



Riverina
WINE GRAPES
MARKETING BOARD

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**Submission to the
Agricultural Competitiveness Issues Paper**

April 2014

Introduction

The Wine Grapes Marketing Board (WGMB) is the largest representative body of independent winegrape growers in New South Wales. It represents all producers in the States Riverina region, particularly the City of Griffith and the Local Government Areas of Leeton, Carrathool and Murrumbidgee. The region growers produce approximately 20% of the national crush and supply winegrapes to the many wineries based on the area that process annually up to 450,000 tonnes of winegrapes.

The majority of the regions wine production is exported with an estimated value of close to \$1 billion dollars FOB.

The WGMB is constituted in accordance with the NSW *Agricultural Industry Services (Regulation) 2009* and it provides industry services as prescribed within the regulation. WGMB derives the majority of its income from a service fee levied on its constituents at a current rate of \$3.90 per tonne in accordance with the legislation.

The wine grape industry in this region has flourished in terms of area of production and the adoption and adaptation of research and technology over the past 30 years. To continue to be able to grow and satisfy the requirements of its customers the industry seeks less intervention and less regulation to ensure that the entrepreneurial spirit that exists in this region is not stifled.

It should also be acknowledged within the introduction that the winegrape production industry is currently going through major problems in terms of profitability and grower sustainability due to the impacts of currency and exports. Many producers have not returned a viable profit since 2008 which has forced many to use existing financial reserves to maintain existing holdings. Those that have not been able to survive have sold off land at a loss. It is important to note that throughout the many instances of land sales that have occurred the productive capacity of these blocks has invariably often remained intact which has continued the concerns of production pressures within the industry.

Regional History

This region has been subjected to a great deal of government intervention since its initial settlement. The impact of government legislation on land and irrigation use in this region has created a level of reliance on interventionist policy that will likely require further thought and discussion than has been provided in this submission.

The following summary of the history of this region has been provided to give the reader an understanding of this.

Prior to the 1860's, squatters leased large tracts of land in the area that was to become Griffith and Yenda. The 1861 *Alienation of Crown Lands Act* and the *Occupational of Crown Lands Act* allowed people to select and purchase Crown Land. As a result of these Acts, by the 1880's many farming families "selectors" had arrived.

Initially they were able to select a maximum of 320 acres, later increased to 640 acres. In 1911 & 1912 selectors were informed that the government was going to resume their land for a new irrigation scheme. The compensation paid was very low. The Irrigation Scheme was officially opened by the Hon. Arthur Griffith, Minister for Public Works, on 15th July 1912.

The irrigation area was under the control of the *Murrumbidgee Irrigation Trust* from 1911 to 1913. Responsibility was then transferred to the newly established all empowered Water Conservation and Irrigation Commission (WC&IC) which was then virtually responsible for everything in the irrigation area, including the welfare of its inhabitants. The first local government elections were not held until 1928.

The local winegrape industry first dates back to 1913 when the McWilliams family planted the first vines in the region.

The region was also subject to strict land management constraints on what could be planted on each land holding with horticultural production severely limited to where it could be planted within region a ruling that was policed rigidly by the WC&IC

During the mid 1980's many of the land use restrictions were lifted and expansion of the industry commenced in earnest with growers planting winegrapes on larger holdings. This growth continued as the mechanisation of planting, pruning and harvesting have improved growers ability to maintain larger vineyard holdings has increased.

Regulatory History within the Wine Production Industry

During the development of the wine industry the NSW Government allowed the introduction of legislation to support the marketing of winegrapes for the many smaller producers of winegrapes that existed at that time.

In an environment that consisted of many smaller producers and a small number of purchasers exercising their market power in the early 1930's growers successfully lobbied the NSW

Government to form the WGMB under the *NSW Marketing of Primary Products Act 1927-1931*. The purpose of WGMB was to act as a countervailing power to reduce the market power being exerted by the wineries.

