

Submission to the RIC farm business definitions

8 December 2021

It is a welcomed opportunity to contribute to this review and to ensure that Regional Investment Corporation programs are accessible to Australian farm businesses that need them most. The evolving nature of the farming sector highlights just how timely it is for RIC to reconsider and potentially broaden the definition of farm business. The environment for agricultural risk is driven by a vast array of uncertainties, perhaps more so than any other sector, and more so now than at any other time. Business diversity is well recognised as an important risk management strategy. By all accounts RIC loans are highly valued in their capacity to build business resilience. Altering the loan program guidelines to broaden the scope of these loans in terms of business eligibility, business activities and the types of events that may justify support shows tremendous foresight.

Primary producers are being encouraged to move towards more vertically integrated business models because value adding is an important part of ensuring that farmers generate the optimal returns. There are opportunities to the guidelines to better reflect this in the guidelines.

Who we are:

Australian Grape & Wine Incorporated (Australian Grape & Wine) is Australia's national association of winegrape and wine producers. Our activities focus on providing leadership, strategy, advocacy and support that serves Australian wine businesses now and into the future. We work in partnership with the Australian Government to develop and implement policy that is in the best interests of winemakers and winegrape growers across Australia. Australian Grape & Wine is recognised as the representative organisation for winegrape and wine producers under the *Wine Australia Act 2013* and is incorporated under the SA Associations Incorporation Act 1985.

Australian Grape & Wine's voluntary membership represents over 75% of the national winegrape crush. There are 65 winegrowing regions in Australia, contributing over \$45 billion gross output annually to the Australian economy. ¹ Wine regions are considered intensive in their use of labour in both vineyards and wineries - in almost all of these regions the industry's share of regional employment is more than twice the national average, and for nearly half of them it is more than ten times. ² The sector directly employs 68,395 and indirectly supports a total of 172,736 full and part-time employees.

Our objective for the wine and winegrape sector align closely with your commitment to supporting the long-term strength, resilience and profitability of Australian farm businesses.

¹ Gillespie Economics (2019) *Economic Contribution of the Australian Wine Sector 2019* sourced from <https://www.wineaustralia.com/report-downloads/e2ad0473-60d8-4486-a7e4-b07321231335>

² https://www.adelaide.edu.au/wine-econ/papers/0110_Aust_wine_regions_0210.pdf

Have Your Say - Discussion Questions

1. Who do you think RIC should be supporting by providing farm business and farm-related small business concessional loans to?

Concessional loans should be available to any business who produces, or value adds primary produce, and at the very least to those that value add primary produce that they produce or grow themselves. These value-added food products are a vitally important part of the Australian economy.

Under the current ruling, many winegrape producer applicants are not eligible for RIC loans. For example if they are also operating as a winery/distillery and this is their main business they fail to meet the criteria for most loans. This potentially excludes up to 30% or more of winegrape growers whose business is also in wine production.³ Events such as drought that impact winegrape growers have flow through effects up the supply chain to processors who are unable to operate at capacity. They are just as likely to be in need of low interest loans in times of hardship.

On behalf of our members, Australian Grape & Wine holds the opinion that vertically integrated primary producer businesses should not be excluded from any loan.

It is noted and welcomed that the AgBiz drought loan is available to drought-affected small businesses albeit that these loans are less accessible and are smaller.

The inclusion of winegrapes under the definition of primary produce is supported.

2. Does the RIC's current definition adequately support enough activities to support the Commonwealth's target of \$100 billion in agricultural production by 2030 **NO**

Why?

The National Farmers Federation Roadmap to 2030 *Australian Agriculture's Plan for a \$100 Billion Industry* highlights actions and insights relating to reaching the target. They acknowledge the many challenges such as financial risk, capital shortfall, exacerbating climate related risk and increasing competition.

As businesses rely on debt financing for capital and growth, low-cost finance options will contribute significantly to achieving these ambitions. These businesses are also prone to financial hardships due to environmental factors beyond their control. Drought is not the only peril facing primary producers Expanding the program to include other natural disaster events would assist many businesses continue to operate during difficult seasons.

³ There are estimated to be 2361 wine producers, 85% also grow grapes (Wine Australia National Vintage Report 2020) and 6251 growers. Many of these businesses will derive majority of income or majority of labour from wine production.

