



Restoring Our Rivers: Delivering the Basin Plan 2012

Draft framework for delivering the 450 GL of additional environmental water

SUBMISSION

March 2024

Australian Grape and Wine Incorporated (Australian Grape & Wine) welcomes the opportunity to comment on the Basin Plan's Draft framework for delivering 450 GL of additional water for the environment. This submission will seek to highlight the importance of well-targeted assistance and careful analysis of socio-economic impacts. The need for appropriate levels of funding for community adjustment should not be under-estimated. Australian Grape & Wine supports a 'do no harm philosophy'. This means that policy response options should be fully examined before making an intervention that is liable to distort the water market or damage an industry or a regional community.

There are approximately six thousand winegrape growers across Australia and more than sixty per cent of Australia's total grapevine area is in the Basin. The Murray Darling Basin accounts for around eighty per cent of Australia's total irrigated grape production.¹ For many of these businesses, their vineyards are also their family homes and they may also employ multiple family members. The winegrape and wine sectors have significant flow on effect to other businesses in the economy, more so than many (if not all) other sectors they compete with for water. Grape and wine producers are considered intensive in their use of labour and there are townships along the Murray River that are largely supported by viticulture related activities. Australia-wide, grapes contribute approximately \$1 billion to the economy, wine production \$5 billion, and the gross output to the Australian economy when accounting for multiplier effects brings it to \$45 billion.^{2 3}

The Draft Framework

The draft framework demonstrates the value in listening to industry groups and peak bodies and we commend the fact the Department of Climate Change, Energy, the Environment and Water (DCCEEW) for acknowledging this in the draft framework. Australian Grape & Wine supports the summary of feedback as stated - to maximise non-water purchase recovery options, to allow more time to consult and to minimise socio-economic impacts. We look forward to seeing these commitments translated into well-designed recovery policies.

Policies for water recovery should be designed to minimise disruption to the supply demand balance as much as possible. This will take time and so we support the additional time committed to under *The Water Amendment (Restoring Our Rivers) Act 2023*. Australian Grape & Wine is also supportive of recommendations that there must be a broad range of approaches such as the inclusion of leasing arrangements as an alternative to buybacks.

¹ MDBA (2016) <https://www.agriculture.gov.au/abares/research-topics/surveys/irrigation/grapes>

² Wine Australia 2023 https://www.wineaustralia.com/getmedia/c9d253cf-05ea-4417-a6b1-43ed031c5250/MI_PSI_Report_2022-23_F.pdf

³ [AgEconPlus-Gillespie-Economic-Contribution-Wine-Report-2019.pdf \(wineaustralia.com\)](#)

Our Policy Concerns

The result of additional water for the environment will inevitably place upward pressure on the cost of water and the cost of irrigated agriculture. These cost burdens impact those relying on temporary trade particularly hard, and there will also likely be increased cost of entitlements for new entrants and businesses seeking to expand along with higher transactional costs for existing users. The extent to which this is the case depends on how the water recovery policy is designed.

Both the wine sector and the regional economies reliant on the Murray Darling Basin are highly exposed to increasing prices for water. Therefore, we are acutely aware and concerned that restoring the water balance is liable to impact winegrape growers and the businesses they support.

As the wine sector continues to suffer the economic shock that came from losing the substantial China export market, many businesses throughout the supply chain are under unprecedented levels of economic stress. Global and domestic pricing filters down the value chain, with those at the start of the chain tending to be hit the hardest when prices fall. Tough times facing our industry at present are also flowing to other local businesses, particularly contractors and input suppliers who report to us that the impact of suppressed grape prices on their businesses has been enormous. Consolidation in the wine sector seems inevitable which will create a risk of stranded assets in wine storage and processing capacity. Many large wineries in these regions rely on economies of scale to compete in a highly competitive export market for commercial wine.