From 1933 until 2000 the Wine Grapes Marketing Board played the regulatory role of setting minimum prices for winegrapes using the power of vesting in accordance with its legislation. In 1996 the *Marketing of Primary Products Act* was reviewed in accordance with National Competition Policy agreements. The resulting amended legislation signalled a sunset date for the countervailing powers of the WGMB. Since July 2000 WGMB has not been legally empowered to set minimum prices for the production of winegrapes in the region. Since January 2012 the WGMB can no longer enforce statutory terms and conditions of payment for the winegrapes being purchased in the region.

In 1998 the region had 650 winegrape producers, in 2014 that number has reduced to 365 growers. The planted area during that time has increased significantly by nearly double with approximately 22,000 hectares of winegrapes now being produced in the region, 75% of these are owned and managed by independent grape growers that WGMB represents. The remaining 25% are winery owned and operated.

Structure of this Submission

This submission will respond to the questions raised in the issues paper.

1. Ensuring food security in Australia and globally

- What opportunities exist to expand agricultural production in Australia and how can we take advantage of them?
 - There are many small land holdings eg 10-20ha in this region that are possibly better suited to alternative crops, or lifestyle blocks. Many of these smaller land areas are currently home to wine grapes that are no longer profitable due to their history of strict confinement and in part the lack of economies of scale which the newer larger area plantings have been able to achieve.
 - Further land area may be utilised across Australia for intensive production if further irrigation water was secured. More investigation and action is needed on developing water capacity within Australia. The Murray Darling Basin Plan process is about returning irrigation water to the environment but does not take

into account the issue of food security and sustainability of agriculture into the future.

- How can farm businesses, food manufacturers and the retail sector be more responsive to domestic and global food demand and better integrate into domestic and global supply chains?
 - Improve the feedback from retail to producer. Better informed producers will be able to adapt and respond to market forces faster. Currently there are long delays in feedback of statistics and conflicts of interest with information sources.
 - Producers must have access to more timely, accurate and relevant information. For example scan data from retailers is available but at a major cost to business. This type of information is needed to be collected and made available by governments as it can serve as a net public benefit to all taxpayers, reduce waste in terms of production resources and production and therefore seek to reduce the overall costs back to consumers.
- Do farmers have access to timely, relevant and accurate information to fully inform production decisions to meet domestic and global food demands?
 - No, as described in the previous comments winegrape producing farmers do not. Producers need accurate data on wine sales, and current inventories being held by wineries so as to make much better business decisions. Within the wine industry access to accurate sales data and stock inventory reports would assist with generating a true indication of supply/demand needs. This would provide a likely reduction in the severe peaks and troughs of market turbulence within the industry in terms of over and under supply issues.
- What opportunities exist for exporting Australian agricultural technology, marketing skills and expertise to improve global food security outcomes?
 - Australia could be exporting parts of its current regulatory regime. For example Food Safety issues that are common place within agriculture could be exported and introduced into overseas countries. It is anecdotally commented that countries such as China use chemicals that have been banned in Australia for many years. It is also said that they are farming on soils that have been

contaminated by the regular and incorrect application of inappropriate and unapproved chemicals. These countries should be encouraged to adopt the Food Safety practices as part of any Free Trade Agreement and the principals that exist in Australia, it would create a more level playing field for our producers and reduce the possible health risks to consumers.

