Riverina
WINE GRAPES
MARKETING BOARD

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Submission to the

Agricultural Competitiveness Green Paper

December 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 NSW Riverina region, centred on 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 in the area that process annually up to 450,000 tonnes of winegrapes (26% of the national crush).

The vast 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.

This submission represents the views of the Board of the WGMB with respect to the Federal *Agricultural Competitiveness Green Paper.*

Structure of this Submission

This submission provides requested comment on the select broad directions and specific policy ideas raised in the Green Paper.

The WGMB supports the tone of the Green Paper in announcing that it is taking a whole of Government approach to the process. It is hoped that the entire Government has the required focus and appetite that can create an impact within Australian agriculture so that it will be prepared for the opportunities and more importantly the challenges that lie ahead.

A more profitable future for farmers and their families

This is the basis of the government's White Paper and is sorely required across all sectors within the industry. If this cannot be achieved through education and training and the creation of efficiencies the Government needs to look at areas of regulation that will assist in creating a level playing field within the rural industry. While consumers see the benefits in cheaper quality goods the retailers are still the major beneficiaries are they control the major routes to market.

It is pleasing to note that the Government is determined to see the Australian agriculture sector benefit from its agenda for a prosperous economy. On that same issue reading a Government document that acknowledges that its own introduction of National Competition Policy and their reforms in the 1990’s has ultimately resulted in lesser proportionate returns (to farmers) is interesting as this policy and the manner in which it impacted rural Australia is still being felt by farmers across the country. While it may be difficult to unwind some of the social and economic impacts of this policy it is important that they are reviewed to determine if any amendments could be made to ease the pressure on agriculture.

Infrastructure and National Uniformity of Regulations

Expanding and rejuvenating the freight transport infrastructure is a nation building exercise. The national rail corridors need to be defined to reduce the reliance and increasing costs associated with road transport for raw and finished/packaged agricultural products.

Access to the Sydney port for example is problematic for the wine industry when arranging the export shipping of the regions wine, due to the impact of passenger rail services. As it stands wine shipments are required to either travel via road to Sydney or moved south to Melbourne via rail, effectively robbing the state in which this was manufactured from the economic benefits of dealing with the shipments.

The country’s roads and railway infrastructure are increasingly in need of more maintenance as they grow older, federal funding assistance will need to be allocated to assist the states equitably to maintain these, particularly in areas that provide a high level of exported goods, i.e. they traditionally use more of the infrastructure than domestically utilised commodities.

Work being undertaken by the National Heavy Vehicle Regulator is important but needs to occur more responsively and promptly to ensure that growers’ needs are met across all jurisdictions. As it currently stands the various commodities harvest and transport management schemes do not have balanced equity among the states and territories. This means that freight drivers within the state of Queensland are provided with a higher level of allowances above their nominal carrying capacity in what they can carry to market providing them with much better levels of productivity and efficiency. Schemes that address such matters of inequity are desperately needed now.

Specifically for the winegrape industry a system that would allow grape transport vehicles that are loaded in paddock to carry up to 5% greater that the Gross Vehicle Mass would immediately see benefits to producers enabling for increased efficiency and productivity. Paddock loading of agricultural products is shown to be problematic. Different grape varieties at different levels of maturity can impact on the vehicle mass, as can loading on uneven surfaces. A 5% allowance across the board would enable trucks to maintain a decent load at all times, thus ensuring productivity and assisting with profitability.

For the Riverina region, funding of an intermodal hub for the regions exports would speed up rail loading and reduce the impacts on the local regional city of Griffith that has to support the loading of containers currently within its CBD precinct.

The commitment of the government to construct a new inland rail system between Brisbane and Melbourne hence reducing our reliance on roads and the deleterious impacts on them while providing real economic benefits by reducing the costs of transport is applauded and has our industry's support as it will assist export and domestic freight movements and reduce the reliance for road transport.

Input Cost Management via Regulation

The privatisation of basic utilities (water, electricity and telecommunications) has led to uncontrollable cost impacts on growers. The soaring costs of electricity for example are eroding the returns to producers faster than any other major input cost. There have been no signs that this basic production input costs will steady or halt.

