietary companies, partnerships and sole owners, and the traditional vigneròn would disappear.

Yet the predictions have not been fulfilled. Small family and partnership wineries have not gone out of business in large numbers, there were few takeovers in the years immediately after the repeal of 31A (and one of these was of an overseas firm by a private South Australian family company), whilst very few private firms have gone public (the two recent ones not being old-established family companies). The failure of even more propitious internal conditions to result in even more takeovers, or at least maintain their past trends, must therefore cast considerable doubts on the validity of the claims that it was factors internal to the wine industry which were responsible for the takeovers in the first place.

Of course, the repeal of 31A was not the only change to take place in internal conditions in the wine industry from the mid 1970s onwards. Other factors were also significant. The small wineries improved their viability and hence presumably increased their ability to resist takeovers. The number of attractive potential targets for takeover offers had been reduced by the earlier takeovers (perhaps only Hardys and Yalumba of the large private family companies and Seppelts of the public companies). And the industry lost its relative attractiveness as low rates of return were obtained on levels of investment, investments which often had a long lead time before giving returns anyway (Senate, 1977, p. 59). As noted by Lewkowicz and Ruse(1974, p. 18),

> It appears that the flurry of takeovers that occurred between 1968-71 has eased, perhaps because the large multi-product companies that became involved in takeovers have found out that although the wine industry has a great deal of glamour to it, its rates of return are low compared to the parent companies' other product lines.

Decline in profitability, or perhaps more reasonably the failure of the wine industry to deliver the levels of profit initially expected of it, was one of the major factors contributing to the takeovers and amalgamations which have characterised the industry over the last few years. These transformations in ownership status of the wineries are under entirely different circumstances to those prevailing in the early 1970s. Now the catalyst is that of an overproduction caused both by the coming into bearing of the extensive vineyards planted in the early and mid 1970s and by a decline in the growth rate of wine sales as the national economy slid deeper into recession. It is one of the insanities of our times that overproduction of wine (or any other commodity) leads, under capitalism, to a crisis, whereas under other forms of social organisation a surplus of grapes and wine would be a cause for celebration and joy. Nevertheless, it is as a crisis that the contemporary conditions in South Australia are perceived and under which the rationalisations and restructuring of capital have taken place because of the changes in the internal structure of the industry. The net result has been the departure of some of the oveseas companies and the increasing dominance in the South Australian wine industry of a small number of wine groups, mainly through the centralisation of capital-that is through amalgamations of existing companies. What has been particularly significant in this regard has been the recent merger of the Berri and Renmano co-operatives and the takeover of the Barossa, Clarevale and Waikerie co-operatives by the parents of Penfolds.

At the same time, and again under entirely different conditions to those of the early 1970s, the more recent amalgamations can be seen not only as a function of increased competition arising from overproduction but also of changes in other sections of the

wine industry. Principally, it is argued that the introduction of price discounting in the late 1970s had a direct and adverse impact on the profitability of wineries because they were forced to sell at lower prices to the wholesaling and distribution sector. Some have argued that it is the 'bag in the box' that is the real villain because it led to price discounting and, since over half of the sales of table wine are now by this type of container, the discounting has exerted a particularly detrimental effect on wine industry profits. Be that as it may, what is of greater import is the oligopolistic structure of the wholesaling and distribution sector which had the means (its greater relative bargaining strength) and the motives (price discounting) to impose low prices on wineries for their wine. Indeed the rationalisation of wholesale sector through the concentration into fewer hands has proceeded to such an extent that it has been reported that in Sydney three large groups control the greater part of the wholesaling and distribution of wine, whereas previously there were more than 60 such companies (Australian Grapegrower and Winemaker, December, 1980, p.1). It was to counter this oligopolistic structure, and hence to hopefully restore profitability, that prompted, in part, the amalgamations. This was spelt out by Don Eaton, Chairman of Renmano Wines Co-operative, when he argued that rationalisation by merger was an urgent requirement in order to restore profitability by reducing price competition in the cask and flagon market, and that this would be achieved by a smaller number of large wine producers being able to negotiate with the marketing sector on a more equitable basis (Australian Grapegrower and Winemaker, December 1981, p.4). Similarly, recent moves have been made to end price discounting and restore profits in the champagne market by attempting to bring about further amalgamations.

