Riverina

WINE GRAPES
MARKETING BOARD

Riverina
Wine Grapes Marketing Board

Submission to the

NSW Government for a funded
Small Farm Industry Exit Scheme

June 2014

NSW Riverina - Vineyard Exit Scheme

Introduction

The following proposed scheme is designed to remove unviable and underperforming vineyards in the New South Wales (NSW) Riverina region and to provide High Security Murrumbidgee irrigation allocation to the NSW Government for its use in environmental activities and/or to secure further irrigated agricultural investment within the state.

Growers within the winegrape industry are currently experiencing its most prolonged and damaging economic decline in its history. For the majority of producers returns have remained well below the costs of production since 2008 leading to a steady decline in vine productivity as producers reduce farm inputs to save vital funds.

A government assisted restructure is required as these producers are impacting negatively on those growers that wish to remain in the industry. These producers will not voluntarily exit the industry unless they are presented with a financially viable solution that will provide them with needed capital to remove vineyards and a modest return on their irrigation asset (water entitlement).

The NSW Government has an important role to play in assisting the restructure of one of this region's largest producing commodities. This region has been shaped and moulded by the intervention of government since the first land holdings were divided up into Soldier Settler blocks in the early 1900's and subsequent restrictions of landholding size and production type which remained in place until the 1980's. As a result of such an interventionist approach the region hosts many farm block sizes that are now considered too small to provide a sufficiently viable return due primarily to a lack of being able to gain any potential economy of scale. These properties now cannot be reengineered to larger holdings due to the configuration of off-farm irrigation infrastructure (channels, canals and irrigation structures).

A scheme of this nature is required to realise to the potential of the region in terms of productive capacity and encourage under-performing producers to exit the industry. The NSW Government would then be able to utilise the water it purchases through its participation in the scheme for environmental purposes within the state or trade it and the associated delivery entitlements to other producers on an annual contracted basis or on a needs basis.

Proposed Scheme

Any winegrape producer with vineyard holdings that are equal to or less than 20 hectares will be eligible to participate in the scheme and offer up to the NSW Government between 5 and 10ML of water per hectare. Growers with less than 5ML per hectare at the start of 2013 will not be eligible to participate in the scheme. This will prevent persons from buying water on the market to participate. The total water licence of the individual at the commencement of the 2013/14 water season will be used as a base line for discussion and calculation of eligibility.

Table 1: Size and Number of Landholdings eligible for proposed scheme

Land Holding Size	# farms	Area (Hectares)	Available water (est)
< 10 Hectares	157	824	4,120 - 8,240ML
≥ 10 and < 20 Hectares	104	1,582	7,910 - 15,820ML
TOTALS	261	2,406	11,030 to 24,060ML

Source: Wine Grapes Marketing Board Geographical Information System

The above table (Table 1) shows the potential beneficiaries of the proposed scheme. A potential total reduction of 2,406 hectares out of a total bearing area of 21,500 hectares, 11% of the area planted and approximately 15% of the regions production of winegrapes would be removed if the scheme received 100% adoption.

Maximum water for sale would be 300ML per business enterprise or ABN. The sale would include the accompanying Delivery Entitlements matched to those irrigation entitlements, these will not be left on the land or with the grower.

The purchase price would be $4,000 per ML. The amount of $4,000 per ML is being proposed as an incentive above the current market price is needed to encourage growers to exit the industry and require them to remove their permanent plantings.

Under existing Murray Darling Basin Plan funding High Security Irrigation licence holders in key project areas within the Murrumbidgee Irrigation Area are currently able to exchange water for infrastructure at a rate equivalent to $3,500 per ML. The extra $500 per ML proposed in this scheme accounts for the extra costs that producers would need to absorb to cover the costs of vineyard removal that would result from their participation and any associated charges with having the delivery entitlements removed.

Growers would be required to sign an agreement to remove all winegrape plantings on the identified property(s). Once the plantings are removed and disposed of in an appropriate manner (such as burning) the grower would then receive payment for the contracted volume of water and the water including the Delivery Entitlements would be transferred to the NSW Government.