2. Farmer decisions for improving farm gate returns

- What are the drivers and constraints to farmers adopting alternative business structures, innovations or practices that will assist them in improving farm-gate returns?
 - *Drivers:* The returns growers receive are, and have been, below the cost of production for many existing commodities for some time and as such, very much limit and restrict producers to investigate the adoption of alternative structures.
 - *Constraints:* The current limited financial capacity and age of existing farmer/landholders. The skills and knowledge of alternative crop/innovation farming methods, access to infrastructure for processing and marketing skills.
- What tools, skills and advice do farmers need to effectively adapt and respond to the risks they face?
 - Information on how to access new markets for their commodities.
 - Knowledge of the emerging markets for different property sizes.
 - Where they can get assistance with all aspects of the new business venture.
 - Access to sound financial advice and support that can assist them in securing newer and cheaper sources of finance.
- What alternative actions or measures by governments, farmers or others would result in improved financial performance at the farm gate?
 - Greater adoption of innovation, with advanced negotiation skills to ensure that contracts and other agreements are fair
 - Removal of restrictive and costly red, green and fluro regulations that inhibits the competitiveness of producers on a world market.

- What approaches could be used to encourage improved drought preparedness?
 - NA
- During drought, what measures are most effective in supporting long term resilience?
 - NA
- How can new farmers be attracted to agriculture and how can they succeed?
 - The regulation of a fairer supply chain with accurate and relevant supply/demand/stock ratio information that could provide capacity for farmers to be price makers and not price takers.
 - Government could look to provide assistance for younger farmers to enter the industry via long term loans with flexible interest and payment terms i.e. HECS or similar.

3. Enhancing access to finance

- How do we better attract private capital into farm investment?
 - Reduced bank fees and reduced interest rates for primary producers. Interest rates on farms and overdraft facilities are poorer than those offered to property investors. The Government should look to setup a rural lender that is supported by government to provide better rates to rural borrowers.
 - Government assistance for younger farmers to enter the industry via long term loans i.e. HECS or similar.
- What examples are there of innovative financing models that could be used across the industry?
 - Within the wine grape industry the regulation of wine grape payments would assist with planning cash flow and payment dates.
 - Government assistance for younger farmers to enter the industry via long term loans i.e HECS or similar.
- What would encourage uptake of new financing models?
 - New models would be adopted if they are relevant to the specific industry and provide the flexibility as required by the industry.

- What alternative business structures could be developed for farming that would also retain ownership with farm families?
 - Family business could look to maximise machinery/personnel efficiency and consolidate with other similar business in their region. If complimentary business could be given taxation and investment incentives to come together, for example a freight business or retail/marketing business with a crop producer, they would look more closely at working together in a form of cooperative.
- How can foreign investment best contribute to the financing and productivity growth of Australian agriculture?
 - Foreign investment should be limited to the leasing and operations of agricultural land. Land ownership is to remain the property of the land owners so the land/business owners may derive generational income from the asset and provides primary food production areas long term security for Australia.

4. Increasing the competitiveness of the agricultural sector and its value chains

- How might existing laws and regulations be changed to address any market power imbalances in the agricultural supply chain, without limiting prospects for global-scale firms developing in Australia?
 - Labelling of country of origin needs to be better defined. The term made from local and imported products is too often loosely interpreted and relates only to the water used in the process of imported goods.
 - Make it a requirement of the major retailers to stock Australian product alternatives for all supermarket lines where possible to provide consumers with choice.
 - Removal of restrictive and costly red (Government, Local State and Federal), green (Environmental) and fluorescent (Workplace health and safety) regulations that completely inhibits the competitiveness of producers on a world market.
- How can the agriculture sector improve its competitiveness relative to other sectors in the economy?
 - The sector has suffered greatly in the domestic market due to the significant power of the major purchasers who also dominate the retail sector, these being

Coles and Woolworths. To be competitive, there needs to be fairness in business exchanges and capacity for negotiation.

- There needs to be accurate and relevant supply/demand/stock ratio information that would provide capacity for farmers and all primary food producers to make better production and marketing decisions.

