Pre-Budget Submission 2019-20

1 February 2019

Who we are

Australian Grape and Wine Incorporated (Australian Grape & Wine) is Australia's national association of winegrape and wine producers. Our activities focus upon the objective of providing leadership, strategy, advocacy and support that serves Australian wine businesses now and into the future.

We represent the interests of the more than 2,500 winemakers and 5,000 winegrape growers working in Australia. Our role is to help forge a political, social and regulatory environment - in Australia and overseas - that enables profitable and sustainable Australian wine businesses. These businesses make a significant contribution to growing regional economies by driving growth in jobs, regional exports and food and wine tourism.

Australian Grape & Wine's voluntary membership represents over 75% of the national winegrape crush. We represent small, medium and large winemakers and winegrape growers from across the country. Policy decisions by the Australian Grape & Wine Board require 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 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.

Contents

Executive Summary

Australian Grape and Wine Incorporated (Australian Grape & Wine) is working to drive greater profitability to the Australian wine sector, support investment and jobs in rural and regional communities and enhance opportunities in export markets in an increasingly complex global trading environment.

This is Australian Grape & Wine's first Pre-Budget Submission (PBS), following the decisions of the members of Winemakers' Federation of Australia (WFA) and Wine Grape Growers Australia (then trading as Australian Vignerons (AV)) to amalgamate into a single, united representative body on 13 November 2018. This amalgamation enables us an opportunity to provide a single message on behalf of all Australian winemakers and winegrape growers to the Australian Government. Our improved reach in advocacy, greater efficiencies and expanded scope of operations, represents a positive example of industry leadership focused on the true needs of the sector.

Our vision is to lead and represent a united, sustainable, dynamic and internationally renowned Australian grape and wine sector. In this submission we outline a plan to ensure the Australian wine sector is in a position to control its own destiny into the future on the back of modest government investment over the next three to five years. This investment will enable us to respond to national and international consumer demand for quality Australian wine by delivering improvements in international market access, supporting a dynamic marketing program, creating the pre-conditions for a profitable winegrape growing sector and by ensuring domestic regulatory settings to facilitate growth.

State of the Industry

In 2018-19, the sector showed its potential by driving jobs and growth in Australia and continuing our position as a major export earner through wine sales and in bound tourism. With a $40.2 billion contribution to Australia's economy from winegrape-growing, winemaking and wine tourism annually and a contribution of more than 170,000 jobs in regional Australia, the wine sector is an important driver of Australian prosperity.

The Australian Government's **$50 million Export and Regional Wine Support Package** (the $50 million package) has been an important driver of this growth. We are beginning to see improved market sentiment and sales in key export markets, particularly China and the USA, along with increased wine related tourism in Australia. While these early signals are positive, we are conscious that current funding arrangements will end on 30 June 2020. Australian Grape & Wine wants to work with the government to make sure these early gains are protected and built upon, to form a strong base for future sustainable growth. The international market is very competitive and increasingly complex, and the capacity of Australian winemakers and winegrape growers to take full advantage of opportunities in overseas markets is variable. While we are confident that – on the whole – Australia's wine offering is performing well, we must continue to work hard to differentiate our products by appealing to consumers on the basis of quality, geographic and regional characteristics, and sustainability credentials to remain competitive. A sustained investment in driving innovation, wine tourism and marketing Australia's wine offering is required if we are to take full advantage of new opportunities before us.

Key challenges

The future profitability of the Australian wine sector depends on exports. Sixty-three per cent of wine produced in Australia was exported in 2018, supporting jobs and growth opportunities across rural and regional Australia. While the Australian domestic market remains critical, growth is slow and the international market-place presents greater opportunities for both winemakers and winegrape growers.

Australian wine businesses remain concerned about escalating global-trade tensions, the erosion of trust in international institutions, the unknown impact of Brexit, fears of a deeper-than-envisaged slowdown in China and volatility in financial markets. These issues, along with the pervasive effects of climate change, are coalescing to form a new set of challenges for Australian wine businesses.

Managing the impacts of these challenges requires sustained and strategic effort to future proof our sector. For a modest investment, the Australian Government can help us in this effort, driving future profitability in the sector in the long-term and providing a tangible and dramatic stimulus for regional and rural Australia.

Future proofing the Australian Wine Sector

The wine sector is on the cusp of transformational change. The activities funded by the $50 million package are helping improve market sentiment and sales in export markets (particularly the United States (US) and China) and increasing wine-related tourism in Australia. However, further investment will amplify these gains and provide the final stimulus required to unlock our potential and capture the opportunities before us, laying the foundations for a profitable sector for future generations.

There are four planks to the strategy, which with a modest investment from the government would pay off in terms of jobs and growth within the next three years.

Building demand

The independent review of the $50 million Package has supported that it is on track to deliver on its ambitious key performance indicators (KPIs). However, in 18 months, the $50 million package will end and, in the absence of additional funding, our ability to deliver marketing activities for the sector will be severely constrained. We believe further investment in growing wine exports and wine-related tourism is required. It would deliver real and measurable benefits, and remove the need for further assistance in the future, forging a sustainable and profitable sector for future generations.

A continued annual investment of $25 million in global marketing funding (i.e. an additional **$17 million per annum**, over and above the recurrent industry funding of $8 million from existing levies and user-pays funding) will conservatively see wine exports reach around $3.2 billion by 2024–25. When combined with the other strategies outlined below, a more realistic estimate is $4-5 billion.

With concerns about a future potential down-turn in China's economy, it is critical to consolidate our recent growth and maintain, or increase, Australia's market share. Australian exports to China grew 27 per cent per annum over the last 5 years and 18 per cent in the last 12 months.

Building on the investments in the $50 million package, we need to use sophisticated tools and technologies to connect with the anticipated 750 million people to make up China's middle class by 2022.

Ongoing investment in will allow us to:

- improve our social media presence in current and new channels
- drive traffic on Tmall to Australia's flag-ship store

- build micro programs inside Wechat for brand story development, and
- continue to deliver our ambitious education program and Australian Wine Made Our Way.

We are also interested in exploring opportunities to establish warehousing facilities in key markets and increase direct linkages with distributers and retailers.

This would enable a more strategic focus to our activities in China, extending beyond promotional events to building sustainable and efficient supply-chains based on strong relationships.