The WGMB supports a differential tariff on electricity usage for primary production to be developed and regulated by Government. Primary producers exposed to the current market are being severely impacted by rising costs that are not in line with their farm gate returns for their production. Basic inputs such as power and water cannot be allowed to grow unabated or even via a control "independent" pricing tribunal. There exists a social good to maintain a level of government pricing control on utilities.

Competition and Regulation

Within the wine industry there exists an imbalance of market power between the growers and the wineries. Growers dealing with a perishable commodity (winegrapes) are in most cases price takers and are required to accept the price offer as nominated by the winery. There is an industry code of conduct but it is currently voluntary and does not have sufficient uptake by wineries across the region. Almost 100% of winegrapes grown in the WGMB's area of operations by independent growers are not subject to the industry's code as our wineries choose not to participate in the code that would assist their own grower base to have a degree of fairness and equity.

This region would appreciate the assistance and consideration of the federal government in mandating the current industry code of conduct. The refusal of regional wineries to sign onto the code provides sufficient evidence that they are not interested in working fairly and transparently with the grower base. Many growers report not knowing the price of their product until after it has been delivered and in extreme cases growers are not even communicated to by their winery from season to season except for when the fruit is ready to be harvested.

As an industry we look toward government to provide solutions when unfair market pressure is being applied. Introducing legislative provisions to assist growers in overcoming the imbalance of market power is critical but this also needs to be able to protect the relationship. As many growers are small market players within the industry there needs to be mechanisms that will shelter them and protect them from reprisals when parts of the code act to protect them. No existing code or contract within the winegrape industry provides an equitable amount of fairness within it.

When discussing grape pricing with wineries a consistent message that the major retailers are impacting on winery returns is evident. The two major retailers Coles and Woolworths and their liquor outlets continue to expand across the country taking market share and reducing competition. There needs to be a system of regulated transactions that limits the margin that the retailers are able to keep on the sale of finished wines. This would ensure that the processor winery can return more value back through the supply chain to the grower.

The government should review the market power of the major retailers and investigate the growing market power of foreign owned supermarkets such as Costco and Aldi. The possible consumer benefit in reduced costs of good needs to be weighed against the impacts to Australian farmers. It is not healthy economic policy to allow the major retailers in this country to own such a significant percentage of the market and perhaps the Government needs to investigate how it may work to dismantle these structures before more market damage occurs. Investigation should occur to confirm that foreign product that is being sold is not actually being sold at below cost of production in the country of origin.

Wine Equalisation Tax

The WGMB believes that the WET Rebate should apply to sales of wine direct to consumers and not on bulk wine products. The use of the rebate on bulk wine sales has led to anomalies occurring in the industry that are destabilising normal commercial transactions and reducing farm gate returns to growers while feeding retailer profits.

It is acknowledged that the government is aware of possible rorts occurring in the wine industry as the ATO are currently reviewing business transactions across the supply chain. The industry would benefit from information about fines and tax avoidance surrounding the WET Rebate being made public wherever possible. Grass roots industry would see that the Government is actually working to correct the rorting and penalise the individuals responsible.

If the intent of the rebate was reverted to apply to cellar door or direct to consumers sales then the industry would be subject to more development. The up to, $500,000 rebate currently available is a positive financial incentive to encourage more cellar doors to open across the country. This would provide more regional jobs and increase the agri-tourism offer that is available within wine industries across the country.

Foreign Investment

Foreign investment is increasingly becoming a risk for the Australian economy. For example in the WGMB's area of operations Chinese nationals own approximately 10% of the winegrape land holdings as either going concerns or investments. Ultimately the returns from these enterprises leave Australia and do not add to the common wealth of our nation. Australia needs to tread very carefully in this area which it appears to have openly embraced, we should look to mimic the investment opportunities that are offered by those same countries that are intent on investing in Australia.

The Government needs to monitor these investments more carefully as is done in other countries. While foreign finance is often needed to meet shortfalls in domestic savings the use of these funds to purchase large tracts of land for productive purposes may lead to intended negative consequences in the future.

The extensive development of a register of foreign ownership of agricultural land and water entitlements would provide invaluable information for Australia in terms of informing existing holders of property and water rights the extent of which has gone to foreign ownership. The issue of regulatory burden should not enter the debate on this as the burden would not impact Australian nationals and is in the best interests of Australia.

