The Proposed ‘Wine Restructuring Action Agenda’ and Alternative Policy Options for the Australian Wine Industry

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ABSTRACT

The Australian grape-growing and wine producing industry has enjoyed meteoric growth from the early 1990s onwards, with wine sales forming an increasingly important element of both national export earnings and farm income. Despite this success, a recent downward slump in industry profitability and a dampening of demand for wine has resulted in a call for Commonwealth Government intervention, which would include a national ‘vine-pull’. This paper examines the proposed vine-pull policy option in light of its predecessor, the vine-pull scheme of 1985-87. We argue that past experience suggests that the Commonwealth and the industry itself ought to explore other options when attempting to address the long-term sustainability of the Australian wine industry.

Keywords: Regional development; vine-pull scheme; wine industry.
1. INTRODUCTION

It is difficult to over-state the expansion of Australian wine industry in the last two decades. This illustrated by Table 1:

Table 1: The Australian wine industry, 1990/91 to 2010/11

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total bearing vine area (ha)</td>
<td>61</td>
<td>148</td>
<td>166</td>
<td>197</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>No. of wineries crushing &gt; 50t</td>
<td>-</td>
<td>222</td>
<td>351</td>
<td>413</td>
<td>384</td>
<td>-</td>
</tr>
<tr>
<td>Total production (million litres)</td>
<td>346</td>
<td>606</td>
<td>1,035</td>
<td>1,442</td>
<td>1,257</td>
<td>-</td>
</tr>
<tr>
<td>Export volume (million litres)</td>
<td>57</td>
<td>130</td>
<td>339</td>
<td>661</td>
<td>714.7</td>
<td>740</td>
</tr>
<tr>
<td>Export value (A$ million)</td>
<td>180</td>
<td>472</td>
<td>1,614</td>
<td>2,748</td>
<td>2,680</td>
<td>2,570</td>
</tr>
<tr>
<td>Average export unit value:</td>
<td>3.75</td>
<td>3.63</td>
<td>5.17</td>
<td>4.05</td>
<td>3.75</td>
<td>3.51</td>
</tr>
<tr>
<td>Domestic consumption (litres/capita)</td>
<td>17.8</td>
<td>18.3</td>
<td>20.5</td>
<td>21.8</td>
<td>29.0</td>
<td>-</td>
</tr>
</tbody>
</table>

Sources: Grant, Dollery and Hearfield (2009: 168); ABS, 1329.0 - Australian Wine and Grape Industry, various years; Jackson, et al., 2009).

Note: Projections to 2010-11 are derived from ABARE (Jackson, et al, 2009) which provides forward estimates of total crush, not total production in million litres, nor the number of wineries or domestic consumption in litres per capita.

Table 1 demonstrates that the value of wine exports in 1990-91 represented a mere 6.5 per cent of what they had reached by 2004-05. Furthermore, the number of wineries crushing more than 50 tonnes increased from 222 in 1995-96 to 384 in 2007-08, with an alternative count of wineries (i.e.: inclusive of those crushing less than 50 tonnes) estimating the number rose from 617 in 1990-91 to 1,899 in 2004-05 (Banks, et al., 2007: 17). Moreover, both grape growing and wine production are now throughout Australia, with the Australian Bureau of Agricultural and Resource Economics (ABARE, 2009) listing eighty six producing regions and as many subregions. This suggest that it could be argued that grape cultivation and wine production have proved immensely beneficial to many struggling parts of rural and regional Australia, especially smaller farm holdings (see, for example, Davidson and Grant, 2001: 296).