We continue to see tremendous opportunity to re-capture market share in the US. Australian wine has underperformed since the GFC dramatically affected our market penetration, where Australia lost significant ground in the premium wine segment to competitors based on a combination of factors including the exchange rate, consumer perceptions and falling demand. Additional investment within the USA would unlock our potential in this market, returning sales growth to $1 billon per annum. However, it won't be easy, and we will need to build upon the ground-work put in place through the $50 million package.

We expect additional investment, if made available, can unlock growth of half a billion dollars over the next 5 years. The US market is one of the few traditional wine markets that is still growing, with the expectation that by 2020, an extra 27 million cases of premium wine being required to meet demand. Australia is well placed to capture this opportunity by supplying this wine, but only if we can overcome some of the consumer-perception barriers we are facing. Doubling current sales of Australian premium wines in the US only requires an extra million cases worth US$100+ million in retail value. We can do so much more, and while Wine Australia and Australian wine companies are investing to fill this demand, a longer-term supplementary government investment will drive long-term improvements.

Of course, export growth extends beyond the interests of winemakers alone. The average export price and average winegrape price are closely linked, and the export growth generated by the $50 million package is underpinning higher prices for winegrapes in Australia, delivering growth along the value chain. During the 2018 vintage, the average purchase price for winegrapes increased by 8 per cent to $609 per tonne, the highest level since 2008. Quite simply, the best way to ensure winegrape growers can maintain profitable and sustainable businesses is to grow exports.

Tourism remains an important vehicle for driving growth in rural and regional economies and enhancing understanding of Australia's wine offering. Additional funding for wine-related tourism, building on the proof of concept work currently being conducted, will provide an enormous stimulus to our wine regions and the regional communities they support around the country.

The $50 million package is on track to deliver its ambitious international tourism performance indicator of an extra $170 million spent by international tourists in wine regions and Australia by 2020. Additional investment will maintain this momentum over the long-term, enabling continuing accruing benefits in rural and regional economies. We project that an **additional annual spend of $3 million** would see an additional 400,000 - 450,000 domestic and international tourists visit wineries over five years, on top of Tourism Research Australia's National Forecast from 2017, firmly placing Australia as a source of outstanding wine-based tourism experiences over the long-term, and building demand for high-quality Australian wines when tourists return to their home countries.

Diversification of markets

International trade is of vital importance to the Australian wine sector. Around 63% of sales are exported, highlighting the industries reliance on exports and the importance of Free Trade Agreements (FTAs). According to the Wine Australia Export Report (December 2018) during 2017 there were 2543 active Australian wine exporters who shipped wine to 126 different overseas destinations. Australian wine exports are currently delivering strong growth and have been steadily rising in both volume and value since 2014.

The $50 million package has a very strong focus on marketing and promotion in export markets, assisting existing exporters, and developing capabilities for new exporters in China and/or other FTA markets. This has been vital in assisting industry's SMEs to capitalise on their existing export success or to help them enter the export market. However, the $50 million package's focus on China and the US is also likely to see an increasing dependence on the three key markets of China, US and the United Kingdom. The uncertain geo-political environment demonstrates the need to further diversify our markets to future proof against the sovereign risk provided by market specialisation.

We can do this in two ways.

Firstly, we can invest more in marketing and brand-building activities in new and emerging markets. The $50 million package has shown us how this can be achieved, and further investment would build on this, providing Australian wine exporters with an opportunity to gain a permanent foothold in the key economic regions of Asia and Africa. A further investment of $5-10 million would enable the sector to replicate our China growth in these new markets, diversifying risk and opportunity, growing profitability and improving the sector's resilience to shocks in major markets. In addition, this will unlock the potential for the small and medium-sized wine businesses that have not been able to exploit these opportunities previously.

Secondly, since the economic reforms of the 1980s, successive governments have shown a deep and abiding commitment to free and open trade by lowering trade barriers and improving market access for exports through a network of bilateral, regional and multilateral international trade agreements and sustained efforts to reduce non-tariff barriers (NTBs). At a time when many Australian farmers are in crippling drought, FTAs give hope for a long-term sustainable future for farmers and the rural and regional economies to which they contribute so much.

While it is well-established that FTAs have real and immediate benefits for wine exporters, it is also important to note our support for efforts to address NTBs. NTBs are often the biggest problem for exporters, adding cost and complexity to the export process. In December 2018, the Liberal-National Government launched a new Action Plan to help Australian farmers and businesses get their goods into overseas markets faster, with greater ease and at a lower cost. The Action Plan helps to better identify and address unfair obstacles for our exporters – like NTBs - and makes it as easy as possible for them to export their high-quality goods and services to the world. The wine sector works very closely with the government in reducing these barriers and this must remain a major focus.

Our marketing and tourism strategy will require an additional government investment of $80 million dollars over the next four years. This will provide the impetus for growth for the industry, insulate us against external market changes and build on the success of the $50 million package. It will provide jobs and growth in regional Australia and underpin a rural recovery in the face of the challenges provided by the drought and challenging market conditions.

Fostering innovation

Innovation is a critical driver of productivity, increasing quality and improving sustainability in the Australian wine sector, and in the agricultural sector more broadly. While we are confident the current model of industry and government investment through the Research & Development (R&D) Corporations is well placed to drive the sector into the future, there is one piece of aging infrastructure preventing the sector from unlocking the full potential of our world class R&D.

The University of Adelaide's **Hickinbotham Roseworthy Wine Sciences Laboratory** at the Waite campus was established in 1998 and plays an integral role in research, education and service to the wine industry. State-of-the-art at the time, the winery is now too small and dated to provide our researchers with the infrastructure required to provide the innovation we need. A new winery is urgently needed to ensure our researchers are on par with our competitors in the US, Europe and South Africa who have invested in new facilities.

These research facilities are critical to the entire sector, but are particularly important to the future productivity of small and medium wine-sized wine businesses that do not have the capacity to engage in their own large-scale R&D activities. In addition, the winery acts as a major piece of infrastructure to attract new Australian and international students, strengthening the pool of highly trained oenologists entering the industry, and contributing further to Australia's educational export earnings.

Australian Grape & Wine strongly supports government investment in these facilities. **A $20 million investment in 2019-20 is all that is required to unlock this potential.**

Supply side efficiency- optimisation

An efficient, and profitable wine sector requires that all participants in the supply chain are profitable and making a fair margin. However, Australia's grape and wine sector does not operate in isolation from the rest of the world. The global wine supply and demand situation is a major determinant of winegrape pricing in the warmer inland regions. At 790 million litres, Australia is a relatively small producer in comparison to the major producers of France, Italy, Spain, and, to a lesser degree, the US. The supply situation in these countries has a significant impact on Australia's trade, particularly at the price-driven commodity end of the market.

