Agricultural Competitiveness White Paper Submission - IP620
Wine Grape Growers Australia
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Submission to the Agricultural Competitiveness White Paper

Submitted by **Wine Grape Growers Australia**
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Addressed to –
The Agricultural Competitiveness Taskforce
Department of Prime Minister and Cabinet
PO Box 6500
CANBERRA ACT 2600

WGGA is pleased to be able to respond to the Prime Minister and Cabinet's call for submissions on Australian agricultural competitiveness.

The following submission comes in three parts dealing with three selected issues of high importance to winegrape growers in Australia.

1. Making winegrape markets work
   Improving the commercial relationships and arrangements between winegrape growers and wine companies, in order to facilitate greater productivity through supply and demand balance and required innovation in the wine sector.
2. Biosecurity
   Refinements to the government-industry biosecurity processes in Australia which are otherwise generally supported.
3. Agrichemical access issues
   Initiatives required to improve access to viticulture agrichemicals and markets following their use.

It should be noted that there are many other productivity issues on which Wine Grape Growers Australia (WGGA) has views. Based on initial conversations with the Winemakers' Federation of Australia (WFA), WGGA is aware that many of these are dealt with through a submission to be made by that organization. WGGA generally lends support to the WFA submission, subject to a review of the final WFA submission.

It should also be noted that many of the views expressed in this submission represent shortened forms of current or developing WGGA views. Further inquiry from the Taskforce will be welcomed.

Yours sincerely,

Lawrie Stanford
Executive Director, Wine Grape Growers Australia

Part 1: Enabling markets to work

Better commercial relationships, better commercial arrangements, clearer market signals in the Australian wine sector

Prepared by
Lawrie Stanford, Executive Director, Wine Grape Growers Australia
Jay Horton, Managing Director, Strategis Partners

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1. Executive Summary

Reform of the commercial relations, contracting and information infrastructure is needed to address the challenges facing Australia's wine industry. Three reform agenda items are proposed.

1. A transformation in buyer-supplier commercial relations in the wine grape industry is needed to lift the rate of innovation.
2. More advanced wine grape contract designs are needed to improve supply and demand coordination, sharpen incentives to innovate, and lower transaction costs, particularly in the Warm Inland districts.
3. Information to facilitate better decision-making across the industry.

2. What is the Problem?

Australia's wine exports have declined in volume since 2009-10 and in value since 2006-07. Inventory levels are rising again. After a downward adjustment in national inventory that came close to comfortable levels in 2006-07 and 2009-10 – largely due to seasonal influences – inventory has since tracked up again, potentially to levels that are as uncomfortable as when they peaked in 2004-5.

This submission contends that the conventional explanation for this state of affairs – the strengthening Australian dollar, global overcapacity, combined with a deep recession in in Australia's two top markets, the US and UK – is incomplete. Missing from this explanation is the failure of the Australian wine industry to understand the changing basis of competitive advantage, and therefore not knowing how to respond effectively. There has been a failure of market clearing mechanisms due to uncritical acceptance of traditional commercial arrangements in the industry.

In a high wage economy, product and process innovation is the only sustainable growth path. This innovation will only flourish if the commercial relationships and contractual settings, as well as investment and industry capacity adjustments are supportive.

Continuous improvement in grape quality will be a key factor in enhancing wine exports, in particular in the major segments of D and E grade wine, sourced from wine grape production in the Warm Inland districts.

2.1 An uneasy "collaboration without trust" has evolved in commercial relations

Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence.

Kenneth Arrow, 1975.

An uneasy "collaboration without trust" has evolved in commercial relations between grape growers and winemakers, due in part to the financial pressures facing the industry leading to bad commercial behavior by some. More important, however, are outdated commercial arrangements that are familiar and accepted in the industry.

The lack of trust is both illustrated and demonstrated by the failure, in the four and a half years of existence of the Australian Wine Industry Code of Conduct ('the Code')[1], of industry-agreed targets for wine company signatories to be reached.

These circumstances work against achieving the strategic changes necessary for the industry to improve its competitive position in domestic and world markets.

The method of resolving problems between buyers and suppliers of winegrapes turns out to be an important strategic decision, one that has implications for the wine industry as a whole, the case for which is developed in this submission.

2.2 Contract design needs to be improved

Prevailing contract models do not coordinate supply and demand effectively, do not provide the right incentives to improve performance, and increase transaction costs.

In 2013, WGGA commissioned a review of actual wine industry contracts, based on a sample of 20 contracts (Hathaway, 2013). The objective was to provide insights into the general standard of contracts in the industry. A number of concerns with the contracts were identified – relating to:

- Complex clauses relating to the determination and notification of pricing
- The one-sided nature of contract price-setting mechanisms
- The absence of penalties for late payments
- The non-explicit nature of quality standards used in the final determination of price
- The ability of the purchaser to make decisions at his/her "sole discretion"
- The lack of dispute resolution clauses in up to 50% of contracts
- Inconsistencies over the use of various termination clauses to cover different scenarios
- The presence of errors and poorly worded clauses
- Complex and lengthy contracts that are hard to read and understand
- A number of contracts that stated they were covered by the Code but were considered by the reviewer to be non-compliant.

2.2.1 Risk bearing is lop-sided on the grower

Under prevailing contracting arrangements, growers bear a disproportionate share of the risk and they often assume what is more rightly wine company market risk.

[1] The Code is a voluntary industry code collaboratively developed by the Winemakers' Federation of Australia and Wine Grape Growers Australia.