5. Enhancing agriculture's contribution to regional communities

- What impact does the growth of populations in regional centres and the decline in more rural or remote townships have on farming businesses and the agriculture sector?
 - Much less access to private and government services and facilities which reduces the attraction of harvest labour and the tourism economy.
- How can the agriculture sector best contribute to growth in jobs and boost investment in regional communities, including indigenous communities?
 - On farm value adding. Innovation in packaging and product type. Investment in alternative crops that provide much higher farm gate returns. Farm/business tourism not restricted by undue and unnecessary red, green and fluro regulations.
- What community and policy responses are needed in rural and regional communities to adapt and change to new pressures and opportunities in the agriculture sector?
 - Pressures are primarily financial for the current and future generation(s) – the farm is primarily their retirement superannuation, the asset value is not enough to retire on and the future prospective generations does not have the capital nor the financial facilities currently available that account for the long term needs of modern efficient agricultural production and marketing.
 - Accurate and relevant supply/demand/stock ratio information that would provide capacity for farmers and all primary food producers to make better production and marketing decisions.
 - Foreign investment should be limited to the leasing and operations of agricultural land. Land ownership should remain the property of the land owners so the land/business owners may derive generational income from the asset and provides primary food production areas long term security for Australia.

- Government assistance for younger farmers to enter the industry via long term loans i.e. HECS or similar.
- How do we attract the next generation of farmers?
 - See above comments.

6. Improving the competitiveness of inputs to the supply chain

- How can land, water and other farm inputs be more effectively deployed to better drive agriculture sector productivity, while maintaining or enhancing the natural resource base?
 - Land, water and all farm inputs are currently being used judiciously, to the best management practices and to the best and most practical and financial ability of primary food producers. Profitability for the primary food producers is the ultimate driver in adopting new technologies and or practices.
 - Reduce unnecessary and restrictive red, green and fluro regulations that add costs to the producers and additional costs to the entire supply chain making Australia much less competitive on the world market.
- What skills including specialised skills and training, will be required in the future and how can these be delivered and uptake encouraged?
 - Financial planning skills and training in understanding markets and business negotiation.
 - Accurate and relevant supply/demand/stock ratio information that would provide capacity for farmers and all primary food producers to make better production and marketing decisions.
 - Delivered using multiple platforms to access the range of services in the farming community – workshop, regional advisors and training sessions.
 - Research skills on how to find the answers – particularly as successive governments have reduced extension services so vital to the primary food producers needs in obtaining information.

- How can we attract workers to agriculture – particularly in remote areas?
 - Education and awareness of the work opportunities needs to occur in capital centres and also by targeting out major trading partners. Provision of low cost accommodation and facilities to encourage travelling workers to regions is a necessity.
 - Remove the restrictions on limits to foreign workers willing and wanting to return to work on farms – currently limited to two times. Primary producers invest time training these persons with seasonal labour skills and cannot benefit from repetitive
 - Ensure that basic services are available in regions such as health and education facilities. Many small regional areas are losing such basic services.

- How can we promote career pathways for the agriculture sector, including models to enable younger farm workers to gain broader industry experience?
 - Improve and promote the positive image of primary food production including the benefits of farming families to the wider community.
 - Improve and promote the imagery of the Australian farming countryside to persons in the major cities within Australia.
 - Educate youth at school about primary food production and the agricultural and managerial process and practices that go into providing food for the community. Greatly increase the amount taught in the curriculum about agriculture so that more students have an appreciation for agriculture and an understanding of the opportunity that it may present for a career.
 - Reinvest real dollars on a long term basis into agricultural high schools and colleges.
 - Pathways to agriculture will come if there is a sustainable and profitable agricultural industry to participate in. Currently agriculture is losing the next generation due to the impacts of drought, complex and restrictive bureaucratic regulations and poor commodity prices.