One of the major community concerns is the devastating effect that buy-backs are thought to have on regional communities. These communities and their respective economies are particularly vulnerable right now. Although the proposal is that buy backs will be voluntary, past evidence has suggested that when Governments announce buy backs businesses under financial stress are under enormous pressure from financiers to use this opportunity to recapitalise the business. In effect, the Government commitment to buy backs being voluntary does not play out as intended. Community concerns of mass exodus are causing grave concerns in these regions. Families who call these river communities home are reluctant to pick up and start again elsewhere. A recent trip to the Riverland for the purpose of listening to growers' concerns about the winegrape market emphasised the number of related businesses such as contractors, farm supplies and other input providers who are directly impacted as a result of the difficult economic conditions facing grape growing at present.

Australian Grape & Wine supports the Government's commitment to adopting a tailored approach along with public reporting, review and evaluation and a commitment to greater levels of accountability.

While the prosperity of our sector relies on a sustainable level of take, poor water policy could exacerbate impacts of drought or lead to supply uncertainty without necessarily providing the best possible results for the environment. Planning decisions should be backed up by the appropriate science regarding the impacts of the changing climate on plant water use and rainfall patterns. It is also critical to ensure that the use of water to achieve environmental outcomes is optimised and that environmental flows are managed in a way that minimises impacts such as flooding. As stated in the 2023 Productivity Commission's Interim Report, completion of constraints projects should remain one of the highest priorities for Basin governments so that the full benefit of securing environmental water can be realised.

Determining distributional impacts from water recovery, and how to compensate businesses and regions appropriately is complex. According to the Government's own commitment, recovery policies should generate a neutral or positive net socio-economic impact at both a business and regional level. However, ultimately, the positive and negative impacts at the business and regional levels will depend on factors outside of the control of the water recovery policy. The impacts on other irrigators and changes in the profitability and financial viability of remaining irrigation infrastructure are a case in point. Measures can be taken to promote the best possible scenario. This will mean learning from past experiences. Our [Industry Policy Position](#) on water is available on our website.

Potential solutions

It is crucial that policy choices and compensation packages are informed by the best available evidence so that likely impacts on irrigation lines, regional industries and communities are well understood. Whether it be voluntary sale of water entitlements or programs to improve water use efficiency, past analysis of water recovery involving compensation of businesses has demonstrated that there are inevitably consequences for other irrigators and regional communities.⁴ In the case of water purchases, past policies allocated a significant quantum of funds over and above the cost of the water itself, and rightly so. However if demand/supply disruption drives prices up, those left to suffer will include the substantial number of grape growers who rely on temporary trade for some, or all, of their irrigation requirements.

Various options for recovery and compensation should be assessed region by region and actions that disproportionately harm any one region or one industry should be avoided. Such packages should take into account the cost of business restructure, cost of termination and disconnection from the delivery network, as well as removal of permanent plantings and infrastructure. Over and above this investment is the requirement to ensure that remaining businesses and communities are provided with appropriate support to recover quickly from any substantial loss so that the socio-economic neutrality commitment is realised. Investments that are supported are those that bring employment to regions. Those that are often criticised are investments in social infrastructure unrelated to the problem being addressed and/or that cannot be clearly tied to jobs creation. Past feedback has also been critical of grant programs that are too complicated or where the timeframes have been too tight. These lessons should be learnt from.

Leasing options

Global oversupply of wine is making profitability in commercial winegrapes very challenging, however there will eventually be some degree of market correction. Buy backs have the potential to disproportionately impact any agricultural sector in oversupply. It is with that in mind that Australian Grape & Wine strongly supports the proposal to use leased water from entitlement holders as part of the water recovery mix. We would also support options for growers to lease back water entitlements from the Government.

Leasing arrangements provide an alternative option for grape growers and would be welcomed by regional communities concerned about the impact of buy backs. In turn, this would provide time for remaining irrigators and the economy to adapt and diversify and unintended consequences to be identified early so they can be managed. We expect there would be some interest from growers looking to 'rest'⁵ vineyards until prices recover or to convert to more profitable production. Additional incentives may be required to entice irrigators to lease water to the Government during this time (noting leasing options already exist). Irrigators subject to fixed tariffs for water supply may also see this sunk cost as a deterrent to uptake of leasing opportunities.