- Growers are exposed to price risk at two-levels: (1) general market price level risk; and (2) the risk that the grower's grapes are downgraded – not because of quality problems – but because the winemaking operation has filled its quota of grapes at designated quality levels.
- Growers are exposed to payment risk, due to the traditional practice of being paid in three deferred payments over six months. This practice is enshrined in legislation in South Australia and described is included in Section 2.6 of the Australian Wine Industry Code of Conduct. It is inconclusive if a premium is built into the payments to compensate growers for 'borrowing' their funds to shore up wine company cash flow (while wine matures for sale), the most likely possibilities are bleak for the industry in terms of transaction costs. If the premium on the winegrape price is non-existent or low, then growers are being taken advantage of, and if they over-compensate then growers are not the 'low-cost' providers of working capital compared to banks, the usual source of working capital for businesses.
- With delayed payments, grower payment risk is accentuated by them being unsecured creditors in the event the wine company fails. While the Personal Property Security Register (PPSR) facilitates their ability to become secured creditors, it is understood that banks generally discourage wine companies they extend credit to, from providing the relevant clauses in contracts that facilitate access to this facility.
- With price required by the Code to be determined within two weeks of off-take, or worse, on a take-it-or –leave-it basis at the weighbridge[2], growers also take-on wine company market risk by committing to the major part of their investment in the crop while wine companies have more than half a year to review and revise the market assessment they make by 30 June each financial year.
- Growers are exposed to weather risks and pest/disease problems, which raise input costs and reduce output volume and quality
- Growers are "locked-in" to grape production for up to decades, once the vines are planted.

Despite growers frequently assuming wine company risk, in a study of price formation in the California wine industry, Heien (2006) concludes that wineries are less risk averse than growers. In the Australian context, the reasons why wineries should be more able to manage risk than growers are because:

- they are bigger;
- perishability of crop is less a problem for wineries;
- wineries are more diversified than growers, for example often owned by larger corporations;
- wineries have better bank connections; and
- wineries are less susceptible to uncertainty due to weather and disease through ability to source winegrapes across regions.

[2] by virtue of sub-optimal adoption of the Code by wine companies and to add to the difficulty, with a product on-hand that spoils quickly

As Fraser (2003) suggests, wineries have incentives to underestimate grape quality, since it lowers the price they have to pay to supplying growers.

2.3 Growers do not have sufficient information for effective business decision-making

From a position of having world-benchmark foundation datasets less than ten years ago, the Australian wine sector has fallen well behind is this facet of competitive advantage today. At this time, a national viticulture data collection does not exist and this hampers grower ability to plan for the future.

Lack of effective information derives from declining funds available to the industry in the current cyclical downturn, a lower priority put on such an investment by the industry RDC and reduced funding of the ABS by the Commonwealth government.

The effects of deficiencies in this area not only impede competitiveness through failure in decision-making at the enterprise level but also stands in the way of effective biosecurity responses and the ability of growers to improve the operating environment for winegrape growing through collective action.

These problems are comprehensively canvassed in the Attachment 1, being a submission from WGGA to the National Agricultural Statistics Review in February 2014.

3. What is the Solution?

Three streams of reform are needed:

- Buyer-supplier relations need to incentivise innovation and continuous improvement
- Contract designs that achieve a better balance between the costs of risk bearing against the rewards that result
- Information to facilitate better decision-making across the industry.

3.1 A transformation in buyer- supplier commercial relations is needed

Winemakers that are able to manage good relationships with their grower-suppliers have a greater guarantee of success and profitability since their products will achieve higher standards of quality.

This choice of method of problem resolution is important, because it affects both (1) the buyer's and the supplier's relative bargaining power, and (2) their propensity to innovate, for example by introducing new production methods and technologies.

In his book *Exit, Voice and Loyalty – Responses to decline in Firms, Organizations, and States*, Albert Hirschman postulates two types of responses to such problems: 'exit' to a better alternative, or 'voice,' defined as "any attempt at all to change, rather than to escape from, an objectionable state of affairs" (Hirschman, 1970, p. 30).

It is straightforward to see that the exit strategy gives the buyer a great deal of bargaining power because it has little commitment to any one supplier. Conversely, the voice strategy reduces the buyer's bargaining power by increasing its cost of switching between suppliers.

The key issue for the Australian wine industry is innovation. But innovation in mature industries requires the coordinated efforts of many people across the value chain, and a long

gestation period. It therefore requires moderate to high levels of both commitment and coordination. Thus a deepening of the voice-based strategy is the best way forward for the Australian wine industry.

The conditions that facilitate the creation and sustenance of trust – and the containment of opportunism – include long-term commitment, information exchange, technical assistance, and customer reputation.

What defines "good grower-winery relations"?

- Fair and reasonable price determination mechanism relying on measurable input that is transparent.
- Fair and reasonable terms of trade.
- Appropriate sharing of risk with the off- taker (ie grower only assumes production risk).
- Trust and respect in the business relationship.
- Accessible and non-retaliatory disputation mechanism.

In the automotive manufacturing industry, Kotabe *et al* (2003) identified two value-adding mechanisms of good buyer-supplier relations. First, suppliers stand to benefit from systematic knowledge exchange with buyers. Second, prior link duration conditions the effectiveness of more complex, higher-level technology transfer. Most importantly, they show that higher-level technology transfer works best in long-established buyer–supplier relationships.

3.2 Better contract designs that balance risk and reward

While the previous section identifies the need for respectful, resilient business relationships to underpin effective markets and to create a climate for resolution of problems, contracts are a tangible expression of these relationships that are designed to streamline discussion and reduce transaction costs on most of the issues including disputes.

The next generation of winegrape contracts will require greater attention to the basic principles of transaction economics if the goals of lower contracting costs, greater value adding, and less disputation are to be achieved.

Contracting capabilities vary considerably across firms involved in growing winegrapes and making wine. So increasing the level of understanding on how to contract is needed in a global market prepared to pay higher prices for more innovative products.