However, an alternative - and negative - portrait of the grape-cultivating and wine-making industries began to emerge in the course of 2007-08. Alongside the increase in crush from 2006-07 to 2007-08, the value of Australian wine sold domestically declined by 4 per cent in that financial year (Jackson, et al., 2009: 2). With regard to exports, the quantity of wine exported dropped 9.2 per cent to 714.7 million litres, and the unit value
of wine exported also decreased by 6.9 per cent. Table 1 demonstrates that the unit value of exported wine has declined since 2000-01, from $5.17 per litre to an estimated $3.51 per litre in 2010-11. Perhaps most alarmingly for local producers, the value of wine imported to Australia in 2007-08 increased by 40.8 per cent from 2006-07 to $431.4 million (ABS, 2009). This represented 16.5 per cent of the value of exports for the same year and 11 per cent of total domestic consumption, up from 7 per cent in the previous year (ABS, 2009). Moreover, imported wine is expected to represent 18 per cent of domestic consumption by 2013-14 (Jackson, et al, 2009: 2).

A more worrying aspect of financial sustainability in the industry is gleaned from recent forward projections. ABARE has forecast production continuing to increase by 14 per cent to 1.8 million tonnes for 2009-10 (Jackson, 2009: 8-11). Over-supply is by no means the only problem. The same Report concluded that global consumption of wine is stagnant (principally due to demographic changes in the major wine drinking nations of the world), yet global production continues to increase, with fierce competition in export markets for Australian products. This has been amplified by lower production costs in many of Australia’s New World competitors. Moreover, recent market trends have seen Australian exports shifting to lower-end, off-premise sales in its two main markets of the United Kingdom and the United States. In real terms, ‘wine grape prices in 2004-05 were only one-third of their level in 1997-89’ (Sheales, et al., 2006: 3). Looming behind this decline in real prices is the fact that stocks of wine in Australia have continued to increase – to somewhere between 1.9 and 2.3 years worth of sales, ‘with the current surplus stockpile calculated at more than 100 million cases [set] to double in two years if current levels of production and demand persist’ (Gent, 2010: 2).

While ABARE (see, for example, Sheales, et al., 2006) has recognised the multi-dimensional nature of the problem, the Australian wine industry has focused on the specific issue of over-supply and the policy option of a vine pull scheme (VPS) as a mechanism to address this problem. For example, Doug Lehmann, Managing Director of Peter Lehmann Wines, has called for 20,000-40,000 hectares of vines, equating to 270,000 to 500,000 tonnes of grapes (or amounting to 20-40 million cases of wine) to be pulled (Greenblat, 2010a), with others in the industry echoing this call (see, for instance, Greenblat, 2010b). On 10 November 2009 a Joint Statement and Supporting Report were released by four industry organisations, the Winemakers’ Federation of Australia (WFA), the Wine Grape Growers’ Association (WGGA), the Australian Wine and Brandy Corporation (AWBC) and the Grape and Wine Research and Development Corporation (GWRDC). The statement called for a range of measures to be introduced by government, including ‘improved exit packages for growers and small wineries seeking to leave the industry along the lines of drought and small block irrigator exit packages’ (WFA, 2009a: 3). In effect, a government-sponsored exit strategy conforming to the calls for a VPS.

Yet how tenable is the argument that a VPS – whatever its eventual form – would alleviate the problems of the Australian wine industry? Is not pursuing such a policy turning back the clock to what Lloyd (2003) described as a ‘regime’ of protectionism, thereby dismissing the contribution of market reforms of the 1980s-2000s? More importantly, what alternative policy directions are available for the grape-growing and wine-making
industries and the regions in which they are now embedded? The present paper considers these questions.

The paper is divided into five main parts. Section two examines in detail the argument for a VPS as part of the ‘Wine Restructuring Action Agenda’. Section three provides an account of the last time a VPS was implemented in Australia, over the period 1985-87, by way of an exposition of Gow et al. (1991) noting the direction of the policy and the outcomes, which in some instances, proved perverse. Section four argues that while there are some limits to the validity of the comparison between the VPS of 1985-87 on the one hand and any scheme launched in the foreseeable future on the other hand, the experience of the previous VPS ought to inform the debate surrounding calls for a similar scheme today. With this in mind, the paper reiterates the relevance of options for the industry canvassed elsewhere. The paper concludes in section five with some brief general observations for future research.