Land and water packages

We are not in a position to speak on behalf of the sector as to whether there would be support for or against land and water packages. As is the case with buy backs, there will be mixed views and opinions will differ depending on the locations. To protect regional economies, such a policy should consider flow-on effects to the businesses within those communities. The same policy principles relating to compensation should be applied. Land purchases should be restricted to achieving the complimentary benefits identified such as relaxation of constraints, First Nations

⁴ Linden Whittle, David Galeano, Neal Hughes, Mihir Gupta, Peter Legg, Tim Westwood, Tom Jackson, Steve Hatfield-Dodds (2020) Analysis of Economic effects of water recovery in the Murray-Darling Basin at https://daff.ent.sirsidynix.net.au/client/en_AU/search/asset/1030661/

⁵ Resting vineyards involves minimising management costs, while protecting vines to ensure they can be rapidly brought back to productive use when needed. This will reduce irrigation requirements.

outcomes and environmental benefits. It is important that only willing sellers are targeted and that this policy option be subject to the same socio-economic measures as other recovery policies.

Sustainable communities program

The term 'Sustainable communities program' fails to capture the challenge. This program needs to transform and re-invigorate communities so that they remain sustainable and adaptable for a different future. There are a range of businesses in regions requiring different support. We hear of growers looking to retire, but struggling to. We hear of a declining next generation of vineyard managers, and succession plans deferred as the younger generation becomes more fearful of taking on a business in decline. Various barriers to consolidation and lack of supporting infrastructure for doing business in regions such as poor connectivity add to the challenge. Re-imagining these regions with less water will require identification of substitute industries, bringing in new capital and new skills and breaking down barriers to business prosperity, at the same time as maintaining social security.

Too often we hear that Government interventions distort markets, they can be devastating to regional prosperity and they cause great angst amongst communities. When you drill down as to why, the problem is often in the policy design and delivery rather than the policy itself. Packages should focus on reinvigorating communities, they should be well-designed with strategic input from businesses within these communities and industry representatives to ensure alignment with regional objectives in a changing future. Designing the right policy for community adjustment requires planning. Regional communities should be well-funded to set new foundations with strategic input from local and industry-led steering groups. Change will require carefully laid out investment plans with input from the ground up. These plans should go beyond the concept of compensation to re-energising communities impacted by buy-backs so that they recover stronger. Whether it be through policies that promote tourism or new industries that drive employment, all will require capital.

In terms of compensation for irrigators willing to sell water, there must be a good understanding of the target market. Potential sellers of water from the winegrape industry range from retiring vineyard owners looking to remove their vineyard at the least possible cost to businesses looking to diversify and spread risk.

A Profitability Project funded by Wine Australia provides several recommendations to support inland areas.⁶ These regions are already suffering hardship however there are relevant recommendations that could be applied to support these regions survive and thrive with less water. As cited in the report, they include mental health and wellbeing support, financial tools to enable break even analysis, improved understanding of emerging mechanisation and digital technologies that improve vineyard productivity and profitability, improved understanding of the relationship between plant water use, irrigation timing, water monitoring, scheduling, and delivery options to manage crop yield within grape specifications, understanding of the potential of wine grape varieties from hot Mediterranean climates better suited to the Riverina (and other inland regions) industry-wide marketing stories that demonstrate Environmental, Social and Governance (ESG) credentials for water, energy and chemical applications that lead to an improved social license.