A network of growers and winemakers that can develop effective contracts that underpin continuous improvement on both sides is a key source of competitive advantage. There numerous examples in the literature to support this view as well as examples of cases where failure to realize this has resulted in sub-optimal equilibrium and lack of competitiveness (for example – Helper and Henderson, 2014).

3.2.1 Effective market signals

Supply-demand imbalances have been acknowledged in the wine industry since 2005-06. Despite this, the imbalance persists, "brand Australia" has been damaged, non-profitability is endemic and hopes for redress seem distant.

Winegrape price-setting needs to be based on measurable attributes that separate quality from supply/demand influences and send clear signals about requirements. Standards for objective trade measures need to be developed and promoted by industry.

Imperfect quality measurement exposes growers to excessive price risk. So deployment of more sophisticated quality measurement systems is needed.

The Australian wine industry has developed highly serviceable quantitative technical measures of winegrape quality attributes that are acknowledged world-wide. Moreover, the "datafication" of grape and wine production – sensors-in-field, mobile communications, cloud data storage and predictive modeling – means that quality now can be measured more accurately.

3.2.2 Efficient risk sharing contracts

Wine companies must assume their fair share of commercial risk in purchasing arrangements. This includes

- timely payment for fruit,
- not imposing yield caps without valid and verifiable cause and adequate compensation,
- imposition of harvesting times that result in penalties to grower returns due to sub-optimal ripeness or quality,
- providing grading information based on agreed indicators for quality attributes that come with sound technical verification.

In districts with strong wine identities, and higher value-adding, it may be appropriate to use contracts whereby winegrape growers are made (at least partially) residual claimants for the value of the wine output.

3.2.3 Sharpening incentives in contracts

In the design of contracts there is a choice between measuring grape quality outcomes against two specifications:

1. Grape performance – the monitoring of outputs, such as grape sugar content and other product attributes.
2. Viticulture design – the monitoring of inputs and practices / processes; and

In Cool Temperate regions, where winegrape attributes are more identifiable, have greater expression and have monetary reward in the marketplace, contracts should rely on measurements of viticulture inputs and practices that affect subtle wine attributes. Furthermore, as suggested in the previous section, growers could be made residual claimants for the value of the wine output.

Contracts in Warm Inland regions should specify price incentives that rely on measurements of outputs, and less on the monitoring of inputs. Maximum gains to the Australian wine sector are available from such innovation - as it is; a relatively underdeveloped aspect of winegrape acquisition in the wine sector, it affects the major proportion of production in the industry, and the benefits of a focus on quality attributes has been demonstrated in the industry from its recent expansion into global markets coming on the back of the 'value' identified in Australian commodity wines, that is, quality for the price.

3.3 Price determination needs systemization

Traditional price determination mechanisms in the industry: confuse quality and quantity incentives, are open to abuse, do not build working/trustful business relationships, do not encourage innovation, do not encourage quality improvement (rather, directly mitigates against it), and impose the greater burden of risk on the grower.

Examples of price discovery in other Australian commodities reveals the regular employment of a blend of regulated systems and market forces that are designed to deal with similar problems to the wine sector. This is desperately needed in the wine sector and promises multiple benefits including supply and demand balance, innovation, profit creation and marketing tools.

A good example is Meat Standards Australia (MSA) devised in 1996 for the beef industry. This instrument –

- was designed to deal with many of the issues faced by the wine sector,
- sets standards that respond to critical quality attributes sought by consumers,
- permits tracing of quality outcomes to a defined unit of output which permits food safety and quality assurance,
- not only incentivises innovation but provides the information to identify the innovation required,
- has an adjunct facility of a livestock identification system which has additional benefits for biosecurity,
- provides transparency in price setting and builds trust in the buyer/supplier relationship, and
- provides an accreditation mechanism that can be used for quality assurance and promotion to the consumer.

Other systems also exist that have relevance to the wine sector and its peculiar set of circumstances. All largely require industry-based dialogue and solutions.

However, wine company interests and 'voice' (political power at both industry and government levels) dominates in the wine sector. It is not unusual to hear the refrain "We have been doing business this way for years and we are not going to change". In these circumstances, growers require the involvement of government to facilitate a dialogue and agreement between growers and wine companies on matters like this.

3.4 Improving information availability for grower decision-making

The wine industry view is that its information needs can be met through an industry-owned collection of data via the agency of the industry's statutory body, the Australian Grape and Wine Authority. The advantages of this arrangement include –

- capacity of the statutory body to cover-off on the privacy and confidentiality requirements,
- ability to produce information outputs in a timely fashion,
- direct access to feedback on, and incentive to respond to, industry views on emerging needs,
- greater likelihood of providing services at least cost,
- greater engagement of industry in the data collections,

- ability to combine multiple purposes in the collecting activity (statistics, biosecurity responses, contact information),
- ability to encompass both grape and wine collections in one.

There is an opportunity for industry and the commonwealth government to partner in providing information assets that benefit to both the industry and public, on terms that are favourable to both industry and government.

If industry creates its own collection mechanisms to replace those that have or currently exist in government agencies, then cost efficiencies are achieved, government out-sources the activity, and industry achieves the utility it desires from the collections.

If funding is the barrier to achieving these benefits, co-funding by both industry and government could be the solution. The government contribution would purchase access to the data.

Moreover, a single industry-held database with the functionality to produce all the required statistical information – including contact information, location and size, foundation data etc – would also reduce duplication in surveys and increase efficiency.

3.5 Avoiding the wine grape boom-bust cycle

Grape growing, with its large fixed investments combined with uncertain returns, is an example of an industry prone to boom-bust cycles. This is because of delayed entry and exit, into and out of the industry, known as investment hysteresis.