- How can rural industries and governments better identify, prioritise and fund research, development and extension?
 - The Grape and Wine Research and Development Corporation (GWRDC) regional program is a highly effective program at identifying and implementing research in areas of production utilising on the ground knowledge and existing business structures in the community. This approach would be effective for the identification of suitable areas of research and feeding appropriate research ideas into the decision making teams for R,D &E.
 - Peak industry bodies need to be more thoroughly consulted and listened to by government and government departments. Governments should be active in seeking out the relevant representative bodies in each agricultural industry.
- What irrigation, transport, storage and distribution infrastructure are required to support the food and fibre production systems of the future and how should this be funded?
 - Improved rail network infrastructure for the benefit of freight and passenger transport. Expensive air travel is limiting travel and movement of people away from the CBD, and congesting the Sydney Airport. Movement of people into areas of production with employment opportunities is not likely when the travel is so expensive or time consuming, particularly if driving. The improvement of the rail network could be funded in part by the passenger and freight rail users.
 - Better quality roads and investment in road infrastructure in areas/times of high volumes of road freight. Governments to use the road taxes and fuel levies to directly fund road and road infrastructure improvements in rural and regional areas not just the major cities.
 - Tax payers should fund the development of further water storage options in the Murray Darling Basin for primary food production and environmental needs. This will enable primary and secondary industry production growth in this area along with probable population growth bringing an undoubted increase in financial growth for the whole economy. It is not feasible or sensible to consider that irrigation food producers (farmers) can continue to do “more with less” in terms of productivity at the expense of their own financial and physiological wellbeing.

- Suitable land areas that are agricultural intensive and currently used for primary food production must be formally protected from alternative land uses. We live in a fragile environment and steps are needed to be taken by Government to ensure that sustainable food production can continue into the future for the generations that will follow.

7. Reducing ineffective regulations

- How well do regulations affecting the industry meet their policy objectives?
- What opportunities are there to reduce ineffective or inefficient regulation?
 - Refinement is needed by restricting the ownership and near complete control of the retail sector, currently two companies controlling the majority of our food chain. Diversity is vital to ensuring a healthy community and economy. A failure in either of the two major companies represents a major risk to Australia's food security and way of life.
- Which regulations are disproportionate to the risks they are supposed to address?
 - Truck weights? eg. the shift to subpoenaing the entire weighbridge records for a business rather than continue to perform roadside checks is perplexing. There is no "lesson" for the driver as the offence is not known about until long after the event unless the receiving business undertakes the role of policing the deliveries on behalf of the State Roads and Maritime Services (RMS). This level of responsibility and cause for conflict is beyond the training and capacity of the staff employed at privately owned and managed weighbridges (particularly in the wine industry). The RMS trained staff are not there to explain the reasons and assist in the manner that they would in a proper roadside weight breach case. This also does not effectively replace the roadside safety checks that are performed and provide the vehicle owner/driver with a thorough understanding of the implications of their conduct. The new method is a letter of correspondence months after the offence, with no capacity to remedy conduct prior to a second offence other than advice offered by the untrained staff at the receiving business. The risk is apparent for unsafe heavy vehicles; however the current application of this regulation is not reflective of the need for safe vehicles, but rather the fining of

non-compliance without proportionate consideration for the other important aspects of the legislation.

- How do we coordinate across governments to reduce regulations whose costs exceed their benefits?
 - Governments in real consultation with primary businesses should hold regular reviews of current legislation and act upon recommendations.

8. Enhancing agricultural exports

- How can industries and government respond to the key challenges and opportunities to increase or enhance exports?
 - Governments can continue to financially support export development opportunities that are managed by either the federal or state governments.
 - Reduce unnecessary and restrictive red, green and fluro regulations that add costs to the producers and additional costs to the whole supply chain making Australia much less competitive on the world market.
 - Remove the restrictions on limits to foreign workers willing and wanting to return to work on farms – currently limited to two times.
 - Provide better quality roads and investment in road infrastructure in areas/times of high volumes of road freight. Governments to use the road taxes and fuel levies to directly fund road and road infrastructure improvements.
- How can the government take best advantage of multilateral and bilateral trade negotiations (including through the World Trade Organization and through free trade agreements (FTAs)) to advance the interests of the sector?
 - Government must in the first instance consult more widely with industry, including primary industry, prior to entering into free trade agreements that bind the country to long term agreements with trading partners that can often include long term constraints on future benefits of FTA's.