As was highlighted in Australian Grape & Wine's pre-budget submission to the Federal Government vineyard owners looking to retire early in response to the considerable downturn in the winegrape market following the loss of the China market, will also benefit from assistance relating to vineyard removal along with support for dealing with problematic waste. Australian Grape & Wine submitted its pre-budget submission to the Government detailing such a support package for struggling growers.⁷ This support package was presented as an appropriate response

⁶ Schmidtke, L. M., Nordblom, T. L., Robertson, S.M., Wills, B., Manyweathers, J., Bond, J., Hayes, L. and Xie, G. 2023. Profitability Project – Part 1 Desktop Research. Project CSU2201, Commissioned by Wine Australia sourced at https://www.wineaustralia.com/getmedia/274bdf70-343a-4b55-b1b5-3cb49a69fb16/20230601-CSU-2201_FINAL_REPORT.pdf

⁷ [Australian Grape & Wine's Pre-Budget Submission](#) p6

for compensating businesses for the loss of the China market and is one that could be used in conjunction with water recovery through buy backs.

With the need for transformational change, will come the need for innovation. The need for innovation will require business confidence. Lack of access to capital could create a barrier to the solutions needed to revitalise businesses and the communities they support. Businesses looking to restructure their business would benefit from tax breaks for new activities, low interest loans or bridging finance to help fund new and less water intensive business opportunities.

Summary

Change is inevitable, so designing support towards building resilience must also recognise the critical importance of innovation. In essence, Australian Grape & Wine supports the principles to guide the program as outlined in the draft framework. But the following should also be considered:

- Solutions that will not just avoid socio economic consequences today, but ones that will endure and promote economic growth into the future
- A focus on innovation
- Strong input from communities
- Strong input from effected industries
- Solutions that not only support economic diversification but are tailored to the diverse range of circumstances facing impacted businesses and communities.
- Strategies aimed at keeping people in regions
- Respecting peoples desire to remain in their home
- Consideration of planning constraints preventing new businesses or impacting those looking to exit from any irrigated agriculture business
- Strategies to deal with stranded assets and waste and/or opportunities for redeployment of assets.

About Us

Irrigated Viticulture Statistics

The Murray–Darling Basin accounts for around seventy per cent of Australia’s total irrigated grape production (MDBA 2016)⁸. Grape growing has traditionally supported a significant portion of many economies in the Southern Basin. Winegrapes have a relatively low water use per gross value of irrigated production. We estimate that even at today’s unusually low prices, 1ML of water translates to close to \$2000 in gross value of production.⁹ Being a perennial crop, grapes require water every year to remain alive.

There are many towns that are particularly vulnerable to the impacts of water recovery as their regional economies are heavily dependent on winegrapes and other irrigated crops. In Griffith/Murrumbidgee, Murray Mallee SA, Barossa and Mildura, grape and wine production contribute significant value add to the regional economies (12,

⁸ <https://www.agriculture.gov.au/abares/research-topics/surveys/irrigation/grapes>.

⁹ 146 000 Ha (Wine Australia, 2020) GVP \$853m (ABS, 2022) @ 3.2ML/Ha (ABS, 2008)

13, 21 and 8% respectively).¹⁰ Input-output analysis of average effects of a contraction or expansion within the wine sector predicted an economy wide gain of \$2.19 million for every additional \$1 million of value-add generated by the wine sector. This is reflected in the high level of indirect employees the sector supports. Australia-wide, for the 5,626 and 13,563 jobs in grape growing and wine manufacturing respectively, there are in total 163,790 direct and indirect full and part-time jobs supported.¹¹

There are significant differences in water use between vineyards. A 2012 study conducted in Murray Valley and Riverina highlighted the variability in water use between vineyards from 1.3 tonnes/ML (least efficient) to 12.9 tonnes/ML. Varietal averages ranged from 3.27 tonnes/ML (Shiraz) to 4.9 tonnes/ML (Semillon).¹² Inland regions along the Murray also typically apply more water due to higher crop loads. A recent study of Australia's largest winegrape regions, the Riverland, found growers had an average water use per hectare was 7.61 ML.

Increasing temperatures as a result of climate change mean that the demand for irrigation water is almost certainly going to increase significantly. This will continue to put upward pressure on water prices. Several regions have already started to consider how their future water needs will be impacted by climate change. The Barossa for example has estimated that under a mid-range 2050 projected climate, with current planted area and viticultural practices maintained, the average irrigation water demand will increase by approximately 23% by 2050. This percentage is likely to vary from region to region and across varieties and crop type but unarguably the impact on demand, and therefore water availability and value, has the potential to be extreme and widespread.