For the investor, there exists an "option value" in waiting to invest or waiting to exit the industry when there is heightened uncertainty of asset returns. This results in a very wide window of indecision about exit despite lack of profitability. The resulting indeterminacy is likely to be a strong candidate as the driver of the industry's lack of supply adjustment in the eight years since oversupply was widely acknowledged in the industry, in 2005-06.

Given reasonable estimates of required rates of returns, investment and operating costs for typical vineyards, studies have shown that grape price uncertainty results in delays in both entry of new investment and exit of excess capacity; for example see Seyoum-Tegegn and Chan (2013) and Cyr *et al* (2010).

Mechanisms to minimise this indeterminacy in vineyard investment include provision of better and timelier information about the industry supply and demand outlook or the creation of investment tools that make vineyard investments more responsive to changes economic circumstances (eg separating the investment in the land asset from the business operated on it).

4. Why is It appropriate to innovate in commercial arrangements of the wine sector now?

Seasons come and seasons go and complaints about commercial activity for commodities follow suit. However, current concerns about commercial arrangements have nothing to do with seasons but rather, are demonstrably an expression of inadequate structural underpinnings to the traditional commercial relationships that are embedded in the industry.

Improvement in winegrape prices in 2012 and 2013 were a lot to do with seasonal factors, in particular the overhang from lost production out of the disastrous 2011 season. In these

two years, there is no doubt that the hope provided by improved prices and industry messaging about positive signs in the industry, would have seduced those hoping for the long-awaited turn-around of the industry into thinking that it had arrived. The price collapse in 2014, when seasonal shortages had unwound confirms the seasonal basis to prior price improvements and points to a residual structural underpinning to low prices.

Messages of positive signs in the industry abound and while they are accurate, they are way out of proportion in the context of a whole-of-industry 'recovery'. They include;

- the effects of an improved AUD, but this will take time to filter through; and
- recovering economies in our key markets, but there will need to be some re-educating of the consumer to trade-up again and about the value of Australian wine (albeit that the latter is at least, a real positive the Australian industry has).

Current discontent about low winegrape prices are an expression of the wide range of dysfunctional commercial arrangements in the industry – they are the obvious, observable face of a more general problem – out dated commercial arrangements between winegrape growers and wine companies.

If these problems are structural, why hasn't the concern been expressed all along? The answer is that they have - but they have been hidden by circumstances.

For much of the last 60 to 70 years, the underlying commercial problems in the industry were hidden in years of heady growth. Bottom lines were not noticeably affected and inadequate commercial practices remained hidden.

The Australian wine sector had a technological boom in the mid-1900's (refrigeration, mechanical harvesting and so on) and moved into world best-practice in production. Complementing the surge in supply, Australia then had a demand-boom by breaking into world markets. Like all waves of innovation however, the rate of return in competitiveness has diminished over time as competitors have caught up.

When growth, as a consequence of the foregoing, ceased in the mid-2000's to 2010, the problems were tolerated for a while because there seemed to be other reasons for them, particularly the stronger AUD and the effects of the GFC centred in Australia's top two markets – the US and the UK. There was a belief the industry would return to the ideal conditions of pre-2005-06 when these things sorted themselves. At this time, these problems are unwinding.

A phase of innovation in the commercial relationships between winegrape growers and wine companies is now required. Wine is a complicated product and sophisticated commercial relationships are needed to underpin the markets signals required for supply to meet the nature of wine demand across style, variety, region, occasion, price point, lifestyle, perception and so on. The traditional arrangements are not up to it and are in need of innovation.

5. Recommendations

Recommendations cover the following:

1. A transformation in buyer-supplier commercial relations

i. A study into the establishment of new institutional arrangements for the wine grape industry: a collective bargaining association, an independent quality assurance agency.
ii. New solutions for funding the working capital requirements of the grape and wine supply chain, to shift payment risk off the backs of the growers.
iii. New initiatives are needed to lift sales volume, not just more spending on Brand Australia advertising. Additional investment is needed in continuous quality improvement in grape and wine production.

2. More advanced wine grape contract designs
    iv. Supply contracts should provide greater incentives for growers to invest in methods to improve quality, and supply and demand influences on winegrape prices should be separated from grape quality incentives in contracts
    v. Investigate new contract designs; for example the potential role for integrated contracts: long-term (multi-year) grape contracts and short-term contracts.
3. Information to facilitate better decision-making
    vi. An industry-owned grape and wine statistical database, co-funded by industry R&D and government.
    vii. The development and implementation of a grape quality measurement system, in particular for the warm inland districts, closely matched to consumer tastes.

Wine industry players that master these approaches to collaboration and contracting will accrue a number of competitive benefits: faster speed to market with new products, more innovative products, improved flexibility to manage change, reduced costs, and capture of new market opportunities.

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Part 2: Refinements to Australia's developing biosecurity processes

Prepared by
Lawrie Stanford, Executive Director, Wine Grape Growers Australia

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1. Context

Wine Grape Growers Australia (WGGA) supports the view that biosecurity is of critical importance to agricultural sustainability and competitiveness - it underpins food security, contributes to productivity, facilitates exports and provides a framework for assessing the risk of imports.

Moreover, regulation associated with incursions or outbreaks, the costs of controls on pests and diseases and reduced production as a result of unhealthy plants all have the potential to reduce Australia's productivity and competitiveness.

As such, it cuts across a number of the issues identified in the Agricultural Competitiveness Issues Paper.

Australia's current status as a low pest nation is a competitive advantage and it is vital to protect this status. Freedom from pests protects the profitability and sustainability of our industry, helps preserve existing trade opportunities and supports new market negotiations.

