

# Sending clearer signals

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



### *Who has a role to play?*

#### 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.*

## All industry stakeholders have a role to play in improving market signals through better commercial practices

<b>Government</b> <i>Addressing unequal market power and facilitating efficient markets</i>	<b>Industry</b> <i>Raising the bar on commercial practices</i>	<b>Community</b> <i>Facilitating better practice</i>
<ul style="list-style-type: none"> <li>✓ Undertake a Productivity Commission review</li> <li>✓ Provide support for workshops to support business decision-making</li> <li>✓ Facilitate harmonisation of state legislation</li> <li>✓ Advocate for fairer business practices with growers through the National Commissioner of Small Business</li> <li>✓ Facilitate ACCC responsiveness to alternative mechanisms for reporting unconscionable conduct</li> <li>✓ Increase resources and powers of the NMI</li> <li>✓ Investigate the need for a Mandatory Code of Conduct</li> <li>✓ Facilitate development of more flexible vineyard investment options</li> <li>✓ Develop targeted exit packages for older vineyard owners</li> <li>✓ Provide specific interpretation on the charter of the industry statutory authority</li> </ul>	<p><b>WGGA:</b></p> <ul style="list-style-type: none"> <li>✓ Raise grower skills in business management, finance, contract negotiation and winegrape marketing</li> </ul> <p><b>WFA:</b></p> <ul style="list-style-type: none"> <li>✓ Promote uptake by wineries of pricing systems based on objective measures that identify and reward winegrape attributes that improve quality</li> <li>✓ Establish policy on terms of payment for winegrape purchases that better align risk, investment and reward to the buyer and seller</li> </ul> <p><b>WGGA and WFA:</b></p> <ul style="list-style-type: none"> <li>✓ Implement a National Grape and Wine Database that includes all elements of the supply chain</li> <li>✓ Improve the existing Code of Conduct – including a more relevant forward price indicator – and promote it widely to industry</li> <li>✓ Increase compliance with the Code by auditing Code signatories</li> </ul>	<p><b>Research and Development providers:</b></p> <ul style="list-style-type: none"> <li>✓ Support research: <ul style="list-style-type: none"> <li>... to quantify the economic benefits of payment based on targeted objective measurement systems</li> <li>... to identify and improve methods of objective measurement of winegrape attributes</li> <li>... to identify ways of lowering the cost of vineyard removal and restructuring</li> <li>... into alternative business models,</li> <li>... in general business economics research and extension that raises acumen in the industry</li> </ul> </li> </ul> <p><b>Banks</b></p> <ul style="list-style-type: none"> <li>✓ Identify financial instruments that allow greater flexibility in vineyard investments eg separating assets and operations</li> <li>✓ Facilitate growers un-remunerated winegrape sales to become secured investors in the purchaser's business</li> </ul>