Value-added agriculture provides valuable opportunities for farmers in terms of diversification and employment, especially in rural areas, thereby reducing exposure to agricultural risk. It helps to enable the agriculture, fisheries and forestry industries to improve their competitiveness and profitability at the same time as expanding export market opportunities. The Roadmap specifically states that 'Value-added food products have fuelled a resurgence in Australian manufacturing, thanks to incentives which seeded dedicated precincts across the country'.

The inclusion of upstream supply chain activities in the mix of financial assistance programs delivered would assist these businesses, particularly those impacted by climate related events beyond their control.

3. Do you think that RIC's current definitions are fit-for-purpose? **NO**

Why?

The purpose of the RIC farm business loans as stated is to 'support the long-term strength, resilience and profitability of Australian farm businesses and farm-related small businesses by helping them to build and maintain diversity in the markets they supply, take advantage of new and emerging opportunities and assist them prepare for, manage through and recover from periods of drought.

It is estimated that at least 30% of Australia's 6251⁴ winegrape growers are also wine producers.⁵ Value adding through processing is one of the most effective means to maintain this much needed diversity for resilience against natural disasters.

Australian Grape & Wine suggests a review of provisions in the operating mandate that identifies in (f) (ii) that eligible farm businesses are those that have 'the farm business as their principal business pursuit (in terms of being where they contribute the majority of their labour and where they derive the majority of their income)'.

The justification for this provision is questionable as it excludes many businesses who could benefit from access to these loans, particularly in times of drought.

4. Do they reflect current and future industry needs? **NO**

Why?

Drought has impacted many parts of Australia and 2019-2020 saw particularly difficult times. Inland regions along the Murray River (where majority of Australia's winegrapes are grown)

⁴ Wine Australia, 2020 Wine Sector at a glance sourced from <https://www.wineaustralia.com/market-insights/australian-wine-sector-at-a-glance>

suffered surging prices for water along with water supply issues. In addition, many of those same winegrape growing regions were impacted by the devastating bushfire season of 2019. The NSW winegrape producers were at the coal face of these disasters and their industry association has

conveyed their strong support for the RIC loans and the positive impact they had on assisting *eligible* businesses to recover.

But during these difficult times it became acutely apparent that many winegrape growers who also made wine were ineligible and therefore at a disadvantage. Failure to include many businesses who are engaged in processing or adding value to farm products is a blunt policy that creates a situation of inequity between a producer who may be in financial need of assistance to recover from short-term hardship. The loan criteria already requires that the loans are not used for non-farm assets and expenses so excluding these businesses is unnecessary.

5. Do you think the RIC's determination that "primary produce includes grains, fresh fruits and vegetables, meat and meat products, milk, sugar cane, wine grapes, natural fibres and edible fish, molluscs, crustaceans and aquatic plants" is fit-for-purpose? **YES**

Why?

As previously stated, the definition of primary produce is supported but the business eligibility is not (see also previous question).

6. Are there additional gaps and opportunities that need to be considered in building a criteria to define eligible primary producers and/or farming businesses? **YES**

Please explain:

Any changes must consider the intent of the program and ensure that it is not open to exploitation for businesses not investing in primary production related business. Another opportunity would be to include regional business impacted by hardship as a result other perilous events beyond their control.

7. What commodities, activities or industries do you think the RIC should not be providing farm business concessional loans to?

The following should be excluded:

- Commodities that do not meet the definition of primary produce.
- Activities from businesses without a direct link to primary produce as currently defined.
- Industries that are not within the agricultural, horticultural, pastoral, apicultural or aquacultural.

Loans should relate to activities directly linked to primary production as defined (including processing and value adding). The additional loan supporting all impacted businesses in regional communities in times of hardship (ie the AgBiz Drought loan) should be retained.

8. Do you have any comments on broadening the scope of 'business of primary production' to include directly related businesses, such as processing or adding value to farm products?

Australian Grape & Wine would support the inclusion of directly related businesses, such as processing or adding value to farm products providing that the intent of supporting primary produce related businesses is retained.

9. Do you consider an industry whose producer members pay a levy to the Commonwealth Government should be eligible for RIC support? **YES**

10. Do you have any comments to the risks that may be associated with not amending RIC's current position?

The eligibility criteria that require producers earn at least 50% of income from the farm business (under normal circumstances) creates inequity between producers, especially those who narrowly miss the threshold.

11. What information is missing or what would you include in RIC's guidelines, web content et cetera, to make it easier for all stakeholders / applicants to understand?

The guidelines were not difficult to understand.

12. Do you have any further comments or suggestions that were not specifically considered in this Consultation Paper? **NO**