WGGA is a supporter of the collaborative arrangements for biosecurity established between the Commonwealth, States and industry and in particular, the principle of industry involvement in decision-making. The role of PHA in facilitating the linkages between these agencies is acknowledged and applauded.

Industry engagement is vital to maximise the effectiveness of these forgoing arrangements and linkages. Preserving and enhancing this is a key thrust of this submission.

It is recognised that the foregoing comments of support are in the context of national biosecurity arrangements that are under development and the following points refer to refinements and improvements that are required. The efficiencies in the processes underpinning biosecurity management in Australia's plant industries can be improved.

2. Improving effectiveness of arrangements

2.1 The role of state governments

While the Commonwealth has a generally well-targeted and well-resourced system of border and pre-border controls, the state governments' participation in biosecurity management is in need of upgrading. Most state governments are reducing resources in hands-on agricultural services which affects biosecurity-related areas and a resulting weak link in responding to incursive alerts seems evident.

The Commonwealth needs to urge, through the agency of PIMC and SCoPI, for more State government resourcing of biosecurity activities.

2.2 The role of Plant Health Australia

The model of biosecurity management, which has Plant Health Australia as the national facilitator of government-industry partnership in plant biosecurity in Australia, is considered

to be a positive and significant influence on biosecurity readiness through the coordination of, and sharing of resources and expertise across industry sectors as well as capability building within them.

However, WGGA is concerned that fee-for-service work done on behalf of individual industries is reducing PHA's focus on facilitating and coordinating issues of collective benefit. This also comes at the cost of individual industries fully engaging in the biosecurity task as well as tending to foster the building of another bureaucracy.

Plant Health Australia should focus more on collective benefit activities to improve the effectiveness of the industry spend on their specific biosecurity activities.

2.3 Linkages and synergies between government, PHA and industry

WGGA maintains that there is room for greater synergies between industries in their engagement with their constituencies. Many farmers have mixed crops and there is duplication of effort in having more than one industry bodies approach the same farmer on biosecurity issues that are common to all. The Farm Biosecurity website is a good model for enabling farmers to "tailor" a package of biosecurity information according to their particular portfolio. WGGA believes that there is potential for efficiencies of this kind to be achieved in industry engagement activities.

Plant Health Australia should find ways to extract synergies in on-farm biosecurity action between its members.

3. Industry engagement

3.1 Industry funding

WGGA recognises the primary role (and legal obligation under the EPPRD) of industry organisations such as itself to raise awareness, educate and engage growers in biosecurity activities that protect their farms. However, many organisations are hampered in their ability to achieve meaningful outcomes by lack of access to funds.

The winegrape industry is currently in what has proven to be a prolonged downturn in profitability. This presents a double risk in terms of biosecurity - lack of money and low motivation reduce growers' commitment to undertake protective activities at the same time as cost-cutting increases the biosecurity risk.

The current requirements for securing approval for biosecurity levies make it unnecessarily difficult for levies to be put in place. To repeat the conundrum noted in the previous paragraph – this is particularly true in times of economic hardship when the need for an active biosecurity program is greatest.

Current process for securing a biosecurity levy needs to be made more flexible and the amount of consultation required needs to be reduced to enable industry organisations to make decisions on behalf of their growers and in the long-term interest of the industry.

3.2 The role of the RDC

Industry access to funds for industry arrangements, and engagement in the biosecurity task, is further restricted by using the RDC and the Grape Research Levy/Wine Grapes Levy as the collection vehicles. Industry costs are not insignificant in establishing industry arrangements

including grower development to meet and deal with the biosecurity challenges. Channelling available biosecurity levy collections through the RDC means they are largely captured by the research and development and are not available for grower capability development as conducted through industry arrangements.

It is noted that industry engagement in the biosecurity task is again constrained by this issue.

R&D levy money should be made available to support industry-led activities such as awareness-raising, education and engagement as well as more traditionally defined "research questions".

Part 3: Access issues for plant agrichemicals

Prepared by
Lawrie Stanford, Executive Director, Wine Grape Growers Australia, in collaboration with Grain Producers of Australia

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1. Use of plant chemicals for pest and disease control

WGGA submits that there are problems with the use of plant chemicals in the control of vine pest and diseases which impact on production security, winegrape growing competitiveness compared to competitor wine producing nations and overseas market access.

2. What are the problems?

Plant and animal industries are facing significant emerging biosecurity threats and impact of pesticide and veterinary medicines resistance.

Australia is no longer on the global priority list for pesticide and veterinary medicine commercialization as it was 20 years ago. Many agricultural industries in Australia are currently missing out on up to 50% of the potential new technologies which key competitors in Europe and the USA have access to. By way of illustration, one 'pocket' of viticulture agrichemicals that are registered for use in the US state of Michigan, but which are not available in Australia follows.

Commercial name	Active ingredient	Target pest or disease
Aliette	Fosetyl-Al	Downy Mildew
AuxiGro	Gamma aminobutyric acid + L-glutamin acid	Powdery Mildew, Botrytis
Blight ban	Pseudomonas fluroescens	Sour rot, bunch rot
Ferbam	Ferbam	Black rot
Fungastop	Citric acid, ascrobic acid, mint oil, fish oil	Reduced sour rot
Gavel	Zoxamide (+ mancozeb)	Downy Mildew, Bunch rot, dead arm
Inspire super	Difenconazole (+ cyprodinil)	Powdery Mildew, Botrytis, Black rot, anthracnose
Nutrol	Monopotassium phosphate	Powdery Mildew
Oidate	Hydrogen dioxide	Powdery Mildew
Presidio	Fluopicolide	Downy Mildew
Prev-am	Sodium tetrborohydrate decahydrate	Mealybugs, mites
Procure	Triflumizole - DMI	Powdery Mildew
Quadris top	Difenconazole (+ azoxystrobin)	Powdery Mildew, Downy Mildew, Black rot
Ranman	Cyazofamid	Downy Mildew
Reason	Fenamidone	Downy Mildew
Ridomil Gold	Mefenoxam	Downy Mildew
Sonata	Bacillus pumilis	Powdery Mildew
Sovram	Kresoxim-methyl	Powdery Mildew
Sulforix	Calcium polysulfide	Powdery Mildew
Tanos	Famoxadone + cymoxanil	Downy Mildew
Topspin	Thiophanate methyl	Botrytis
Trilogy	Clarified neem oil extract	Fungicide, miticide, insecticide