2. THE WINE RESTRUCTURING ACTION AGENDA (WRAA)

The two documents were released by the four industry organisations: a Joint Statement entitled ‘Wine industry must confront the reality of oversupply’ (WFA, 2009a) and a Supporting Report ‘Wine Restructuring Action Agenda’ (WRAA) (WFA, 2009b). The Supporting Report identified what it referred to as ‘key drivers’ behind the WRAA:

- Australia’s wine oversupply exceeds 100 million cases and at the current production rate this will more than double in three years.
- The scale of the problem is such that we cannot expect normal market forces or external factors to solve it.
- Even ambitious sales growth ambitions in new markets would eliminate less than a quarter of the oversupply.
- The combined impact of drought, water shortages and climate change would over time eliminate less than one-tenth of the oversupply.
- Too much current activity is not viable in terms of competitiveness, margins and target market demand.
- The problems relate both to demand and supply. (WFA, 2009b: 1).

Moreover, the Supporting Report claimed that a number of factors, including multi-year set price contracts, the continued demand for bulk wine and unrealistic expectations about the increasing value of export market growth ‘are distorting market signals and allowing uneconomic supply to continue. (WFA, 2009b: 1).

While the Supporting Report conceded that the problems of the industry ‘relate to both demand and supply’, the overall thrust of both documents suggests that government intervention is necessary to alleviate the problem of oversupply. Thus, ‘we cannot expect
normal market forces or external factors to solve it’; ‘even ambitious sales growth in new markets would eliminate less than a quarter of the oversupply’, and ‘the combined impact of drought, water shortages and [even] climate change’ will not address the problem, with significant ‘market distortions’ embedded in the industry (WFA, 2009b).

Moreover, unviable activity was identified, in particular a ‘significant number of smaller “lifestyle” producers who can tolerate unprofitable businesses due to off-farm income’. In this context, the two methods by which economic viability was assessed are worthy of examination in more detail. The most straightforward, a report prepared by the AWBC, entitled *Winegrape Purchases: Price Dispersion Report 2009* (AWBC, 2009), collected data on the purchasing price of tonnages of wine grapes. The data was comprehensive, recording more than 36,000 transactions or 80 per cent of all purchases in the year 2009. It found that the average price for the ‘just over one million tonnes surveyed was $527 per tonne compared with $717 per tonne in 2008’ (WFA, 2009b: 5). The alternative study, by industry analyst Gaetjens Langley, first developed a benchmarking system for grading fruit (from A to E), then defined the fruit as uneconomic ‘if it was too costly for the quality achieved’ (WFA, 2009b: 5). The results are shown in Table 2 and Table 3 reproduced here:

### Table 2: Australian wine industry: Costs of production, indicative prices and tonnage by grape grade in 2008

<table>
<thead>
<tr>
<th>Wine grape grade</th>
<th>Indicative yield (Tonnes/ha)</th>
<th>Vineyard cost/ha</th>
<th>Direct cost/tonne</th>
<th>Wholesale price FOB/litre packaged</th>
<th>Indicative Domestic retail price/litre</th>
<th>Tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>A (Speciality)</td>
<td>5</td>
<td>$9,500</td>
<td>$1,900</td>
<td>&gt;$10</td>
<td>&gt;25</td>
<td>180,850</td>
</tr>
<tr>
<td>B (Super Premium)</td>
<td>7</td>
<td>$8,000</td>
<td>$1,143</td>
<td>$7.50–$9.99</td>
<td>$15–$25</td>
<td></td>
</tr>
<tr>
<td>C (Premium)</td>
<td>12</td>
<td>$6,750</td>
<td>$563</td>
<td>$5.00–$7.50</td>
<td>$8–$15</td>
<td>409,552</td>
</tr>
<tr>
<td>D (Popular Premium)</td>
<td>16</td>
<td>$6,250</td>
<td>$391</td>
<td>$2.50–$4.99</td>
<td>$5–$8</td>
<td>553,211</td>
</tr>
<tr>
<td>E (Basic)</td>
<td>25</td>
<td>$5,750</td>
<td>$230</td>
<td>&lt;$2.50</td>
<td>&lt;$5</td>
<td>652,116</td>
</tr>
<tr>
<td>Not classified, balancing item to 2008 crush total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>35,794</td>
</tr>
</tbody>
</table>

