

# **Sending clearer signals**

## **Mending supply-demand imbalances by creating effective market signals**



### *What is the role of government?*

#### **The issue**

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 seems distant.

Addressing imbalances is simple - it requires markets to work. However, markets cannot work without clear market signals. In the wine industry, out-dated commercial practices distort market signals, subvert market effectiveness and get in the way of industry adjustment.

#### **★ Reforming market signals and redressing out-dated commercial practices**

*Practices needing reform are found in a wide range of commercial dealings in the wine sector - from vineyard investment to winegrape price-setting, terms of trade for winegrape sales and grower decision-making.*

- ★ Winegrape price-setting needs to be based on measurable attributes that separate quality from supply/demand influences on winegrape prices and send clear signals about requirements. Standards for objective trade measures need to be developed and objective measures promoted for use by industry.
- ★ Wineries must assume their fair share of commercial risk in purchasing arrangements – this includes timely payment for fruit, not imposing yield caps and compensation when the off-taker chooses not to pick fruit at optimum ripeness.
- ★ Greater flexibility is required in vineyard investments – eg separating assets and operations – and there needs to be a greater obligation on banks to provide financial options that facilitate good decision-making. Costs of vineyard removal, replanting or restructuring need to be lowered.
- ★ Investment in market information and financial benchmarking is required to support effective decision-making. Availability of foundation data needs to be assured by industry.
- ★ New business models are required to replace unprofitable operations and growers need to invest in marketing and best practice business management.
- ★ Generational change needs to be supported by removing obstacles to exit of older growers wishing to retire.
- ★ Commercial practices in the industry must be improved through enforcement of a Code of Conduct and better engagement of growers wishing to report bad practice.

*Industry, government and the wider community have a role to play in:*

- *dealing with the challenges facing growers*
  - *redressing short-term inequities between wine companies and growers*
- developing long-term sustainable commercial arrangements that will restore a globally competitive Australian wine sector.*

## What is the role of government?

### *Addressing unequal market power and facilitating efficient markets*

#### **Undertake a Productivity Commission review**

Undertake a Productivity Commission review to assess WGGGA's claims that ineffective commercial practices between wine companies and growers constrain industry's productivity and adjustment

#### **Provide support for workshops to support business decision-making**

Provide funding for WGGGA and Business Solutions Australia to deliver a national series of workshops to provide information, up-skilling and coaching to growers to enable them to make appropriate decisions regarding their business future in the current operating environment.

#### **Facilitate harmonisation of state legislation**

Assist in the preparation of a research paper identifying the areas of state legislation where harmonisation between states would lead to lower costs, greater industry productivity and/or equity in winegrape commercial arrangements, for referral to PISC and SCoPI.

#### **Advocate for fairer business arrangements for growers through the National Commissioner of Small Business**

Engage the National Commissioner of Small Business to conduct a dialogue with the major wine companies to raise issues of concern highlighted by WGGGA regarding the commercial arrangements between wine companies and growers.

#### **Increase ACCC responsiveness to alternative mechanisms for reporting unconscionable conduct**

Increase flexibility in ACCC procedures to allow responses to evidence presented by representative associations as well as by individual growers.

#### **Increase the resources and powers of the NMI**

Increase the resourcing and powers of the National Measurement Institute to enable them to effectively regulate the operation of trade measures in the wine industry – particularly protocols and instrumentation for colour trade measures.

#### **Implement a Mandatory Code of Conduct**

Implement a mandatory national code of conduct to covering winegrape transactions between purchasers and growers.

#### **Encourage development of more flexible vineyard investment options**

Work through the relevant parliamentary committees to encourage banks to develop financial instruments that make vineyard investments more flexible in times of industry downturn.

#### **Develop targeted exit packages for older vineyard owners**

Design and implement exit packages appropriately targeted at older vineyard owners to facilitate generational change in the industry.

#### **Provide specific advice on powers of statutory authority**

Provide specific advice to WGGGA on the interpretation of the Australian Grape and Wine Authority Act 2013 regarding the legitimacy of expending R&D funds on foundation data and grower development.