Some agrichemicals that yield productivity gains and which are available in Australia, are constrained in their use due to the absence of negotiated maximum residues limits (MRLs) in key overseas markets. A prime example is Phosphorous Acid, an antifungal chemical with

great efficacy in terms of effectiveness and cost, which cannot be used in the key market of China due to the absence of MRLs for Phosphorous Acid residues in wine imports. A current focus of wine sector activity is to negotiate MRLs with the Chinese authorities but two factors dictate a need for government assistance on this issue –

- a more universal solution for Phosphorous Acid MRLs is to negotiate MRLS through Codex, rather than through one-on-one negotiations in individual markets,
- while delivering greater benefits, Codex is nevertheless a more difficult and resource intensive agency for negotiations to be conducted, and
- there are other agrichemicals for which MRLs need to be negotiated and again, Codex is the most beneficial agency through which to operate.

Many agricultural industries will experience significant productivity losses in 8-10 years through the combined impacts of pesticide resistance evolution and the limited access to new technologies.

With a lead-time of 7 to 10 years to deliver a commercial technology that has already demonstrated proof of concept, Australia must act on this issue promptly.

3. What are the solutions?

To address investment market failure in the longer term, there is need for transformational change to AgVet chemical regulation supporting investment in Australia. An initiative should deliver;

- Consumer and government confidence in broader international standards
- Cost savings to Australia
- Fastest possible technology access for agricultural industries
- Ensuring Australia is on the first priority commercialisation list
- No constraints on market access due to lack of agreed MRLs on agrichemical use

Without significant improvement in access to AgVet chemicals and markets based on their use, Australian agricultural productivity will decline further, and emerging industries will struggle to establish and meet multi-cultural consumer demand for an increasing diverse range of foods. Further reform is urgently needed to address the need for improved AgVet chemical technology to address the many significant productivity challenges Agriculture will face into the next decade.

Winegrape growers have been in discussion with other plant industries on these issues. Wine Grape Growers Australia has consulted with key peak plant industry bodies including Australian Fodder Industry Association, Canegrowers, Cotton Australia, Growcom, Rice Growers Association of Australia recommends that the government urgently address the following;

1. Establish a cross industry task force for improved technology access for agricultural production (ITAAP).
2. Provide government leadership in the establishment of a cross industry minor use and specialty production initiative (MUSPI) which should be jointly managed by cross industry research and development corporations.

3. Consider increased international partnership in co-regulation and look for efficiencies and incentives for AgVet chemical investment in Australia
4. Consider future regulatory reforms to underwrite these opportunities and initiatives.
5. Assist industry with international trade access negotiations through government-to-government for and resourcing affected industries to a level required to promote rapid resolution of MRL negotiations.

WGGA is open to further discussion with the Australian government on the need to deliver transformational change on these issues. WGGA also views favorably the prospect of working on a cross-industry basis to deliver productivity outcomes to agricultural industries, the Australian economy and regional communities.

END

Attachment 1: WGGA Submission to the National Agricultural Statistics Review, February 2014

Prepared by
Lawrie Stanford, Executive Director, Wine Grape Growers Australia

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Background

Wine Grape Growers Australia (WGGA) is the national voice for Australian winegrape growers. It is an incorporated association that is accountable to its members through a representative Executive Committee. There are roughly 6,200 winegrape growers in Australia and WGGA can count around 3,700 of these as having a direct involvement in the organisation. WGGA welcomes the opportunity to provide input to the National Agricultural Statistics Review on behalf of all its members and the wider population of winegrape growers, their families and communities.

The value of grapes (all uses) in 2012 was approximately $1 billion – similar to sugarcane and about a third of all other types of fruit combined. The estimated value of winegrapes in the same year is $880 million. This places winegrapes in about tenth place on a list of Australian crops by value. It is a significant contributor to Australian agriculture.

When converted to wine, the value of winegrapes translates to over $4 billion in wine sales revenue. Exports of wine were valued at $1.9 billion in 2012-13 – ranked fifth among food and beverage exports after grains, meat, oilseeds and all dairy products. The wine industry is estimated to employ between 16,000 and 20,000 Australians directly – with many more in associated industries such as tourism.

Response to review questions

1. Do you agree with the proposed enduring goals for Australian agriculture and why?

The proposed enduring goals for Australian agriculture are:

- Competitive and profitable sector
- Prosperous communities
- Sustainable national resource use
- Growing trade and market access
- Protecting animal, plant and human health and welfare

These goals are consistent with the priorities of the Australian winegrape and wine sectors – with an emphasis on profitability and sustainability driven by international and domestic competitiveness and environmental responsibility. Growing trade and market access in international markets is of particular importance to the wine industry as it is strongly export focused.

2. What are your top three priority information needs to inform your work program and are they being met?

The top three priority information needs for the winegrape industry are:

i. An accurate picture of the location, number and size of grapegrowing businesses in Australia
ii. Accurate foundation statistical data for the sector's supply chain – including area of vines, grape tonnages, wine processing and storage capacity, production sales and inventory (disaggregated appropriately, for example – volume and value, region, variety, style, container, price), consumer insights, and socio-economic aspects of the industry (employment, education, age demographics etc).
iii. Business data - financial benchmarking information on the performance of grapegrowers compared with each other, across regions and compared with other agricultural sectors.