*Source: Gaetjens Langley, quoted in WFA (2009b: 5).*

### Table 3: Australian wine industry: Uneconomic grapes (cost factors only) in 2008

<table>
<thead>
<tr>
<th>Quality Classification</th>
<th>Total Tonnage</th>
<th>Noneconomic Tonnage</th>
<th>% Noneconomic</th>
</tr>
</thead>
</table>

8
<table>
<thead>
<tr>
<th></th>
<th>A &amp; B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>180,850</td>
<td>409,552</td>
<td>553,211</td>
<td>652,116</td>
<td>1,795,729</td>
</tr>
<tr>
<td></td>
<td>n/a</td>
<td>147,241</td>
<td>134,517</td>
<td>25,592</td>
<td>307,350</td>
</tr>
<tr>
<td></td>
<td>n/a</td>
<td>36.0</td>
<td>24.3</td>
<td>3.9</td>
<td>17.1</td>
</tr>
</tbody>
</table>

1. Uneconomic defined by cost of production only, no allowance for lack of demand.
2. All A & B assumed economic irrespective of production costs.

Source: Gaetjens Langley, quoted in WFA (2009b: 5).

In Table 2, Gaetjens Langley estimated that the industry is particularly vulnerable at quality classifications C and D (where direct costs per tonne are estimated to be $6,750/tonne and $6,250/tonne respectively and the yield per hectare is significantly greater than both grades A and B). Moreover, the sum of these two categories in terms of tonnage – 962,763 – outweighs the sum of categories A, B and E together – 868,760 – and herein, according to Gaetjens Langley, lies the core of the problem: too much middle-grade fruit with too high a cost structure of production.

There are significant questions that could be asked of this analysis. For example, data in Table 3 are based on ‘cost of production only’ and, strangely, ‘all A and B [grade fruit] is assumed economic irrespective of production costs’ (Table 3, Note 2; emphasis added). This raises questions about of how categories C, D and E were assessed, and more importantly, why this assessment was not applied to categories A and B. In any event, the Supporting Report has a story to tell about the necessity of culling middle-grade fruit production in Australia due to its inefficient nature, and the malign contribution that ‘small’ and ‘lifestyle’ producers make to profitability. As such, the Supporting Report seeks a rationalisation in favour of large players, at the expense of smaller growers and winemakers for which involvement in grapes and wine may be a secondary economic activity, or an example of ‘on-farm horizontal diversification’.

The resultant four-pronged ‘Wine Restructuring Action Agenda (WRAA) is cited here in to:

1. From 23 November 2009, detailed and confidential supply data summaries will be provided to regional associations. These will examine each region in isolation and in relation to the national picture, with a focus on levels and patterns of viability.

2. From 30 January 2010, a package of tools will be available to help individual vineyard operators assess their performance and viability. This will include: a checklist; an upgraded Deloitte Ready Reckoner to assess winery profitability by market, channel and price point; and an upgraded Vinebiz program to assess vineyard profitability.

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1 An attempt to obtain the original benchmarking report from Gaetjens Langley in order that its methodology be more rigorously examined was met with a polite refusal to provide the document (Grant, 2010, pers. com).
3. From early next year, briefings will be held in 14 regional centres (covering all states) to discuss regional data and issues and offer business stress testing to assist with decision making. The Federal Government has been approached to help facilitate this initiative, and State input is being sought.

4. WFA and WGGA will hold discussions with the Federal Government about improved exit packages for growers and small wineries seeking to leave the industry along the lines of drought and small block irrigator exit packages. Discussions also will be held with State Government agencies with regard to alternative land use options in wine regions.

(WFA, 2009b: 3).