Production costs, grape characteristics, yield and demand for particular varieties all vary significantly between regions. These factors, taken individually or collectively, influence the price growers receive for their winegrapes. For example, warm inland regions usually have higher water, fertiliser and herbicide costs than other temperate and cool-climate regions, but lower labour and contract costs due to the use of mechanical harvesting systems. Furthermore, warm regions typically produce significantly more grapes per hectare which allows for spreading production costs. However, while warm inland regions can generally produce greater amounts of winegrapes at lower cost, these grapes tend to be used to produce wines at lower price points, which are therefore sold at lower values in the commodity and bulk-wine markets.

To ensure enduring profitability of the winegrape growing sector, Australia must invest in improved technology to ensure we can compete in terms of production efficiency with our global competitors. We recognise a significant scientific effort has concentrated on viticultural production systems in recent years and that over the last two decades innovation has played a significant role in the industry's growth. As the industry matures, however, there is a need to balance the scientists' interest in an incremental change within in a particular field, with the need for practitioners to manage their properties in the best interest of their businesses. A 'quantum leap' in productivity (as opposed to production) is required, focusing on a holistic approach to the application of science.

More recently there has been an awakening realisation amongst some industry leaders that horticulture R&D would benefit greatly from collaboration, particularly through a cross-disciplinary approach to research. This approach, when utilised, has provided some very significant results due to the synergistic nature of the process leading to fundamental breakthroughs, as distinct to the more traditional incremental improvements made discipline by discipline. An excellent example of the success of this novel approach is the work that has transformed the Australian almond industry into the most profitable in the world.

Riverland Wine Growers, in partnership with a world-class set of researchers have assembled a team that we believe could unlock the potential of our vineyards, improve our resilience in the face of climate change and drought and massively improve our productivity. It proposes to follow the basic methodology utilised so successfully in the almond industry to develop winegrape specific management optimisation guidelines and tools.

Early indications, based on the success of similar work carried out in Spain, are that the region's winegrape industry has the potential to improve yields per hectare while improving quality outcomes and optimising, quite possibly reducing, the amount of irrigation water required to produce a crop, eliminating any waste of water. It goes without saying that in a time of continued pressure on water supplies, the significant environmental and economic benefits flowing from such research would be a game changer for our sector.

There is a fully formed research proposal, with substantial industry investment locked away, that only requires an additional one-off $3million investment from the government to future proof our sector and return sustained profitability to growers.

Case study: Australia's almond industry

Agriculture needs to think smarter to respond to climate change, drought and uncertainty

In 2001 the Australian Almond Industry commenced a substantial trial using a novel holistic approach in an attempt to determine the optimal inputs to drive the most efficient and economic production almonds

There were also some very significant additional benefits which were identified. Amongst these were improved and more consistent kernel quality (taste, colour and mouth-feel); kernel size (52% in largest grade as opposed to industry norm of 4-5%); an apparent reduction in susceptibility to a number of diseases and environmental (water use reduced by 40% and leaching of nutrients and water reduced to insignificant levels). There was also a very significant economic improvement as the gross margin was improved by approximately $10,000 per hectare.

These results were achieved through a cross-disciplinary approach where all relevant scientific and management disciplines were engaged in the quest for optimising all inputs and ensuring that all possible synergies were identified and developed. These disciplines included plant nutrition and physiology, soil science, irrigation technology and canopy management.

Most importantly, the trial work was followed up with a structured and detailed training program to ensure the growers had the ability to better understand the crop requirements and the management decisions required to implement the techniques on their properties and commercialise the findings. Additionally, a number of sophisticated and unique tools were produced to guide the growers in their daily on farm decisions and therefore more easily and reliably emulate the trial results.

In total, Australian Grape & Wine is seeking $103 million over the next four years to future proof our sector, providing for a profitable and sustainable future.

Global Marketing:	**$17 million per year for four years (total of $68 million)**
Tourism:	**$3 million per year for four years (total of $12 million)**
Winery R&D:	**$20 million (one-off investment)**
Supply-side optimisation:	**$3 million (one-off investment)**
Total	**$103 million.**

Market Access

Australian Grape & Wine is highly supportive of the Australian Government's ongoing commitment to the rules-based global trading system, and its efforts to resist protectionism and advocate for an open global economy. We are particularly supportive of maintaining a consultative approach before, during and after trade negotiations, in which stakeholder input to negotiations and policy development is sought. We hope to see continuation of these efforts in the coming years to liberalise trade and create economic growth through greater trade of wine. Market access outcomes through the harmonisation of technical barriers to trade and a focus on reducing NTBs can help drive this growth.

Free Trade Agreements (FTAs) are delivering significant benefits to Australian wine exporters and we continue to support the government efforts to finalise high-quality, comprehensive FTAs. In addition, we support the government continuing to promote the understanding and utilisation of FTAs to Australia's winemakers, to maximise the flow of benefits to Australian wine businesses.

Of course, FTAs need to expand rather than restrict opportunities for Australian winemakers. In the context of the Australia-European Union (EU) FTA negotiations, it is critical that the Australian Government pushes back against the EU's drive to prevent Australian producers using the globally recognised grape variety *Prosecco* on their wine labels. If the wrong precedent is set, Australia's cheese-makers, small-goods producers and fruit growers could also face similar risks in the future.

Failure to protect the wine sector's interests could undo all the positive outcomes from government and industry collaboration over many years, including significant government and private capital investments, and risk the future of the industry.

The Australian Government's **Export Market Development Grants** scheme remains an effective mechanism for encouraging greater utilisation of FTAs, and is widely used by the Australian wine industry. Australian Grape & Wine continues to support these scheme.

Domestic Regulatory Settings

Research and development underpins the success of Australia's wine sector, which is characterised by innovative research and fast adoption, responding to consumer preferences as well as manufacturing innovations. The Australian Government must continue to support R&D – including in the form of continued matching R&D contributions - and should consider ways to practically support its implementation at the individual business level. Without continued investment in R&D, we risk falling behind our competitors.

We are also seeking the Australian Government's leadership in properly considering **targeted and evidence-based health policies** that do not amount to a knee-jerk reaction to the scare-mongering of anti-alcohol lobby-groups. Long-term Australian Government survey[1] data provides convincing evidence that Australians are drinking less alcohol than they did 50 years ago, and that drinking habits in many age cohorts – including adolescents and millennials – are safer and more responsible. The evidence suggests that for many demographic sectors, people are consuming alcohol in a more responsibly way. The industry has contributed to this behavioural change through significant investment in responsible consumption messaging at cellar doors, the adoption of strict advertising principles and by partnering with the Australian Government to promote campaigns such as the DrinkWise Australia ***Fetal Alcohol Spectrum Disorder Awareness Program***.