An accurate understanding of who and where the grapegrowers in Australia are is essential for three reasons:

- to facilitate a rapid response in the event of a biosecurity emergency such as the incursion of an exotic pest or disease or break-outs of endemic pests or diseases,
- to enable the development of effective policy by government and industry bodies that takes into account the size, distribution and nature of vineyard businesses,
- to enable industry organisations and government to effectively communicate with and service grower needs.

Accurate winegrape and wine foundation data is essential for industry planning and decision-making - including:

- planning for whole-of-value-chain activity,
- understanding and measuring regional and varietal information (bearing area, removals, crush, watering information) to enable forecasting of supply at a regional and varietal level, estimating resource needs including water, freight and local infrastructure and measuring changes in these in response to changes in consumer demand and other factors,
- measuring and forecasting Australian supply against domestic and global market demand,
- measuring growth and decline of regional/varietal production over time,
- understanding trends by winestyle, package type and price point for domestic wine sales, imports and exports,
- understanding supply and demand balances in the industry through the agency of national inventory data,
- monitoring industry adjustment in times of growth and down cycle,
- benchmarking individual performance against the total category.

Financial benchmarking information on the performance of grapegrowers is essential for raising winegrape grower business acumen, enabling better decisions by growers and increasing overall risk management, profitability, competitiveness and sustainability of the sector. In upward business cycles, it is vital to business modelling for expansion, and in troughs this information is vital for exit decision-making.

The extent to which these information needs are being met is summarised in the following table. In summary, WGGA asserts that over the last five years the industry's information has seriously deteriorated and none of its priority needs are being adequately met.

Information need	Extent being met	Comment
Location and contact information	Moderate	There are databases in different states – particularly the Phylloxera Board's database in SA and Property Identification Code (PIC) databases in some states. Nevertheless these do not provide full coverage – even representative coverage for sampling purposes. PIC databases are variously limited in utility for industry needs by government protocols, lack of national coverage, lack of grape coverage and limited application (biosecurity only). WGGA is not aware of a national contact database for winegrape growers having ever existed. This contrasts with the existence of several such databases for winemakers. These factors means constraints on the representational effectiveness for Australia's winegrape grower and government services in addition to a serious disadvantage in these matters compared to the winemaker community. The latter factor being a significant contributor to overwhelming market power of winemakers over growers in the wine sector
Foundation data	Historically high – now effectively zero	Viticultural production data, wine production, wine sales and inventory data have been collected traditionally by the ABS on behalf of industry – and in the case of viticulture data, with a user-pays component to the funding from the Grape and Wine Research and Development Corporation. Funding from any source no longer exists for the viticulture data collection. The collection no longer exists. The industry is blind to its production base. This breaks a 40-year time series of data that was a world benchmark for publicly available high resolution data, and provided an international competitive advantage for the Australian industry. Commonwealth funding will no longer exist after this year for the wine collections. Unless new systems are put in place, the sector will lose access to all this information. This will a break long time series of data in these collections. Access to data on wine processing capacity has never been available to industry and its absence hampers whole-of-value chain planning. While socio-economic data has traditionally been available, albeit with unsatisfactory frequency, through collections

Information need	Extent being met	Comment
		like the national Census and generalist ABS collections – winegrape and wine are increasingly aggregated into higher level groupings (eg winegrapes into grapes and wine into beverages) and disappear from view.
Financial benchmarking	Low	Small regional pockets of information exist as a result of locally funded projects but the cost of such projects and difficulty in obtaining and standardising the data have meant that coverage and interpretative capacity are very low. The nature of grapegrowing means that such information must be provided at a regional level to be meaningful.

3. What statistical assets are critical to your work program?

- **The vineyard survey** providing foundation viticulture data traditionally produced by the ABS on a census basis and funded by GWRDC[3];
- Annual/quarterly **wine statistics** providing foundation data on wine grape crush, wine production, domestic sales and wine inventories – traditionally collected by the ABS and funded by the federal government[4];
- **Export shipment data** provided traditionally as a bi-product of Wine Australia Corporation's (WAC) Export Approval System but is now endangered due to changes in the shipment approval process[5;]
- **Financial benchmarking**[6]
- **Processing infrastructure**[7]
- **Socio-economic data**[8]
- WAC-funded **market insight and consumer data** reports collated from various commercial suppliers

[3] Funding has been withdrawn since the projected ABS cost of the collection increase to around $1,000,000 pa for a smaller (sample versus census, and in industry view, ineffective) collection. Note that, **a National Vineyard Database** is considered by the industry to be of critical importance to replace the extinct Vineyard Survey - but is not currently in place. More commentary on this prospect is provided later in this submission.
[4] The government has withdrawn funding for this collection from 2014-15
[5] Available through international customs data but not with the same timeliness, accessibility, granularity of flexibility to respond to emerging needs.
[6] Ad hoc in nature over time and geography. No major activity currently exists in either the grape or wine sectors.
[7] Non-existant in the wine sector of the grape and wine industry.
[8] While socio-economic data has traditionally been available, albeit with unsatisfactory frequency, through collections like the national Census and generalist ABS collections – winegrape and wine are increasingly aggregated into higher level groupings (eg winegrapes into grapes and wine into beverages).

4. What are the major barriers to collecting, producing and/or using statistics to inform your agricultural statistical information needs?