Initially, it would appear that only the fourth point, whereby the WFA and WGGA take a leadership role alongside Commonwealth Government in developing ‘improved exit packages for growers and small wineries seeking to leave the industry along the lines of drought or small-block irrigator exit packages’ signals a VPS – or at least the beginnings thereof. However, examination of the first three items suggests otherwise. Point 1 sees confidential data on the viability of specific regions being provided to regional organisations, ‘exam[ining] each region in isolation and in relation to the national picture’. Point 2 sees the dissemination of two audit instruments – the Deloitte Ready Reckoner and Vinebiz – ‘to help individual vineyard operators assess their performance and viability’. Point 3 prescribes a follow-up to the two self-assessment exercises, organising growers/winemakers into ‘14 regional centres’ to ‘discuss regional data and issues and [to] offer business stress testing to assist with decision making’. In the absence of significant capital inside the industry as a mechanism by which more economically sustainable producers could buy out others, these recommendations amount to a VPS similar to the one touted in the media by large industry players.

To be fair, WRAA also asserts that other initiatives ought to be undertaken by the peak industry bodies, including working with the Commonwealth to revisit the WET Rebate so that it is not deployed to keep ‘unviable’ businesses afloat, and refocussing research and development to include a marketing plan based in Northeast Asia and China. Nevertheless, the broad thrust of reforms falls squarely on the four immediate responses listed above.

The level of government intervention into agricultural commodity production proposed in the WRAA is by no means without precedent (for an historical overview see Lloyd, 2003; for more specific account of Rural Adjustment Schemes, see Cockfield and Botterill, 2006 and Gow and Davidson, 1996). Yet this has been increasingly less the case under what some (see, for example, Davidson and Grant, 2001) have referred to as the ‘neo-liberal’ agenda of successive Commonwealth Governments from 1983. The broad theoretical reasons as to why such approaches to market intervention have been expunged from the armoury of policy options are well rehearsed, and have been examined in a number of contexts, including the Keating Government’s drought relief policies of the mid-1990s (Gow, 1994). Setting aside these theoretical arguments, what evidence is at hand to support the idea that the proposed scheme would contribute to the desired result –
namely, a financially sustainable, globally competitive industry which nevertheless offers wine consumers – the people who are going to pay for the implementation of such a scheme – choice and value for money when purchasing their wine? It is to an assessment of the 1985-87 VPS that we now turn.

3. THE 1985-87 VINE PULL SCHEME

Originally intended exclusively for the dried fruit vine industry following from an Industry Assistance Commission (IAC) Inquiry in 1983, the 1985-87 VPS nevertheless spilled over into the wine grape growing industry following the McKay Inquiry that commenced in that same year. In announcing the Scheme on 26 March 1985, the (then) Commonwealth Minister for Primary Industry stated that there was a need for structural adjustment ‘because of a massive over-supply on world markets and high domestic production’ (Gow et al., 1991: 31) – the same core reasons identified by the WRAA.

Over a period of two years, approximately $8.8 million was spent by the Commonwealth and the three state governments that decided to implement the scheme (South Australia, Victoria and Queensland), with the vast majority ($6.2 million) being spent on wine grape removal in South Australia. With the completion of the Scheme, 2,700 ha (or 8 per cent of annual winery intake) was removed from the national crush. By contrast, 802 ha (a mere 3 per cent) of dried fruit vine was removed from production.

In their overall assessment, Gow et al. (1991) were highly critical of the overall impacts of the scheme. They argued that after taking into account normal removal of grapes (or ‘grubbing’, due to vine age, changes in demand, etc.), ‘the net effect of the scheme was at most to increase grubbings by only 400 hectares’ or approximately 1.5% of annual winery intake. Further, they argued that ‘it seems difficult to avoid drawing the conclusion that the primary impact of the scheme was to bring forward intended grubbings of aged vines which were nearing the end of their productive life’ (Gow et al., 1991: 40). Moreover, while the VPS was originally designed to assist the dried fruit industry, eventually only 22 per cent of funds were directed to this goal, principally due to an upswing in global demand for dried fruits at the commencement of the implementation of the Scheme.