[1] The Australian Institute of Health and Welfare's (AIHW) National Drug Strategy Household Survey collects information on alcohol consumption among the general population in Australia. It also surveys people's attitudes and perceptions relating to alcohol. The survey has been conducted every two to three years since 1985 and the AIHW has been collating and reporting on these surveys since 1998.

Australian Grape & Wine will work with the Australian, State and Territory Governments to develop targeted, evidence-based policies that focus on the minority of Australians who drink in a dangerous way. We do not support the introduction of population-wide measures that are un-targeted and not supported by rigorous evidence. In this context, WFA remains keen to work with the Australian Government on the forthcoming **National Alcohol Strategy** to ensure it is delivers reasonable, evidence-based policy options.

We will also continue to work closely with the **ACCC** as it completes its market study into the Australian wine industry in 2019, ensuring the ACCC gains a comprehensive understanding of the Australian wine industry, and that any recommendations improve market conditions and avoid unintended consequences.

Winemakers, along with craft brewers, distillers and cider makers, often take their products interstate to public tastings and promotional events to make sure their products are shown to as many potential customers as possible. However, States and Territories across Australia often do not recognise **Responsible Service of Alcohol (RSA) certification** granted elsewhere in the country. This imposes significant costs on the sector, but it is particularly costly for small-businesses who rely on interstate tastings, but need to pay large sums of money to gain certification, often for a very short period of time.

Australian Grape & Wine will work with federal, state and territory governments to seek a solution to this issue that supports RSA objectives but reduces financial and compliance costs for wine businesses.

Conclusion

The Australian wine industry is an Australian agricultural and export success story. Maintaining this will require policy settings that enable business and exports, while also ensuring the reputation and safety of Australian wine. In a very competitive domestic and global market-place, it is critical that Australian wine businesses are not stifled by incremental increases in regulation.

Australian Grape & Wine looks forward to working with the Australian Government in 2019-20 to increase the industry's contribution to Australia's economic growth and ensure the sector remains a source of economic and social prosperity across rural and regional Australia. Our proposals to future proof the sector to ensure the continuation of job growth and economic prosperity in rural and regional Australia are sound policies that will pay off long-term with a relatively small government investment.

Tony Battaglene

Chief Executive

Australian Grape & Wine

Summary of recommendations

Future proofing the Australian Wine Sector

Recommendation 1: Government invests $17 million per annum for four years to build demand for Australian wine in key international markets.

Recommendation 2: Government invests $3 million per annum for four years to increase wine tourism in Australia.

Recommendation 3: The Australian Government maintains a steadfast commitment to the global trading system and progressing comprehensive, high-quality Free Trade Agreements.

Recommendation 4: The Australian Government makes a one-off investment of $20 million in 2019-20 to build a new winery facility at Adelaide University's Waite campus to improve research, train the next generation of Australian oenologists and help attract overseas students to Australia's world-class university system.

Recommendation 5: The Australian Government make a one-off investment of $3 million to drive gains in the productivity of our vineyards, improve our resilience in the face of climate change and drought and return sustained profitability to growers.

Trade and Market Access

Recommendation 6: Work with the Australian wine industry to develop the next iteration of the Export Market Development Grant (EMDG) scheme that acknowledges market practicalities and new opportunities for Australian wine exporters.

Recommendation 7: The Australian Government adopts a balanced and positive approach to future Government dealings with China.

Recommendation 8: The Australian Government continues to expand investment in industry for engagement, and broader trading activities with China.

Recommendation 9: The Australian Government supports industry efforts to host an event in collaboration with the AFL in Shanghai, in June 2019.

Recommendation 10: Australian Grape & Wine encourages the Australian Government to review its MOU with China, in collaboration with industry, as a mechanism to working towards resolving technical issues and strengthening trading relationships.

Taxation

Recommendation 11: Ensure taxation certainty and stability for industry by maintaining the WET system.

Recommendation 12: Retain the WET rebate in its current form.

Alcohol and Health

Recommendation 13: Ensure industry has a seat at the table when designing policies relating to alcohol and health.

Recommendation 14: Ensure health policies are evidence-based and target dangerous drinking.

Recommendation 15: Government should develop a pregnancy warning labelling standard that achieves the policy objectives of the Australia and New Zealand Ministerial Forum on Food Regulation's decision of 11 October 2018, but impose minimal costs to Australian wine businesses.

Recommendation 16: Provide national leadership to reject mandatory energy labelling, and explore alternative off-label digital-based solutions to communicate with consumers.

Recommendation 17: Provide national leadership through the Ministerial Forum on Drugs and Alcohol to ensure that future alcohol policy and programs build on the effectiveness of current policies and are targeted as specific causal factors of harm.

Biosecurity

Recommendation 18: The Australian Government hypothecate funds collected through the Biosecurity Import Levy and increase biosecurity investment in those areas where the greatest return is likely to be achieved.

Recommendation 19: Explore opportunities to strengthen industry involvement in biosecurity investment decision making.

Recommendation 20: Allocate $850,000 to support the development of a Digital Biosecurity Platform to safeguard Australia's wine industry and associated businesses.

Container Deposit Schemes

Recommendation 21: Closely monitor the implementation of CDS in other jurisdictions to ensure the Australian remain outside the scope of these schemes as they do not contribute to the away-from-home public litter stream.

Food Standards Code

Recommendation 22: Remove the cost to business of obtaining interpretations of the Food Standards Code.

Responsible Service of Alcohol

Recommendation 23: Work with State and Territory Governments to achieve national recognition of RSA certifications without additional cost or study requirements.

Recommendation 24: In the short-term, facilitate national agreement to immediately recognise interstate RSA certifications for the purposes of carrying out tastings.

Environment, Water and energy

Recommendation 25: Engage with industry to consider ways to recognise vineyard's contribution to carbon sequestration and related offsets.

Recommendation 26: It is time for the government to commit to a strategic program to increase the supply of water to Australian businesses and communities, while respecting the need to maintain adequate environmental flows. Businesses must adopt water efficiency measures, but this requires serous government attention to maximise the potential of Australian agriculture to support Australia's economic prosperity.

Recommendation 27: Work with industry to ensure a reformed electricity market delivering improved affordability, reliability, and management of the electricity market.