Conclusion

At the present time the South Australian wine industry is a highly polarised one. On the one hand are a small number of large,multi-plant wine groups (seven have wineries in more that one region) with extensive national markets through which are organised in a complex mosaic their grape supplies and their wine sales. Of the largest wine groups in Australia only McWilliams is not represented in South Australia. As has been indicated, the emergence of these groups has mainly been as a result of the centralisation of capital - the amalgamation of different wineries under a common comand - rather than as the outcome of the slower processes underlying the concentration of capital - the growth of large firms as a result of accumulation an of the folding up of smaller uncompetitive firms. On the other hand are a large number of small South Australian 'boutique' wineries, most of which are family-owned and engaged in petty commodity production.These firms, it has been suggested, were born and have survived in part because the aim of their production is simply to reproduce the unit of operation (rather than seek to continually expand the size of the firm) and in part because the increases in the organic composition of capital and the increases potentialities for production in large complex units have not been sufficient to drive them out or to reduce the possibility of new firms entering the wine industry. As a result, the pattern which remains is one which shows signs of tending towards concentration in production but which nevertheless also retains a large competitive fringe of small producers which are seeking to maintain their market share of the premium, higher-profit, table wine market. In all of this there has been one main loser, the private grape grower, and one potential loser, the mediium-sized family winery.

The grape growers have suffered in three ways. Firstly, as the large wine groups have emerged so the grape growers have seen a decline in their relatie bargaining strength. The large organisations have the capability and the incentive (to reduce production costs and increase profits) to obtain their inputs from whatever is the cheapest source - their own vineyards, must brought into the state, bulk wine from Europe - and so can and do refuse to accept the locally grown grapes of the private growers. Secondly, the surviving co-operatives, a major destination for the grapes of private grape growers, are under duress in part because their role as supplier of last resort to the other large companies is diminished at times of over-production and in part because the co-operatives have not achieved much success inselling their wine under their own label, especially in glass (witness the failure of Universal Wine Cellars and the James Cook label). Thirdly, the takeover of Southern Vales, the Barossa, the Waikerie and Clarevale co-operatives has dealt a critical blow to the grape growers. Co-operatives are essential in that they

provide a buffer between the growers and the large wine groups. Without them the growers are at the mercy of the large companies which in an attempt to survive, or to gain larger profits, are constantly searching for ways to lower production costs. Currently, with the loss of the buffer, they are putting pressure on grape growers (by not taking their grapes) in an attempt to break the minimum grape price legislation in South Australia, a system which, since 1966, has fixed by law, grape prices in the State. Thus, whilst it might well be the case that in 1974 Lewkowicz and Ruse did not discover "...any evidence to suggest thatthe takeovers that have occurred have been in any significant way detrimental to the industry" (p.18), the same cannot be said of the situation today.

The second group, the potential losers, are the medium-sized family wineries. Their fate is much more problematic and they may indeed end up no worse off than before. They do, however, tend to fall between two stools at the moment and so could possibly be squeezed between them in the future. Some have taken the option of becoming smaller (large boutiques) and some that of getting bigger by converting to public companies in order to obtain additional investment capital. For the remainder who stay put the most common prediction is that their survival prospects into the 1980s look bleak in that further rationalisation is still necessary and that this will lead to fewer wineries and fewer brand names. Yet it is worth recalling that similar warnings made in the mid 1970s failed to eventuate and this may be the case again. The signs are not, however, encouraging, the polarisation of the wineries, if anything, showing signs of being aggravated. The ranks of the small boutique wineries have been augmented by the small wine companies which, because they contract crush or put out all vinification to technical experts in the wine industry, avoid having to make large capital investments in equipment that is only used for a few months of the year. At the other end of the spectrum, two attempts have been made in 1984 to take over Seppelts. Whilst the second bid has been successful, it is unlikely to be the last attempt to further amalgamate South Australia's wineries into an even smaller number, particularly if the overproduction crisis is worsened and competition is increased, aspredicted, because of the August 1984 imposition of a 10% tax on the wholesale price of wine (stop press: witness the takeover in May 1985 of Wynns and Seaview by Penfolds (Adsteam) to create the largest wine group in the country; an estimated 14% of national wine sales are now under one corporate body). One thing would appear certain, however, and that is that the intricate and covert inter-regional and inter-state linkages being forged in the wake of the recent ownership changes are going to result not in "rationalisation" but rather in increasing complexity and turbulence.