In the current context, the question of relevance is: To what extent are the reasons for the poor policy outcomes particular to the 1985-87 VPS, or alternatively, are there systemic problems with vine-pulling as a mechanism to adjust supply? The answer to this question lays in both the details and the unforseen policy outcomes of the Scheme. The 1985-87 VPS had two distinct policy goals: one to restructure both grape industries such that they were profitable and sustainable, the other to provide for the welfare of marginal farm populations through the implementation of rural adjustment assistance – ostensibly, precisely the same goals of the current proposal. However, at the time, both the South Australian and NSW Departments of Agriculture were highly critical of any attempt to achieve these two policy goals through a VPS. For example, in its submission to the McKay Inquiry, the NSW Department of Agriculture stated:
Neither a Vine Pull Scheme nor the RAS [Rural Adjustment Scheme] is considered appropriate for distributing welfare payments. Welfare assistance would be provided more efficiently through direct income grants (unemployment benefits are a good example) rather than resource-based schemes. Apart from the problems of distorting the use of resources in favour of the underwritten resource, there is no guarantee that assistance distributed on the basis of resource-use will correspond to the welfare objectives of the Government...


Nor was it merely the conflagration of the two policy goals that were of concern. Both State Departments asserted that there was a lack of suitable alternative crops to grapes in their respective states and that the problem of over-supply might well be transferred to another industry. NSW Department of Agriculture argued that the problem of oversupply may well be short-lived. South Australia argued that a regional focus, rather than a state-based approach, was more suited to the problem (Gow et al., 1991: 35- 37).

In addressing the question of why the Scheme faltered, particularly in relation to the dried fruit vines that it initially attempted to target, Gow et al., (1991 offered several observations. First, they noted that fruit production by vines is inherently unresponsive to market signals (despite the fickle nature of the market) because the planning horizon of production is thirty to forty years – the producing life of a vine. As such, producers are better off taking a reduced price – even a price that falls well below the cost of production – for several consecutive years because the term of investment is so long.

Second, this structure of unresponsiveness was exacerbated in the case of dried fruit vine production due to government regulation at the time. This included an exemption from Section 45 of the Trade Practices Act (1974) (the Section prohibiting price fixing, monopolisation and exclusive dealing) such that a sophisticated equalisation scheme, in effect a two-price scheme, could be in place (Gow et al., 1991: 17). In addition, the two markets were also overseen by separate bureaucracies (the Australian Dried Vine Fruits Association (ADFA) domestically, and the Australian Dried Fruits Corporation (ADFC) for export sales and marketing (in a ‘single desk’ mode). Further, sultana producers also benefited from Commonwealth Government underwriting, which guaranteed a minimum return on dried sultana production equal to 80 per cent of an estimated average of equalised returns over the previous three seasons’ (Gow et al., 1991: 19). These extreme levels of protection significantly insulated growers from price signals.

Third, Gow et al., (1991: 56) noted that, in contrast to the ineffectual result with respect to dried fruit, the Scheme did result in some multi-purpose wine grapes being pulled that were used for wines that ‘certainly appear [ed] to be in long term decline’, namely ‘those varieties used in fortified and table red wines’ (Gow et al., 1991: 58; emphasis added). However, with greater hindsight, even this measured level of success is subject to qualification. The decline of demand for fortified wines has indeed decreased. While it may now appear inevitable that this has occurred, this is not necessarily the case. Moreover, the red table wines that were pulled under the scheme were old vines – the mainstay of quality wine in the industry today – and a fact often now lamented (see, for example, Hughson, 2010). One of the main points to be derived from the analysis of Gow et al.,
is that in ‘picking losers’ by way of a VPS necessarily confines the industry to the winners that are left, rather than taking the more considered approach of attrition (grubbing) over time.