Recommendation 28: Retain the existing fuel tax credit scheme for agricultural businesses.

The Australian wine industry

At a glance

- $40.2 billion annual economic contribution from winegrape-growing, winemaking and wine tourism.
- Contributing more than 170,000 jobs in regional Australia.
- $1.11 billion annual crush in 2018 (↓ 3% from 2017).
- 1.79 million tonne crush in 2018 (↓ 10% from the record 2017 harvest).
- $609 per tonne average grape purchase price (↑ 8% from 2017).
- Approximately 1.2 billion litres of wine produced annually.
- $2.82 billion exports in 2018 (↑ 10%).
- 850 million litres exported in 2018.
- Australia's fourth most valuable agricultural export.
- 63% of production exported.
- 2,500 wineries and more than 5,000 winegrape growers across 65 distinct geographic wine regions in all states and territories of Australia except the Northern Territory.

Domestic operating environment

Australian winemakers and winegrape growers are agricultural producers, manufacturers, retailers, distributors and exporters. They are also often restauranteurs, event managers, tourism operators, wedding planners and live music promotors. No other Australian agricultural-based industry has such an integrated approach to market of this length or reach, or deals with such diverse regulatory requirements relating to production, food safety, label integrity, liquor sales, on-premise[2] consumption, export certification or international sales (distributors, marketers and consumers). The large majority of Australia's 2,500 winemakers and more than 5,000 winegrape growers are also small businesses entirely dependent on seasonal and climatic variations with only one opportunity each year to harvest winegrapes and produce wine.

These wine industry businesses contribute (conservatively) $40.2 billion to the Australian economy, and support more than 170,000 full and part-time jobs.[3]

International tourists identify "great food, wine, local cuisine and produce" as a major reason for visiting Australia. Tourism Research Australia estimated that in 2014-15 there were 15.8 million domestic visitor nights and 44.2 million international visitor nights associated with Australian wineries. Overall, wine related visitor expenditure totalled $9.2 billion.

[2] On premise is defined as places including restaurants, bars, pubs and clubs.

[3] Economic Contribution of the Australian Wine Sector, AgEcon Plus Consulting, Gillespie Economics, December 2015.

Table 2: Direct and Indirect Impact of the Total Wine Sector[4]

	Direct Effect	Production Induced	Consumption Induced	Total Flow-on	Total Impact
OUTPUT ($'000,000)	13,347	12,417	14,449	26,867	40,214
Type 11A Ratio[5]	1.00	0.93	1.08	2.01	3.01
VALUE-ADDED ($'000,000)	6,224	5,484	7,993	13,477	19,701
Type 11A Ratio	1.00	0.88	1.28	2.17	3.17
INCOME ($'000,000)	3,324	3,233	3,854	7,086	10,411
Type 11A Ratio	1.00	0.97	1.16	2.13	3.13
EMPLOYMENT ($'000,000)	68,395	45,286	59,055	104,341	172,736
Type 11A Ratio	1.00	0.66	0.86	1.53	2.53

Because input-output modelling only examines backward linkages, this analysis does not capture margins on wine sales through wholesale, retail and restaurant sales. Values for wine sales and winegrape sales are at the winery/farm gate. Inclusions of wholesale, retail and restaurant sales would make the estimates of total direct and flow-on contributions higher. For example, the domestic wholesale value of Australian wine is $2.4 billion and retail value is $7.4 billion.

This analysis has shown the Australian wine sector (defined as winegrape growing, winemaking and wine related tourism):

- contributes $40.2 billion in gross output to the Australian economy. Gross output includes $19.7 billion in value (value-added) and $10.4 billion in wages and salaries from full-time and part-time employment
- supports 172,736 full-time and part-time jobs[6], most of which are located in rural and regional Australia. Jobs supported by the wine sector include direct employment of 68,395 within the sector and a further 104,341 full and part time jobs due to flow-on effects. Estimates of full and part time employment are associated with economic activities linked to winegrape growing, winemaking and wine tourism and do not include forward linkages such as employment in the retail sector.

Small winemakers

Small winemakers (crushing up to 500 tonnes) make up the largest group of wine businesses in the sector. It is estimated that small winemakers contribute eight percent to the Australian winegrape crush, sell an estimated $1.3 billion of wine and account for 35 percent of domestic sales value and 10 percent of export sales value.

In 2016-17, small winemakers reported strong growth in revenue and production across all sales channels[7]. Production increased by ten percent in line with the overall increase in the national vintage crush in 2017 and revenue grew on average by ten percent. However, growth was not uniform across businesses, with 73 percent reporting increased revenue, ten percent reporting no change and 16 percent reporting a decline in sales.

Nearly half of all small winemakers' sales are made through retailers and approximately one third through the cellar door. Direct sales, however, through the cellar door or mail order are the most profitable and were the

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4 Economic Contribution of the Australian Wine Sector, AgEcon Plus Consulting, Gillespie Economics, December 2015.

5 Type 11A Ratio Multiplier = (Initial + Production Induced + Consumption Induced Effects)/Initial Effects

6 As defined by the Australian National Accounts 2012-13 as 'Full time and part time employees, employers, own account workers and contributing family workers'

7 https://www.wineaustralia.com/au/market-insights/small_winemaker_survey_2016

fastest growing retail channel in 2016-17. Retail consolidation has been a long-standing concern for small winemakers, but the entrance of new retailers may offer new opportunities to diversify sales streams.

There are a number of different business models within the small winemaking segment. The majority of businesses grow more than 90 per cent of their own fruit but a significant proportion conversely purchases more than 90 per cent of fruit. Few businesses have an equal mix of own-grown and purchased grapes. Similarly, about half of small winemakers make all of their wine in their own facility, while most others use contract processors and only ten per cent use a mix of both.

The small winemaking segment is estimated to directly employ around 16,500 people, or ten per cent of wine sector employees. The number of employees is almost double the number of FTEs, indicating a significant use of part-time employees.

Prospects for export growth

Australia's wine exporters are experiencing a period of renewed export growth, underpinned largely by ongoing high-demand from Chinese consumers, Australia's suite of FTAs and the $50 million package. However, we operate in a highly-competitive global market, and not all winemakers enjoy the same level of export success.

As noted by Treasury Wine Estates (TWE) in its 2018 Annual Report,[8] the forecast five-year (2017-21) compound annual growth rate (CGAR) in wine consumption in key growth areas and markets is positive. Drawing on IWSR data, TWE forecasts CAGRs of:

- 8.2% in China
- 1.4% in Canada
- 0.9% in Australia
- 0.9% in the USA and
- 0.8% in New Zealand.

