AUSTRALIAN
Grape & Wine

Independent review of the operation of the RIC Act:

Submission to the Discussion Paper

December 2023

Submission to the Discussion Paper

Australian Grape and Wine Incorporated (Australian Grape & Wine) welcomes the opportunity to contribute to this review. Our objective is to ensure that loans under the *Regional Investment Corporation Act* 2018 (RIC) are accessible to Australian businesses that need them most. Australian agriculture is highly valued as an important contributor to both our economy and our culture. It supports the livelihoods of many Australian families living in regional, rural and remote parts of Australia and the communities they underpin.

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. These uncertainties make the sector vulnerable to financial hardships and are often due to factors beyond our control, including extreme weather exacerbated by climate change. With that in mind, there is justification in using public funds for the purpose of assisting businesses to recover after natural disasters or economic shocks. By all accounts RIC loans are highly valued in their capacity to build business resilience. But the evolving nature of the farming sector should serve as a prompt for the Regional Investment Corporation (RIC) to consider broadening its eligibility criteria for the various loans.

There are 65 winegrowing regions in Australia, contributing over $45 billion gross output annually to the Australian economy. [1] Regional wine businesses are considered intensive in their use of labour in both vineyards and wineries and they also support higher employment numbers in other industries in their regions. The sector directly employs 68,395 and indirectly supports a total of 172,736 full and part-time employees. [2]

Like in most agriculture industries, weathering boom and bust cycles is an accepted part of doing business in the wine sector. However, when these coincide with other disasters, they can create serious setbacks for otherwise viable wine businesses. This review comes at a time when the wine sector is experiencing a 'perfect storm' of external challenges. The most significant occurring in 2020 when the Chinese Government imposed import duties on our wine, effectively closing a $1.2 billion export market that represented close to 20% of total Australian wine sales value. [3] This unprecedented business disruption had direct flow through effect to winegrape growers, particularly those contracted to wineries that were heavily exposed to that market. Whilst there is a general acceptance that businesses will exit during significant downturns, the concern is that some of those businesses, once able to demonstrate a profit from their vineyard, have strong potential to continue to operate once others exit and once the market rebounds. It is these businesses that would benefit from 'breathing space' to recover, prepare or invest. Following these types of events innovation often leads the best recovery, but many businesses are unable to access the capital required to do so.

Increasing eligibility for this type of loan, could ensure retention of high quality vineyards with strong long-term prospects but who lack the working capital to brave the storm.

[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] Ibid.
[3] Wine Australia, Production, Sales and Inventory 2019-20, Wine Australia Export Report September 2020

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However, with an estimated 30% or more of Australia's 6251[4] winegrape growers also being wine producers, many do not meet the criteria for these loans. Value adding post-farm gate is a well-recognised strategy for businesses to optimise returns and one that will assist all agriculture sectors to reach their respective economic growth targets. Various incentives have led to dedicated value-added food precincts across the country and fuelled a resurgence in Australian manufacturing.[5] As many businesses rely on debt financing for capital and growth, low-cost finance options will contribute significantly to achieving the growth ambitions of Australian agriculture.

Diversification of business income streams is another important risk management strategy and an effective mitigation strategy against natural disasters and other economic shocks. Primary producers should not be discouraged from diversification nor from pursuing vertically integrated business models.

Effectiveness of the RIC and concessional loans as a policy tool

Australian Grape & Wine supports the objective of driving national consistency in loan availability. Inconsistencies within the state and territory policies can cause confusion at best, but also have the potential to create an uneven playing field across Australian businesses. Unnecessary lack of harmonisation on state policy issues are a constant source of frustration. Thus, we value the work of the RIC.

Australian Grape & Wine also supports the intent of the RIC to drive strength, resilience, and profitability across Australian agricultural producers by helping them to build and maintain diversity in markets. Driving diversity across and within Australian agricultural produce contributes to the sustainability and resilience benefits these loans seek to enhance. Yet the 'Fast Facts about RIC loans' document states that 82% of RIC loans go to just three industries (sheep, beef cattle and grains) that support only 50% of agriculture, fisheries and forestry value of production. This disproportionate skew of loans is evidence that the loan eligibility requirements could be sufficiently restrictive to exclude certain sectors to their detriment.