- How can engagement between industry and government on market access priorities for Australian agricultural products be improved, including informing negotiations on FTAs?
 - Government needs to consult and take notice with the relevant peak industry bodies. These bodies need to be appropriately funded by industry and government should provide legitimate mechanisms that allow them to be adequately resourced. Resourced peak industry bodies will be able to provide better and more relevant engagement opportunities with their own constituents and therefore with government.
- What changes could be made to biosecurity arrangements, both in Australia and in other countries, which would enhance global trade in agricultural products?
 - Require of importing countries the same standards that the Australian producers must comply with. Product cannot be imported that has been grown/manufactured in a way that is illegal within Australia.
 - The ease of bringing in cheap low quality unsustainable produce is causing the local sustainably produced goods to be unsellable. Our economy and health may be suffering from potentially poor quality food products being imported.
- How do we provide the appropriate biosecurity controls at minimum cost?
 - Importers pay for the import check by AQIS. If companies want to purchase imported goods then they need to pay for the relevant inspection costs incurred.
 - The payments received from importers for the conducting of tests should be sufficient to cover the costs of checks performed on exporters which would increase their profitability.
 - Biosecurity provides a net public benefit to the Australian community by enabling domestic production to remain free of the risks of pests and disease. The costs of such services need to be carried by the government.

9. Assessing the effectiveness of incentives for investment and job creation

- How well is the current set of government programmes and incentives directed at the agriculture sector meeting their objectives, in terms of both effectiveness and efficiency?
 - Investment and job creation within agriculture will occur organically if profitability is consistent. The peaks and troughs that are now part of agricultural production systems need to be levelled out or lessened.
- Are government visa arrangements and programmes like relocation assistance, the Seasonal Worker Programme and Harvest Labour Services effective at channelling workers into the agriculture sector and what other approaches should be considered?
 - Many of our competitor countries have access to low socio-economic trading partners on their borders which provide cheaper labour sources. Australia's attempts to secure labour to assist agriculture during harvest labour peaks have not been generally successful as the costs of foreign workers are greater.
 - Remove the restrictions on limits to foreign workers willing and wanting to return to work on farms – currently limited to two times.
- What have other countries done to inspire agricultural investment?
 - Other countries are still providing their agricultural producers with incentives to plant and produce agricultural products. For example in Bulgaria the European Union has provided funding to plant a further 68,000 hectares of winegrapes. The results of this will be an increase in world wine production. Bulgaria exports a majority of their wine which will compete with Australian wine.
 - Many countries directly and indirectly subsidise the production and export of agricultural produce as a form of welfare. These governments see benefits in assist farm producers to stay on the land rather than be forced off the land and be required to move to the capital cities to find employment or register for welfare.
 - Many countries provide financial incentives for farmers to invest in new technology. More needs to be done in this area to assist our farmers which in turn will create better resilience.

- What has Australia done in the past that has had best effect?
 - Opened parts of the economy up to the world market. The absolute must is to open the still restricted and closed aspects of the economy up to the world market.
 - Australia saw the benefits of securing water storages in the Murray Darling Basin, for better land use and to enable water security for the growth of regional areas and the provision of food for the nation. It again needs to make the big picture decisions that will benefit the nation as a whole.

Conclusion:

- Australian primary food producers require governments to efficiently supply roads, infrastructure.
- They should also be responsible for providing a positive and fully funded education system for both secondary and tertiary agricultural trainees and professionals.
- Government needs to remove all unnecessary regulations and any restrictions that inhibit and hinder the smooth and efficient operation of primary food production and secondary food processing so as farmers can continue to provide food for Australian consumers and food for the world market which in turn, provides vital export dollars benefiting our terms our trade.

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