However, after a recent challenging period for some of Australia's major competitors, global wine production is predicted to rebound in the short term. The International Organisation of Vine and Wine (OIV) reported in October 2018 that total global wine production in 2018 is estimated to be 282 million hectolitres (a hectolitre is 100 litres) – one of the highest rates of production since 2000.[9] Europe's largest wine producing nations, Spain, France and Italy, all recorded very high production levels in 2018, as did Argentina and Chile. All of these countries are significant competitors for Australian winemakers, and this increased production will impact on global supply and demand equations, potentially impacting upon Australia's competitiveness and profitability, at least in the short term. Further to this, increasing geo-political and trade-tensions have the potential to make exporting wine unpredictable, adding cost and uncertainty to businesses along the supply chain.

While we are not alone in expressing this concern, it is worth noting that any worsening geopolitical volatility due to issues like Brexit, or heightened trade tensions between the USA and China, would likely make things very difficult for Australian producers exporting to our top three export markets (as listed below in table 1).

[8] https://www.tweglobal.com/-/media/Files/Global/Annual-Reports/2018-Annual-Report.ashx?la=en&hash=ACE2E8C8DB5D13BE586205D53BAC958A38DDBAB8

[9] http://www.oiv.int/public/medias/6307/oiv-press-release-global-economic-vitiviniculture-data-octob.pdf

Table 1 Australian Wine top 10 export markets by value and volume, December 2018.

Value of exports to the top 10 markets

China inc. HK and Macau	$1.14b	18%
United States	$425m	-5%
United Kingdom	$389m	12%
Canada	$210m	12%
New Zealand	$93m	14%
Singapore	$89m	18%
Japan	$55m	17%
Germany	$54m	-7%
Netherlands	$42m	15%
Malaysia	$32m	-35%

Volume of exports to the top 10 markets (9L cases)

United Kingdom	27.3m	10%
China inc. HK and Macau	19.1m	7%
United States	17.9m	-7%
Canada	8.2m	19%
Germany	3.9m	-12%
New Zealand	3.6m	11%
Netherlands	2.2m	14%
Japan	1.9m	31%
Denmark	1.3m	14%
Belgium	1m	-2%

Source: Extract from Wine Australia, Export Report, 12 Months to December 2018 (published 22 January 2019)

Whilst the key markets, particularly China, continue to underpin the growth in Australia's wine exports, there are a range of smaller markets which hold significant potential. India, Mexico, South-East Asian and African markets all show significant potential for future growth. Each market is different, and some present major hurdles for Australian exporters to overcome, but with sustained effort and government assistance in the form of FTAs and support for exporters, there may be lucrative opportunities to capture.

The economic environment

The future profitability of the Australian wine sector and the large number of businesses that support it and provide jobs and growth opportunities in regional Australia depends on exports. Sixty-three percent of wine produced in Australia was exported in 2018. Although the domestic market remains important for profitability, growth is slow and the international market place determines winegrape grower and winemaker profitability.

Australian wine businesses remain concerned about escalating global-trade tensions, the erosion of trust in international institutions, the unknown impact of Brexit, fears of a deeper-than-envisaged slowdown in China and volatility in financial markets. These issues, along with the pervasive effects of climate change, are coalescing to form a new set of challenges for Australian wine businesses.

It is clear that any further instability in key financial markets economies could spark a broader deterioration in investor sentiment and a sudden, sharp repricing of assets amid elevated debt burdens. Global growth would come under pressure in such a scenario.

There is still considerable pressure and uncertainty on the financial stability of a number of European economies. Other Europe-specific factors that could give rise to broader risk aversion include the rising possibility of a disruptive, no-deal Brexit with negative cross-border spillovers and increased euro-skepticism affecting European parliamentary election outcomes.

A second source of systemic financial stability risk, and a key one for Australia, is a deeper-than-envisaged slowdown in China, with negative implications for trading partners and global commodity prices. China's economy slowed in 2018 mainly due to financial regulatory tightening to rein in shadow banking activity and off-budget local government investment, and as a result of the widening trade dispute with the US, which intensified the slowdown toward the end of the year. Further deceleration is projected for 2019.

The authorities have responded to the slowdown by limiting their financial regulatory tightening, injecting liquidity through cuts in bank reserve requirements, and applying fiscal stimulus, by resuming public investment. Nevertheless, activity may fall short of expectations, especially if trade tensions fail to ease. As seen in 2015–16, concerns about the health of China's economy can trigger abrupt, wide-reaching sell-offs in financial and commodity markets that place its trading partners, commodity exporters, and other emerging markets under pressure.

Emerging market and developing economies have also been tested by difficult external conditions over the past few months amid trade tensions, rising US interest rates, dollar appreciation, capital outflows, and volatile oil prices.

Beyond the possibility of escalating trade tensions and a broader turn in financial market sentiment, other factors adding downside risk to global investment and growth include uncertainty about the policy agenda of new administrations, a protracted US federal government shutdown, as well as geopolitical tensions in the Middle East and East Asia.

Risks of a somewhat slower-moving nature include pervasive effects of climate change and ongoing declines in trust of established institutions and political parties.

The economic uncertainty we see in world markets, underpins the actions we need to take to continue the strong growth in the Australian wine sector and future proof our profitability in the face of these external market shocks.

For a modest investment, the Australian Government has the ability to underpin profitability of the sector and provide a dramatic stimulus for regional and rural Australia, now, and into the future.

Future proofing the Australian Wine Sector

As noted in the executive summary to this submission, the wine sector is on the cusp of transformational change.

The additional activities and engagement funded by the Export and Regional Wine Support Package ($50 million package) are underpinning improving market sentiment and sales in key export markets, particularly the USA and China, and increased wine-related tourism.

However, we believe that a further investment will provide the final stimulus to unlock the full potential of the Australian wine sector and provide the foundations for a profitable industry for future generations. This will generate export dollars for Australia in the form of increased value of exports and inbound tourism, strong regional growth to efficient growers and increased investment in the sector.

There are four planks to the strategy:

1. Building demand
2. Diversifying markets
3. Fostering innovation, and
4. Supply-side efficiency – optimization.

Building demand

A continued annual investment of $25 million in global marketing funding (i.e. an additional **$17 million per annum**, over and above the recurrent industry funding of $8 million from existing levies and user-pays funding) will conservatively see wine exports reach around $3.2 billion by 2024–25. When combined with the other strategies outlined below, a more realistic estimate is $4-5 billion.