In turning their attention to the adjustment (or welfare) objective of the 1985-87 VPS, Gow et al., (1991: 62-70) found that while many grape-growing enterprises were ‘uneconomic’ when assessed from the perspective of grape-growing only, this was a surprisingly small percentage of producers. Moreover, while there was a small proportion – approximately 10 per cent – of grape farmers that could be assessed as marginal (based upon relative small-scale, aged plants, poor market prospects, accumulated debt and low off-farm earnings) the VPS did not target this group exclusively. On the contrary: for the first year of its operation in South Australia, the scheme was available without restriction, i.e.: neither means-tested, nor prescribed as clear fell (as opposed to partial pull). In Victoria, the Scheme was initially restricted to multi-purpose grape producers for clear felling only; but it was undersubscribed to the extent that both these restrictions were removed. Gow et al., (1991: 68) concluded that not only was assistance offered to financially successful grape-growers (who were in a position to adjust slowly) it was also offered to what they referred to as ‘lifestyle’ producers and ‘hobby farmers’ – hardly an equitable outcome.

In examining possible improvements to the 1985-87 VPS, Gow et al., (1991: 71-77) first reiterated Stiglitz’s (1986) observations of government programs generally; that the details of provisions are paramount, and that these may be more difficult than defining the original problem. Moreover, there is often a trade-off between the formulation of criteria on the one hand and the ease of their implementation on the other hand (see, Wallis and Dollery 1999, for a detailed analysis of the phenomenon of government failure). They also illustrated how the VPS tripped up on its own methodology: A foundational element of the application of the Scheme was land area – assistance payments were acreage-based. Yet two variables immediately confounded this seemingly obvious choice of definition so as to render it simplistic. The first was that yield per acre is variable by variety of grape: Gow et al. pointed to the example of the multi-purpose Muscat Gordo Blanco yielding approximately 40 tonnes per hectare compared to Shiraz yielding some 6 tonnes per hectare. While as a varietal in its own right shiraz will bring a higher price per tonne, this price premium would rarely exceed 50 per cent. As such, ‘the attractiveness provided through the Scheme was substantially lower for multi-purpose varieties than for dryland wine grape varieties’ (Gow, et al., 1991: 72).

We are thus faced with not merely Stiglitz’s insistence of the intrinsic difficulties of designing a well-targeted government program but with the perverse policy outcome that Shiraz – one of the stalwarts of the ensuing and growing Australian wine industry – became devalued against Muscat Gordo Blanco – grapes used to make sherry. In the face of a mooted VPS in 2010, it is worth bringing unintended policy outcomes of the 1985-87 VPS to the fore. Gow et al. (1991: 56) summed up the Scheme as ‘prompted by a temporary, albeit prolonged, decline in world prices’, resultant in destruction of long term assets such as vine stocks’, with ‘the low participation rate in the Scheme perhaps being fortuitous (Gow et al., 1991: 56).
Nevertheless, a sudden recovery in export prices for Australian wine is remote in the present global market. The Australian industry does face a systemic oversupply problem from which many other negative impacts are derived. It is to the alleviation of this problem that we now turn.

4 LESSONS LEARNED

The immediate objection to comparing the experience of the 1985-87 VPS and the one now proposed is that the situations are so different. In particular, both the welfare component of the 1985-87 VPS and the radical change in the regulatory framework mark significant change. Yet these differences may be more apparent than real. In the first instance, there is, in fact, a welfare component attached to the structural adjustment process envisioned in the WRAA. The agenda clearly advocates government-assisted exit of small players for the benefit of larger players. As such, it may not be a particularly defensible welfare outcome, but it is an outcome nonetheless. Second, with regard to the differences in regulatory environments, the then regime of industry protection was a bureaucratic edifice when seen alongside the minimal tariff regime for wines imported into Australia and the occasional tax concession to the industry. However, to implement the WRAA in its proposed form would immediately negate the principle that has underlain the growth of the industry for the last twenty years, namely, that of minimal government interference. Under the scenario of VPS proposed by the WRAA, the very least problem would be those identified by Stiglitz (1986) and reiterated by Gow et al., (1991) – that assistance programs are notoriously difficult to design, and that the trade-off between successfully designing criteria and ease of implementation has to be taken into consideration. Rather, as the account of the 1985-87 VPS clearly demonstrates, it is the unintended, and in some instances perverse consequences of policy that prove most problematic. Indeed the negative outcomes of adjustment/welfare policy which amply demonstrate in favour of the general principle that, in the case of grape-growing and wine making, government ought to let supply and production correct itself in accordance with demand.

