SmallBusiness NSW Commissioner

OUT15/12749

Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

Submission to the Senate Inquiry on the Australian grape and wine industry

The Office of the NSW Small Business Commissioner (OSBC) is focused on improving the operating environment for small businesses throughout NSW. The role of the OSBC is to:

- provide dispute resolution services;
- speak up for small business within government; and
- deliver quality business advice through Small Biz Connect.

The OSBC would like to provide the following comments in response to the Terms of Reference (a, c and d). It should be noted that the OSBC has primarily had conversations with the grape and wine industry in the Riverina. Therefore the comments may not necessarily be representative of other grape and wine producing areas in NSW.

The OSBC provides a range of services to assist small businesses. OSBC Small Biz Connect business advisors provide practical face-to-face support to small business operators, tailored to meet their particular local needs. Further, the OSBC offers dispute resolution services to help parties to a dispute talk about their problems and work towards a solution through negotiation, communication and perhaps mediation. These services are available to all small businesses in NSW, including those in the NSW grape and wine industry.

Targeted support for grape growers in the Riverina region of NSW is being offered through the OSBC Regional Activation Program. This program engages with regional communities to activate small business opportunities through specialised programs, assistance and tools to support their skills development and future sustainability.

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a) The extent and nature of any market failure in the Australian grape and wine industry supply chain

Wine grapes are a perishable product for which there is an oversupply of certain varieties in the Riverina and nationally. As such, these growers are price takers; they have limited ability to influence the market price of wine grapes. This is further compounded by an increased use of 'spot buying' by wineries purchasing grapes.

The OSBC has heard various anecdotal stories of growers who are experiencing difficult situations surrounding payment terms. Some growers have advised that they are receiving their total payment for a vintage in three to nine increments rather than the industry standard of three increments. The OSBC has also been informed of growers not receiving final payment for last year's vintage until they are delivering the current vintage.

Without adequate, enforceable contracts, wine grape growers may lack the necessary bargaining power to negotiate adequate and prompt payment for their product. Wine grape growers have asserted that they:

- are reluctant to raise objections to prices and terms of payment for fear that their contracts may be cancelled;
- would benefit from assessment tools to measure quality and determine price; and
- would benefit from enforceable payment terms.

c) The profitability of wine grape growers, and the steps industry participants have taken to enhance profitability

Where grape growers are unable to influence the price of their product, reducing costs of production and cash flow management are two areas in which they may improve profitability.

Further to support provided through Small Biz Connect business advisory services, the OSBC has engaged with wine grape growers in the Riverina region, through its Regional Activation Program. On Tuesday 12 May 2015, 15 representatives from 10 State and Federal Government agencies travelled to Griffith to participate in the Riverina Grape Growers and Wine Industry Forum. The Forum hosted a question and answer panel discussion, providing growers with the opportunity to discuss issues and seek clarity on areas impacting their businesses. Panel members provided valuable information across a range of topics, including:

- upcoming changes to superannuation arrangements and related tools available to support small businesses;
- the ACCC process to investigate claims of misconduct within industry;

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- work health and safety obligations; and
- flexibility terms available within Australian awards.

A networking session followed the panel discussion, providing a platform for businesses to speak one-on-one with representatives in attendance on the day.

Some grape growers in the Riverina are considering alternative farm practices and other agricultural options as a result of increasing costs, high competition and depressed grape prices. However there is a large capital investment to remove grape vines and/or change crops. Also, some growers are experiencing challenges with succession planning or sale of their business as the younger generation seek opportunities elsewhere. During the Forum, one young grower commented that they have significant debt associated with establishment of their wine grape production. The impact of this debt is compounded by diminished land and vine values, and is ultimately reducing their ability to diversify their operations.

d) The impact and application of the wine equalisation tax rebate on grape and wine industry supply chains

The wine equalisation tax (WET) is a value-based tax that was introduced to reduce the social harm associated with alcohol use. The Henry Review 2010 into the Australian Taxation System states that "*...the wine equalisation tax, as a value-based revenue raising tax, is not well suited to reducing social harm."* Essentially, the WET makes cheaper wine even less expensive relative to premium wine. For example, a $10 bottle of wine attracts a sales tax of $2.90 whereas a $50 bottle of wine attracts a sales tax of $14.50.

It is understood that the WET rebate was introduced in 2004 in response to calls for support from the wine industry for small rural and regional wineries (The Allen Consulting Group, 2011). As the rebate entitles eligible producers a 29% rebate of the assessable dealing (with a maximum rebate available of $500,000 per producer), smaller producers receiving the rebate are effectively not subject to the WET.

Industry participants have advised that this has created a situation where third parties may enter the wine industry to take advantage of the rebates on offer. The third party may source 'inferior quality' grapes from growers and contract a vineyard to produce the wine. The 'inferior quality' wine is then sold to wholesalers and the tax rebate is collected.

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Yours sincerely

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Small Business Commissioner
27 May 2015

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