Education, Skills and Training and Labour

The WGMB supports the view that agriculture needed to be embedded as a core subject in our education system. This action would create a renewed interest in the land and the employment opportunities that exist. It would also generate a common sense of stewardship of the land which is one of this country's most valuable resources.

Further to simply teaching agricultural based subjects all high school students should be required to undertake approved chemical user training. While it is law for farmers that purchase and use registered chemicals to undertake specific training many of the chemicals that are of concern are also available to the general public (albeit in smaller container sizes) via hardware and retail outlets. Members of the general public with no training get to apply these chemicals in their home properties. Educating the youth on the correct handling and use of all chemicals will also lead to a higher level of care being taken which will benefit the environment and therefore the overall stewardship of the land.

Water and Natural Resource Management

Existing storages in the Murray Darling Basin that impact on the Murrumbidgee and Murray River systems need to be found. These could either be online or at the source of the water.

While current storages allegedly secure all existing available water in times of abundance this resource is needed to be captured and stored in the system to even out the longer term variability of system inflows into the Basin storages. There may be evaporative losses but ultimately reducing system variability will come at a cost.

Areas such as the Murrumbidgee Irrigation Area that were purpose built for irrigated agriculture need to be maintained and enhanced by increasing the potential for online storage of rainfall events below the storages normal alpine catchment. Without looking at the development of water storages for regions such as this the future of these irrigation areas are becoming limited as the costs of water to farm increases on an annual basis. There needs to be more available water to enable the costs of system management to be socialised across more entitlements. The recent Murray Darling Basin Plan that has led to water buybacks and infrastructure development to release water for the environment means that with less available allocated and entitlement of water in the region the costs per mega litre have risen and may continue to rise as purchases continue and the flow on effects of that will have undesirable outcomes for the region.

Water Holdings of the Commonwealth Environmental Water Holder

The water held by the CEWH when released to undertake specific environmental outcomes often does so with a portion of the water continuing down the system. For example the environmental watering of a forest on the banks of the Murray River may see the outcome of the event using only 30% of the water initially released. The CEWH is required to release the full 100% to ensure that the forest is watered.

Once the water, the remaining 70% leaves the forest there is no guarantee that the residual water will not be utilised by irrigators as supplementary water above their current water entitlement. This supplementary water should actually form part of their normal allocation which will allow it to be accounted for twice as it moves through the system, thus providing better outcomes and allowing stored water to remain in storage to increase the allocations across the system.

Biosecurity Efforts

The federal government should allow the accessing of levy funds collected within industries to support the various commodities development of biosecurity plans to ensure industry preparedness. Currently most plant based industries are signatories to the Emergency Plant Pest Response Deed. As a signatory to the Deed in the event of an incursion the industry responds by working with state and federal agricultural departments to resolve the issue at hand. The costs of any efforts to resolve a plant pest incursion are to be covered by the industry. A levy is struck following the incident to cover the costs borne by government.

It would be wiser if a portion of the industry unmatched levy funds are made available to industry so that each commodity can fund appropriate biosecurity activities to increase awareness and preparedness ahead of any possible incursion. This type of funding is currently needed within the winegrape industry as it struggles to secure funding equitably across the industry.

Industry Research and Development Levies shift to ad-valorem

The current system of Research and Development levies within the winegrape industry are a set rate per tonne for winegrape producers. It would be more equitable to amend the process to allow for a value based system of levies. Currently the $2 per tonne Federal Research and Development levy paid by winegrape producers can represent a value percentage of between 2% and 0.3% of the farm gate value ($100 - $2,500 per tonne range).

A review into the equity of this approach is warranted as It could be argued that the returns to producers on the research and development investment is not proportionate to the tonnes produced but the value of the fruit sold and its entry point into the market.

For equity the use of an ad-valorem levy to be calculated and paid by the point of receival (the winery). For winery owned and grown fruit a regional average figure could be used to make the calculation. The total levy received from the industry would provide a gross domestic value of production for that industry which would provide good industry information on how the industry was performing.

Thank you for the opportunity to provide a response to the Green Paper.

Approved by the

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