If the proposed WRAA is as problematic as this paper has argued, the most pressing question is that of what steps can be taken – by the industry and those that decide the regulatory framework – to improve the outlook, not just for the industry itself or a sectional interest therein (a la the WRAA), but more generally, and in particular for those disparate regions of Australia that now enjoy the benefits of a wine industry as part of their milieu. In fact, ABARE considered this question in some depth in a recent research report based on a comparative study of the McLaren Vale and Riverina wine regions as well as national and international data (Sheales et al., 2006). The Report did recognise that scale economies would be achieved from an increase in the average size of grower operations due to smaller operators exiting. However, it was adamant that this occur through competitive market forces, ‘because it allows the most efficient and forward-looking businesses to keep up with the pace of change’ (Sheales, et al., 2006: 46). Further, it added the caveat that there ‘would be significant variation across regions’ (Sheales et al., 2006: 38).
The Report contained five additional broad recommendations. First, exploring the relevance of different business models such as ‘contracting, leasing, share-farming and cooperative arrangements designed to achieve better financial performance for growers and the industry as a whole’. Second, investment into research and development, both at the farm level and in terms of product innovation. Third, it urged that relationships between growers and wineries be examined, with the goal of achieving clearer information about markets. Fourth, it recommended a general increased awareness of global market trends and finally, it directed traditional businesses to look for opportunities to add value in a context where consumer demand was changing rapidly (Sheales et al., 2006: 5). Also, in common with the WRAA, it identified potential in new international markets (China, Russia, Germany and Southeast Asian countries) recommending in-country promotion, and argued, unlike the the WRAA and Supporting Report, that the Australian grape-growing industry has responded to the contraction in demand, with total new plantings falling considerably since 1997 (Sheales, (2006: 31).

However, the most striking element of the (2006) ABARE Research Report is the underlying principle change:

Allowing the market to work, in Australia as well as in other ‘new’ and ‘old’ world producing countries, will provide the most efficient and effective solution to both the stocks overhang and low prices... Regulatory interventions will be costly, both financially and in terms of economic efficiency; they will not result in improved prices to growers as Australia is too small to influence the world market; and other competing suppliers to the world market will benefit less from Australian competition.

(Sheales et al., 2006: 5).

In sum, the recommendations of ABARE in 2006 look like a lot of hard work for the industry, alongside some farms - though not necessarily the smaller and less efficient ones - exiting the industry. Nevertheless, ABARE is clear that a VPS, or indeed any significant intervention by government, ought not to be entertained.

5. CONCLUDING REMARKS

The arguments marshalled in this paper have alerted us to some important questions for future research. Perhaps the most of pressing of these is a critical exposition of the two accounting instruments – Deloitte’s Ready Reckoner and Vinebiz – that under the WRAA plan these will be comprehensively distributed to industry participants. They currently circulate widely throughout the industry (Reddaway, 2009) and are freely available. What are their methodologies, are there alternatives and to what extent are these instruments suitable? Secondly, the authors of the WRAA have presented the case for a rationalisation of the industry through expunging smaller ‘inefficient’ players. But it is possible that there is a contra argument. The investigation of the 1985-87 VPS demonstrated that, when assessed from the perspective of viticulture and winemaking alone, many businesses in South Australia were not financially viable. However, viewed as mixed enterprises
(inclusive of off-farm income) only 10 per cent were assessed as marginal. To what extent do enterprises of this kind form a constitutive element of wine regions – both in terms of grape-farming, but also in terms of their contribution through other economic activity -- constitutive of a resurgence of these regional areas? In the face of such an organised *putsch* – including the sponsorship of two Commonwealth Government corporations -- in favour of larger producers, empirical investigation of these and related questions would provide a useful antidote to the view of the future of the industry implied by the WRAA. Nevertheless, the underlying lesson of our examination of the last government-sponsored VPS, is that ‘the game wasn’t worth the candle’ and that its unintended, negative policy outcomes far outweighed the meagre benefits gained.
REFERENCES