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Figure 1. The Births, Lives and Deaths of South Australian Wineries, 1961-1984

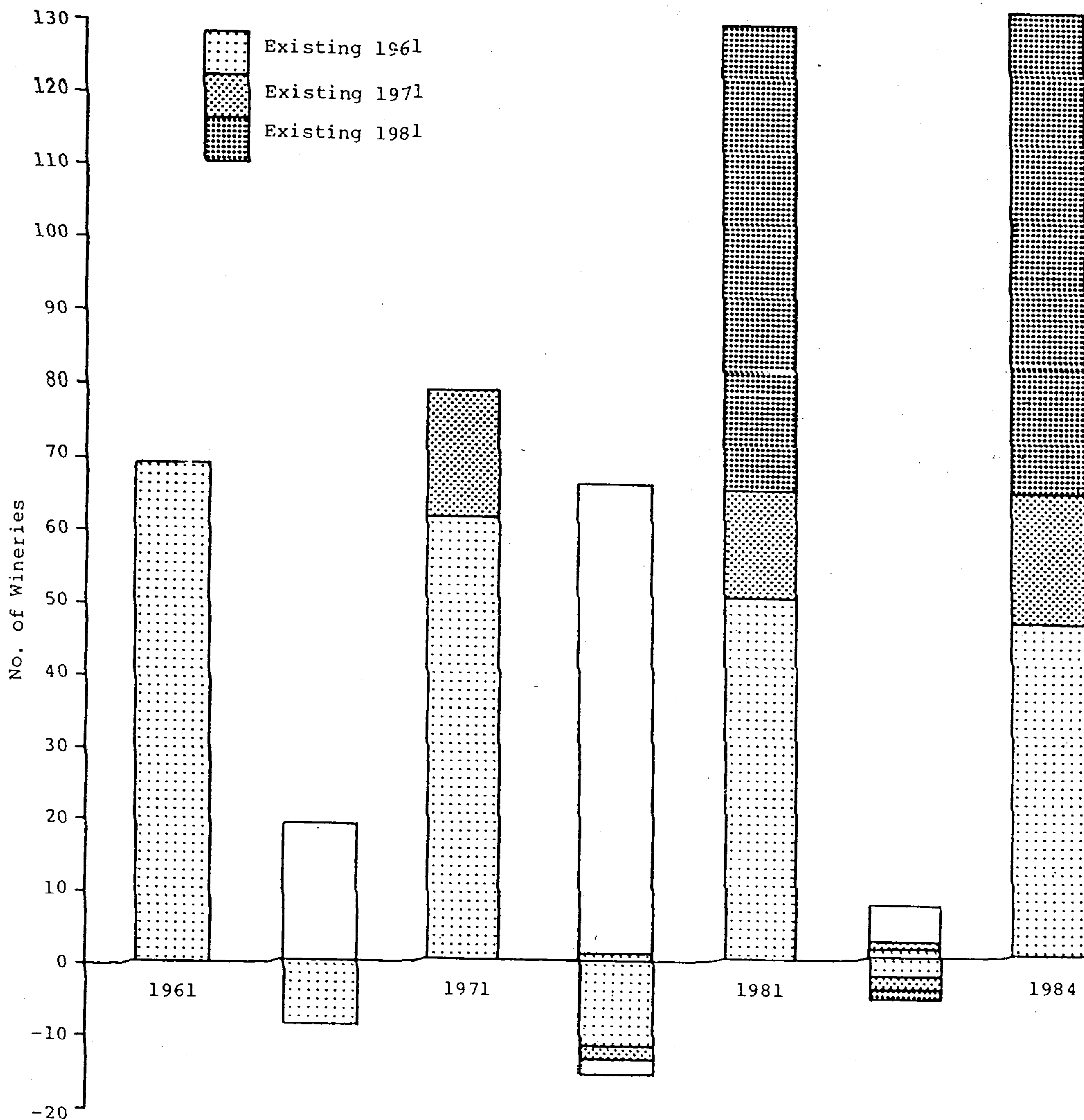