WGGA is aware of a number of barriers that prevent the effective collection, production and/or use of statistical information to meet our needs. These are:

- Cost and funding of collections
- Lack of coordination across multiple state jurisdictions and between industry and government
- Demarcation and access issues over contact lists
- Interpretation of the charter of the GWRDC for funding purposes,
- Issues with the ABS as a service provider,
- Attitudes of winemakers as gatekeepers to data they may consider to be of competitively sensitive.

4.1 Cost and funding collections

Funding is always an issue – especially in a situation of market failure through free-rider issues common to statistical collections that serve whole-of-industry interests. It is difficult to quantify the value of this information but the benefits are intuitively clear in terms of creating competitive advantage overseas, lifting the business acumen and improving decision-making of local producers, ensuring that resources are better matched to needs and increasing the effectiveness of policy development and representation.

In the case of the foundation data, the industry has supported its own viticulture collection for over 40 years; however the recent cost increase, and quality decline imposed by the ABS has made this a contentious industry issue that has proved difficult to surmount. It is WGGA's contention that such a high cost is not necessary to achieve the results required (see next section).

The removal of federal government support for both the grape and wine collections constrains benefits to both the industry and the Australian economy. The sector is financially struggling at present but is still one of Australia's major export-oriented industries and one of the last remaining thriving manufacturing sectors outside of mining. At a time when external factors in particular the high AUD are working against the industry, it is important that the government does not withdraw support for initiatives that are assisting the industry to restructure and to remain competitive.

4.2 Lack of coordination across multiple state jurisdictions and between industry and government

Lack of coordination is a barrier to the effective collection and collation of national statistics. An example is the introduction of various Property Identification Code systems in a number of states; these are not consistent in terms of jurisdictions that collect them, the mode of collection or the data collected, and do not allow for the collection production statistics or generate statistical outputs that are made available to industry. The gaps and restrictive protocols make them un-usable as a statistical resource, leads to duplicated effort and cost inefficiencies if additional uses are contemplated.

4.3 Demarcation and access issues over contact lists for collecting information

A major barrier to the utility of data collections is the privacy and protocols attached to their access, the limited scope of the collections and lack of sharing between government agencies and

industry organisations hampers efficient, accurate collection of important statistical and contact information that would benefit the growers and the economy.

4.4 Interpretation of the GWRDC charter

A barrier to our industry meeting its information needs is the fact that there is disagreement between industry representative organisations and our statutory research and development corporation over its role, as legislated, in respect to industry funding for foundation data collections.

4.5 The ABS as a key provider of essential statistical information

The ABS is rightly regarded as the primary provider of comprehensive and authoritative statistical information in Australia. However, and particularly in recent times, it has become increasingly unable to meet industry needs. The collection costs are too high; there is a lack accountability, the outcomes are not timely and the collection methodology is not flexible enough to respond to emerging industry needs or new collection technology (for example, on-line collection mechanisms).

In regard to the latter, the recent switch from census-based collections to sample-based collections, a fundamental principle in the ABS's collection methodology, does not meet industry needs. Grape and wine is a highly differentiated product and the industry's success rests on this characteristic. Illustrating this, the industry finds expression up to 60 regions and 40 grape varieties with each permutation a different expression and potential consumer following – with more expressions still from regional or varietal combinations. In addition, consumer tastes tend to be faddish. As a consequence, business decisions require frequent and very granular acuity (region by variety). Census collections have been demonstrated as necessary to achieve the required rigour in interpretation.

4.6 Attitudes of winemakers

Winemakers traditionally do not support collections that are deemed to erode competitive advantage. For example, wine processing and storage capacity is not collected and questions have always been raised about the accuracy of inventory data collections. The concerns are dubious in the light of reporting aggregation and confidentiality provisions that apply to all other collections in the industry and stand in contrast to the transparency that applies to vineyard infrastructure. Nevertheless, the absence of collections occur because of the dominance of the winemaker view in the industry and as a result, whole-of-supply-chain analysis is undermined to the detriment of industry planning.

5. In what ways do you believe efficiencies might be gained in the national agricultural statistical information system?

<u>WGGA proposes a partnership between the government and industry in an industry-owned, grape and wine database that serves the variety of information needs for the industry</u>

WGGA supports the industry view that industry needs can be met by and industry-owned collection of data via the agency of the industry's statutory body, the Australian Grape and Wine Authority. The advantages of this arrangement include –

- capacity of the statutory body to cover-off on the privacy and confidentiality requirements,
- ability to produce information outputs in a timely fashion,
- direct access to feedback on, and incentive to respond to, industry views on emerging needs,
- greater likelihood of providing services at least cost,
- greater engagement of industry in the data collections,
- ability to combine multiple purposes in the collecting activity (statistics, biosecurtity responses, contact information),
- ability to encompass both grape and wine collections in one.

Industry supports an industry-owned grape and wine database and a business case is being prepared to this end. Government support for this proposal seems likely. The potential blocks to this proposal are the source of funding and the GWRDC's (AGWA) role in funding – given its historical resistance to funding at the same time as industry views it as the funding agency.

In these circumstances, there is the opportunity for industry and the commonwealth government to partner in providing information assets that benefit to both the industry and public, on terms that are favourable to both industry and government.

If, under the terms described above, industry creates its own collection mechanisms to replace those that currently exist in government agencies, then cost efficiencies are achieved, government out-sources the activity, and industry achieves the utility it desires from the collections.

If funding is the barrier to achieving these benefits, co-funding by both industry and government could be the solution. The government contribution would purchase access to the data.

Moreover, a single industry-held database with the functionality to produce all the required statistical information – including contact information, location and size, foundation data etc – would also reduce duplication in surveys and increase efficiency. To achieve this, the Wine and Grape Authority would need access to the contact database used by the ABS as there is no other practical way of identifying all grapegrowing and winemaking businesses in Australia.