Those involved in business operating post farm gate are a case in point. Direct involvement in the post-farm parts of the supply chain assists in achieving the quality differentiation required to compete with low-cost competitor nations. Therefore, to optimise diversity driven business resilience, the loans should avoid discouraging vertical integration or diversification of income streams.

Legislative framework and eligibility criteria

There is a risk of unintended consequences due to seemingly unnecessary rules regarding eligibility as mentioned above. The eligibility rules already define activities that the loans can support. Going beyond that as the criteria do at present, to eliminating businesses based on individuals' engagement in alternative income streams, could potentially inhibit value-adding and/or diversification. Under the current rules, up to 30% of winegrape producer applicants whose business is also in wine production may not be able to meet the eligibility requirements for a loan. [6] Events such as droughts, floods or market closures that impact winegrape growers have flow through effects

[4] Wine Australia, 2020 Wine Sector at a glance sourced from https://www.wineaustralia.com/market-insights/australian-wine-sector-at-a-glance
[5] The National Farmers Federation Roadmap to 2030 Australian Agriculture's Plan for a $100 Billion Industry
[6] 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.

up the supply chain to processors who are unable to operate at capacity. These businesses are equally as likely to benefit from accessible, low-cost loans.

Australian Grape & Wine in its 2021 submission to the Independent Review of the RIC highlighted the need to broaden the scope of the program. We strongly support the inclusion of a range of natural disaster events recognising that drought is not the only challenge beyond a business's control that threatens their ability continue to operate. [7] Biosecurity risks, market closures and other such disruptions can be equally, or even more, harmful. The impact of these events will be lessened with financial assistance aimed at providing breathing space. Business diversification will also lessen the impact as these types of disasters are quite often industry specific.

The RIC Act defines a farm business loan as a loan made, or proposed to be made, to a farm business engaged solely or mainly in producing commodities. The *Regional Investment Corporation Operating Mandate Direction* (2018) in Schedule 1 then requires that the business has 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). More specific eligible and non-eligible loan purposes are outlined in program guidelines. For example, the eligibility criteria in the guidelines for the Farm Investment loans state that you must under normal circumstances contribute or plan to contribute at least 75% of your labour to the farm business or plan to earn at least 50% of your income from the farm business. In terms of winegrapes, there are additional restrictions on producers requiring of businesses who also produce wine that at least 50% is from own grapes grown. [8] This makes determining eligibility criteria complicated but also restrictive.

The Australian Government should also ensure consistency in how it classes primary production for the various purposes for which primary producers are defined in legislation. A recent policy proposal relating to the imposition of additional levies on primary producers considered that *all* industries that contribute to the primary industries levies scheme should fit the definition of a primary producer. This included wine processors, as should the RIC loan eligibility.

Consistency across policies is not the only argument, however. As outlined above, off-farm income provides important 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 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. Therefore, 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.

The "*Farm Investment Loan Guidelines: Loans for farm businesses*" (October 2023) [9] in section 5 already stipulates that the types of operational and capital expenditure that loans can be directed towards. This ensures that loans that go to primary producers that value-add will not directly fund primary production related expenses. This should negate the need to exclude businesses who derive income from other sources. It also quite sensibly limits their availability to farm businesses that are in financial need of assistance to recover from short-term hardship meaning

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[7] https://www.agw.org.au/policy-and-issues/submissions/2021-archive-submissions/
[8] https://www.ric.gov.au/eligible-industries#grape
[9] https://www.ric.gov.au/sites/default/files/documents/Farm%20Investment%20Guidelines%20v4.6%20web.pdf

the businesses that are not in need because they are supported by other profitable activities will already be ineligible.

As the pace of technological advancement continues to accelerate, there will be enormous opportunities and challenges ahead for the agriculture sector. Creating additional flexibility in the legislation so that products and/or services RIC provides can keep pace with this change will ensure these loans continue to provide value to Australian farmers.

Who we are

Australian Grape & Wine Incorporated (Australian Grape & Wine) is Australia's national association of winegrape and wine producers representing over 75% of the national winegrape crush. 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.

Our activities focus on providing leadership, strategy, advocacy and support that serves Australian wine businesses now and into the future. Our objective for the wine and winegrape sector align closely with the RIC's commitment to supporting the long-term strength, resilience and profitability of Australian farm businesses.

We thank you for the opportunity to provide input into this review and would be happy to discuss this submission further if required.

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