Figure 2. Ownership Status of South Australian Wineries, 1961-1984

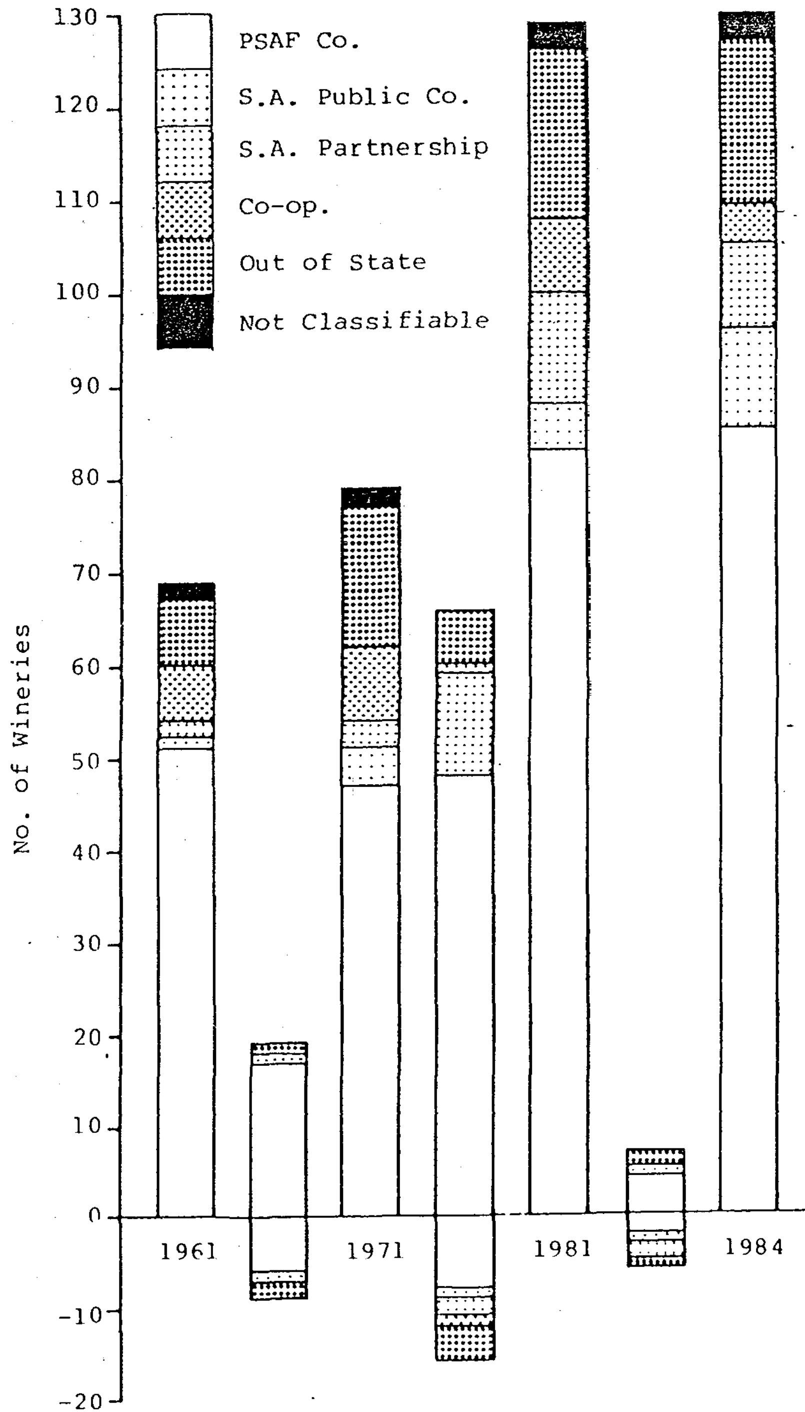
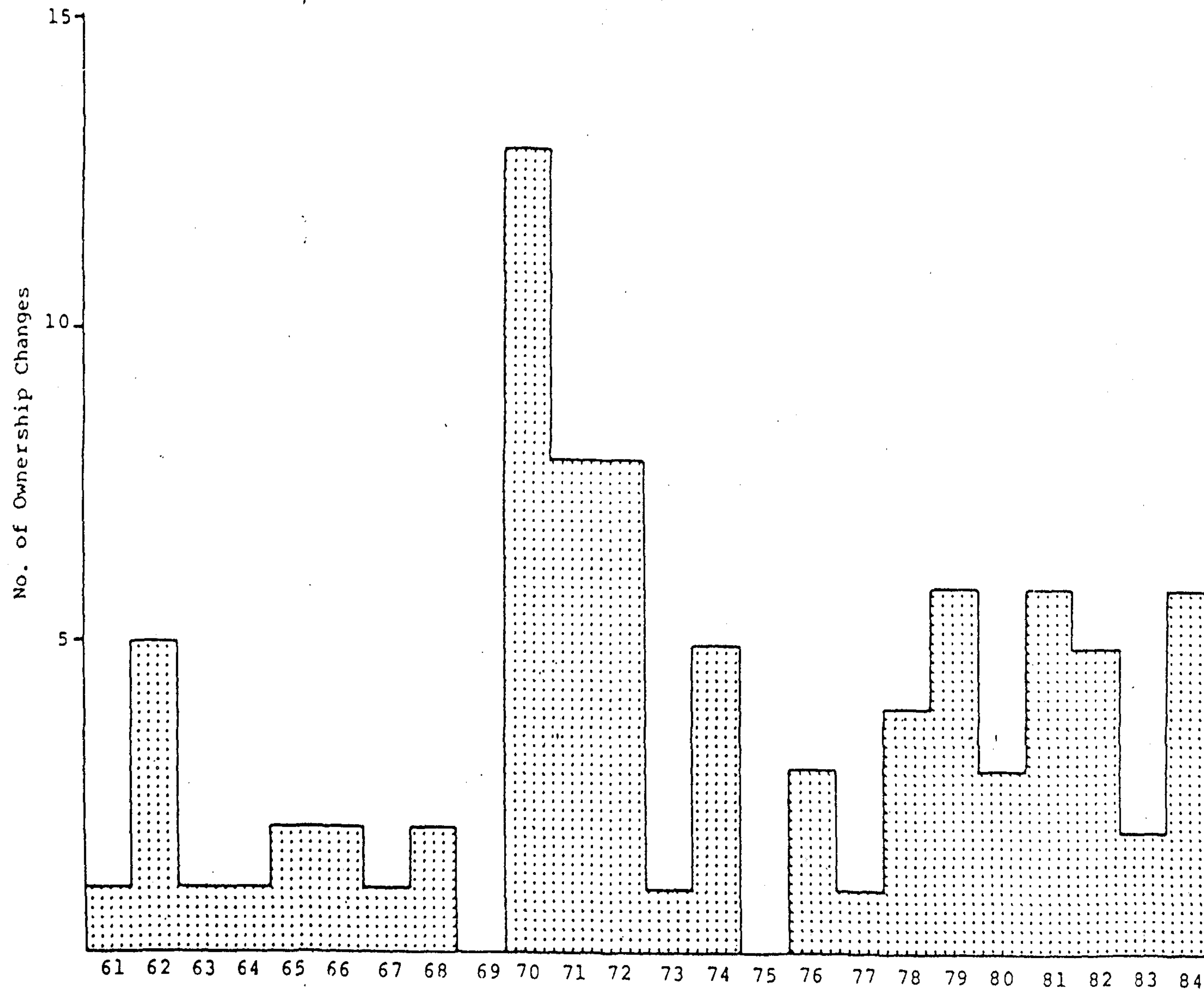


Figure 3. Number of Changes of Ownership Amongst South Australian Wineries 1961-1984



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