The growers would retain title and ownership of the property upon which he or she would be required by regulation not to replant winegrapes on it for a period of up to 10 years. This regulation would not prevent the grower from planting other commodities with any remaining water they may keep or purchase on the open market for their own use.

Should all 261 growers covering a production area of 2,406 hectares agree to sell 5ML per hectare and retire their vineyards from the industry the costs to the NSW Government would be $48.1 million for which it would receive 12,030ML. If growers were able to sell up to 10ML per hectare the cost to government would effectively double.

Industry Background

The Riverina winegrape industry is predominately centred in the Murrumbidgee Irrigation Area which was formed in 1924 as a government irrigation area. There is limited scope for farm transformation in the region due to the relatively size of the farms, the level of irrigation development and low rainfall. Most farms are too small to become viable dryland farm business.

The winegrape industry in the Riverina is currently oversupplied as evidence by the reduced returns being offered to producers each year by a majority of the regions producers. This is impacting on the profitability of both wineries and winegrape producers. A large number of producers vineyards do not possess scale needed to remain viable.

Since 2008 average returns to winegrape producers have steadily declined. Growers are seeking the opportunity to exit the industry via a scheme of selling the majority of their water asset to the New South Wales government.

Table 2: Weighted Average Returns in the NSW Riverina

	2008	***2009***	***2010***	***2011***	***2012***	***2013***
Chardonnay	$482	$346	$301	$251	$279	$288
Semillon	$436	$299	$224	$217	$235	$233
Cabernet	$561	$386	$318	$288	$306	$386
Shiraz	$562	$378	$360	$281	$355	$365

Source: Wine Australia price dispersion published reports

The above table shows that since 2008 weighted average returns have declined. Forecast returns for 2014 are lower than those shown above meaning that growers in average terms have not returned a viable profit since 2008. 6 years of below cost of production returns is not viable for the growers nor is it beneficial to the regional economy. This is an ongoing problem that requires Government assistance and intervention for the benefit of the regional community and the winegrape producers in the region.

Back in November 2009 the four wine industry peak bodies announced that *"structural surpluses of grapes and wine are now so large that they are causing long-term damage to our industry by devaluing the Australian brand, entrenching discounting, undermining profitability, and hampering our ability to pursue the vision and activities set out in the Directions to 2025 industry strategy. Coupled with inefficient and/or inappropriate vineyard and wine operations, oversupply is amplifying and exacerbating fundamental problems in the industry, notably our decreasing cost competitiveness. As such it is compromising our ability to adopt new pricing structures and market solutions and adapt to changing market conditions. Comprehensive analysis and consultation suggests at least 20% of bearing vines in Australia are surplus to requirements, with few long-term prospects. On cost of production alone, at least 17% of vineyard capacity is uneconomic."*

The program developed to drive structural change was titled the Wine Restructure Action Agenda (WRAA). Through the WRAA many workshops that were held across the country and now 5 vintages following some removals have occurred nationally but the planted area in the NSW Riverina has remained stagnant throughout much of this time at around 22,000 hectares. This area of planted grapes needs to be reduced to create a better market for the producers that wish to remain in the industry.

Summary

- Small Farms to be offered an Exit Scheme from the winegrape industry.
- The Exit Scheme to encompass producers with less than 20 hectares in vineyard holding.
- Exit Scheme has the potential to remove 261 underperforming vineyards from production.
- 11% of the Riverina regions bearing area to be removed.
- NSW Government to purchase water off willing sellers at a scheme price of $4,000 per ML. This includes the requirement to purchase the Delivery Entitlements and to fund the removal of vineyards.
- The Return to compensate vignerons removal of vineyards.
- NSW Government to legislate that no further plantings can occur for 10 years on these properties.

Written by:

Brian Simpson
Chief Executive Officer
bsimpson@wgmb.net.au
p: 02 6962 3944
m: 0438 388 828

Endorsed 10th June 2014 by:

Wine Grapes Marketing
182 Yambil Street GRIFFITH NSW 2680