China

With concerns about a future potential down-turn in China's economy, it is critical to consolidate our recent growth and maintain, or increase, Australia's market share. Australian exports to China grew 27 per cent per annum over the last 5 years and 18 per cent in the last 12 months.

Building on the investments in the $50 million package, we need to use sophisticated tools and technologies to connect with the anticipated 750 million people to make up China's middle class by 2022.

Ongoing investment in will allow us to:

- improve our social media presence in current and new channels
- drive traffic on Tmall to Australia's flag-ship store
- build micro programs inside Wechat for brand story development, and
- continue to deliver our ambitious education program and Australian Wine Made Our Way.

The United States

We continue to see tremendous opportunity to re-capture market share in the US. Australian wine has underperformed since the GFC dramatically affected our market penetration, where Australia lost significant ground in the premium wine segment to competitors based on a combination of factors including the exchange rate, consumer perceptions and falling demand. Additional investment within the USA would unlock our potential in this market, returning sales growth to $1 billon per annum. However, it won't be easy, and we will need to build upon the ground-work put in place through the $50 million package.

We expect additional investment, if made available, can unlock growth of half a billion dollars over the next 5 years. The US market is one of the few traditional wine markets that is still growing, with the expectation that by

2020, an extra 27 million cases of premium wine being required to meet demand. Australia is well placed to capture this opportunity by supplying this wine, but only if we can overcome some of the consumer-perception barriers we are facing. Doubling current sales of Australian premium wines in the US only requires an extra million cases worth US$100+ million in retail value. We can do so much more, and while Wine Australia and Australian wine companies are investing to fill this demand, a longer-term supplementary government investment will drive long-term improvements.

Building demand helps Australian winemakers and winegrape growers

The average export price and average winegrape price are closely linked, and the export growth generated by the $50 million package is underpinning higher prices for winegrapes in Australia, delivering growth along the value chain. During the 2018 vintage, the average purchase price for winegrapes increased by 8 per cent to $609 per tonne, the highest level since 2008. Quite simply, the best way to ensure winegrape growers can maintain profitable and sustainable businesses is to grow exports.

Tourism

Tourism remains an important vehicle for driving growth in rural and regional economies and enhancing understanding of Australia's wine offering. Additional funding for wine-related tourism, building on the proof of concept work currently being conducted, will provide an enormous stimulus to our wine regions and the regional communities they support around the country.

The $50 million package is on track to deliver its ambitious international tourism performance indicator of an extra $170 million spent by international tourists in wine regions and Australia by 2020. Additional investment will maintain this momentum over the long-term, enabling continuing accruing benefits in rural and regional economies. We project that an **additional annual spend of $3 million** would see an additional 400,000 - 450,000 domestic and international tourists visit wineries over five years, on top of Tourism Research Australia's National Forecast from 2017, firmly placing Australia as a source of outstanding wine-based tourism experiences over the long-term, and building demand for high-quality Australian wines when tourists return to their home countries.

Recommendation 1: Government invests $17 million per annum for four years to build demand for Australian wine in key international markets.

Recommendation 2: Government invests $3 million per annum for four years to increase wine tourism in Australia.

Diversifying markets

As noted in the executive summary, we see an increasing concentration of effort on the three key markets of China, the US and the United Kingdom as a positive move for the Australian wine sector. However, an over-dependence on these markets could increase and concentrate our future exposure to the uncertainties of the geo-political environment. This demonstrates the need to further diversify our markets, as a way of future proofing our sector.

We can do this in two ways.

Firstly, we can invest more in marketing and brand-building activities in new and emerging markets. The $50 million package has shown us how this can be achieved, and further investment would build on this, providing Australian wine exporters with an opportunity to gain a permanent foothold in the key economic regions of Asia and Africa. A further investment of $5-10 million (to be drawn from the investment slated in Recommendation 1) would enable the sector to replicate our China growth in these new markets, diversifying risk and opportunity, growing profitability and improving the sector's resilience to shocks in major markets.

Secondly, it is essential that the Australian Government remains steadfastly committed to the benefits of free trade. At a time when many Australian farmers are in crippling drought, FTAs give hope for a long-term sustainable future for farmers and the rural and regional economies to which they contribute so much.

Recommendation 3: The Australian Government maintains a steadfast commitment to the global trading system and progressing comprehensive, high-quality Free Trade Agreements.

Fostering innovation

Innovation is a critical driver of productivity, increasing quality and improving sustainability in the Australian wine sector, and in the agricultural sector more broadly. While we are confident the current model of industry and government investment through the Research & Development (R&D) Corporations is well placed to drive the sector into the future, there is one piece of aging infrastructure preventing the sector from unlocking the full potential of our world class R&D.

The University of Adelaide's **Hickinbotham Roseworthy Wine Sciences Laboratory** at the Waite campus was established in 1998 and plays an integral role in research, education and service to the wine industry. State-of-the-art at the time, the winery is now too small and dated to provide our researchers with the infrastructure required to provide the innovation we need. A new winery is urgently needed to ensure our researchers are on par with our competitors in the US, Europe and South Africa who have invested in new facilities.

These research facilities are critical to the entire sector, but are particularly important to the future productivity of small and medium wine-sized wine businesses that do not have the capacity to engage in their own large-scale R&D activities. In addition, the winery acts as a major piece of infrastructure to attract new Australian and international students, strengthening the pool of highly trained oenologists entering the industry, and contributing further to Australia's educational export earnings.

Recommendation 4: The Australian Government makes a one-off investment of $20 million in 2019-20 to build a new winery facility at Adelaide University's Waite campus to improve research, train the next generation of Australian oenologists and help attract overseas students to Australia's world-class university system.

Supply side efficiency - optimisation

To ensure enduring profitability of the winegrape growing sector, Australia must invest in improved technology to ensure we can compete in terms of production efficiency with our global competitors. We recognise a significant scientific effort has concentrated on viticultural production systems in recent years and that over the last two decades innovation has played a significant role in the industry's growth. As the industry matures, however, there is a need to balance the scientists' interest in an incremental change within in a particular field, with the need for practitioners to manage their properties in the best interest of their businesses. A 'quantum leap' in productivity (as opposed to production) is required, focusing on a holistic approach to the application of science.