Around 10% of wine grape growers relying on the Basin were net buyers of water in the period between 2006 and 2015 with the exception of 08 and 09 where this percentage increased to approximately 60%, presumably due to the significant cuts to allocation that were required as a result of the extended drought at the time. Based on latest data in 2014-15 when grape prices were also suppressed, grapes along the Murray contributed around 11 per cent of the total gross value of irrigated agricultural production.¹³ The trend in most Australian warm inland wine regions over the last 15 years has been consolidation and slight contraction.¹⁴ Australia's largest winegrape growing region, the Riverland, contracted by 1,881 ha from 22,456 ha in 2007/08 to 20,575 ha in 2019/20.¹⁵ Despite consolidation, many small properties remain, and the average vineyard is 57 Ha. Across Australia, approximately 80% of Australian wine grape growing enterprises operate on less than 50 ha, and only 2% of enterprises operate on more than 500 ha. These factors present economy of scale challenges for new entrants or existing entrants looking for asset redevelopment.

The median age for a grape grower is fifty-three.¹⁶ Grape growing is often reliant on the grower's own labour plus the labour of family members. In Riverina, a survey found that participating growers' enterprises supported partners/spouses (86.8%), children (55.2%) and parents (26.3%). Despite this, almost half did not intend on passing on the vineyard business to family members.

¹⁰ Wittwer (2020) value-added for 2019-20 for the grape and wine sectors, and remainder of each regional economy based on multi-regional, computable general equilibrium model, TERM-Wine.

¹¹ [AgEconPlus-Gillespie-Economic-Contribution-Wine-Report-2019. \(6\).pdf](#)

¹² [Retallack \(2012\) Murray Valley & Riverina Water Use Efficiency Study 2011/12](#)

¹³ <https://www.agriculture.gov.au/abares/research-topics/surveys/irrigation/grapes#water-trading>

¹⁴ https://www.wineaustralia.com/getmedia/1bfda471-0ff9-4721-a560-8ae3f087187d/Vitivisor_economicsReport_FINAL.pdf

¹⁵ Phylloxera Grape Industry Board of South Australia 2008; Wine Australia 2020 cited by Wine Australia https://www.wineaustralia.com/getmedia/1bfda471-0ff9-4721-a560-8ae3f087187d/Vitivisor_economicsReport_FINAL.pdf

¹⁶ https://www.wineaustralia.com/getmedia/1bfda471-0ff9-4721-a560-8ae3f087187d/Vitivisor_economicsReport_FINAL.pdf

¹⁶ <https://www.jobsandskills.gov.au/data/labour-market-insights/occupations/121215-grape-growers>

Australian Grape & Wine

Australian Grape and Wine Incorporated is Australia's national association of winegrape and wine producers. Grape and wine businesses are unique in agriculture. The sector has traditionally been a leader amongst agricultural industries showcasing the regional and economy wide benefits of promoting locally grown and value-added production. These businesses not only support employment in winegrape growing and production, but in regional exports and food and wine tourism. They make a significant contribution to rural and regional Australia, and driving economic growth.

Our role is to help forge a political, social and regulatory environment - in Australia and overseas - that enables profitable and sustainable Australian grape and wine businesses. To do this, our activities focus upon the objective of providing leadership, strategy, advocacy, and practical support. We represent small, medium and large winemakers and winegrape growers, with policy decisions taken by the Australian Grape & Wine Board requiring 80% support, ensuring no single category can dominate the decision-making process and guaranteeing policy is only determined if it provides significant industry benefit. In practice, most decisions are determined by consensus.

Australian Grape & Wine is recognised as a representative organisation for winegrape and wine producers under the *Wine Australia Act* 2013 and is incorporated under the *SA Associations Incorporation Act* 1985.

We would be delighted to discuss this submission further if required.

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