More recently there has been an awakening realisation amongst some industry leaders that horticulture R&D would benefit greatly from collaboration, particularly through a cross-disciplinary approach to research. This approach, when utilised, has provided some very significant results due to the synergistic nature of the process leading to fundamental breakthroughs, as distinct to the more traditional incremental improvements made discipline by discipline. An excellent example of the success of this novel approach is the work that has transformed the Australian almond industry into the most profitable in the world.

Riverland Wine Growers, in partnership with a world-class set of researchers have assembled a team that we believe could unlock the potential of our vineyards, improve our resilience in the face of climate change and drought and massively improve our productivity. It proposes to follow the basic methodology utilised so successfully in the almond industry to develop winegrape specific management optimisation guidelines and tools.

Early indications, based on the success of similar work carried out in Spain, are that the region's winegrape industry has the potential to improve yields per hectare while improving quality outcomes and optimising, quite possibly reducing, the amount of irrigation water required to produce a crop, eliminating any waste of water. It goes without saying that in a time of continued pressure on water supplies, the significant environmental and economic benefits flowing from such research would be a game changer for our sector.

Recommendation 5: The Australian Government make a one-off investment of $3 million to drive gains in the productivity of our vineyards, improve our resilience in the face of climate change and drought and return sustained profitability to growers.

In total, this strategy to future proof our sector requires a modest investment of $103 million over the next four years. This will provide the impetus for long-term, sustainable growth for the industry, insulate us against external market changes and build on the success of the $50 million package. It will also provide jobs and economic growth in regional Australia and underpin a rural recovery in the face of the challenges provided by the drought and challenging market conditions.

Market Access

The latest economic forecast released by the International Monetary Fund (IMF)[10] are concerning. Global growth forecasts for 2019 and 2020 have been revised downward, partly because of the negative effects of tariff increases enacted in the US and China earlier that year. According to the IMF, an escalation of trade tensions beyond those already incorporated in the forecast remains a key source of risk to the outlook. A range of triggers beyond such tensions could spark a further deterioration in risk sentiment with adverse growth implications, especially given the high levels of public and private debt. These potential triggers include a "no-deal Brexit" withdrawal of the United Kingdom from the European Union and a deeper-than-envisaged slowdown in China.

According to the IMF, the main shared policy priority is for countries to resolve cooperatively and quickly their trade disagreements and the resulting policy uncertainty, rather than raising harmful barriers further and destabilizing an already slowing global economy. Across all economies, measures to boost potential output growth, enhance inclusiveness, and strengthen fiscal and financial buffers in an environment of high debt burdens and tighter financial conditions are imperatives.

The future of the Australian wine sector and the flow-on benefits to rural and regional economies is inextricably linked with our ability to respond to this changing global trading environment.

Australian Grape & Wine is highly supportive of the Government's ongoing commitment to:

- resist protectionism and advocate for an open global economy
- work bilaterally and multilaterally to protect and shape rules that promote economic growth, trade liberalisation and free markets
- ensure the lowest possible barriers to our trade and investment, including through modern free trade agreements; and
- work with Australian businesses to advance our commercial interests in overseas markets

We are also very supportive of maintaining a consultative approach before, during and after trade negotiations, in which stakeholder input to negotiations and policy development is sought.

We hope to see continued efforts in the coming years to liberalise trade and create economic growth through

[10] https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019

expanding trade of wine. Harmonising technical barriers to trade and focusing on reducing NTBs are a core driver towards expanding our trading opportunities.

Collaboration and addressing technical barriers to trade.

Australian Grape & Wine is a strong supporter of working collaboratively with international colleagues for the mutual betterment of the broader trading environment. We engage in a number of forums, typically in partnership with government, to promote collaboration, exchange of technical knowledge and manage technical barriers to trade. These include the World Trade Organization Agreements (Principles based), Codex Alimentarius Commission (Advisory Standards based), APEC (Regulatory coherence) and for wine the World Wine Trade Group (Mutual Acceptance/Harmonisation approach).

World Trade Organization (WTO)

The Australian wine sector is a strong supporter of the multilateral rules-based trading system under the auspices of the World Trade Organization (WTO). The WTO provides the framework, which facilitates free trade throughout the world. The trade dispute mechanism provides a deterrent to countries that wish to implement trade restrictive policies and permits trading nations like Australia to take action against systemic trade issues, to level the playing field for our exports. The Australia-Canada WTO dispute on wine which was launched in 2018 is a prime example of its value. The dispute mechanism has allowed Australia greater opportunity to ensure equal trading conditions in Canada that we would not have had as great a chance of influencing without the WTO rules based system.

Despite the value of the WTO to the trading environment, the institution is under considerable pressure. Negotiations on a comprehensive development agenda have foundered on disagreements over agricultural subsidies and intellectual property rights, while members have increasingly turned to separate bilateral and regional free trade agreements to advance their trade interests. Since the WTO was established, following World War Two, it has proved pivotal to the ability of smaller nations (such as Australia) to overcome trade distorting policies of trading partners. The international rules-based trading system is integral to any exporting nations' ability to trade on the global market.

World Wine Trade Group (WWTG)

The WWTG is an industry-government cooperative initiative is an important mechanism for addressing wine trade related outcomes, with the group reaching agreement on a range of ways to harmonise trade. It also provides a strategic position which strengthens its members' negotiation and influence within the global wine trade.

In 2018 the Australian Government initiated a strategic review of the group. Australian Grape & Wine is supportive of this review and its key objectives of ensuring ongoing relevance of the work-plan and maintaining a relevant focus for the group.

International Organisation of Vine and Wine (OIV)

In the OIV, the Australia Government and Australian Grape & Wine have committed to providing an increased presence in the technical forum which has resulted in attendance at the Paris Expert Group meetings in March and October and the General Assembly held in June/July. This requires considerable consultation within Australia to ensure a coordinated industry and government position.

Key medium term issues include the:

- European Commission's increasingly active influencing of European member states requires improved transparency within the organisation, particularly relating to the EU's position as a *member of special status*
- dealcoholisation discussion to establish the European rules for trading and labeling reduced alcohol wine and wine products

- provision of supply and demand data from major producing and consumer countries and collation of forecasts in April, which has the potential to improve competitor and market analysis
- OIV's growing active involvement in the Codex Alimentarius Commission, which requires strong and informed leadership to ensure this supports Australia's interests
- desire for Australia to improve and increase its utilization of expertise on pests and diseases in the OIV, which could be useful in pest categorization and incursion management, and
- Australia's continued effort to ensure OIV resolutions are evidence-based and are not trade-restrictive.

There has never been a more important time to maintain our influential role in the OIV, as we go through a period of change with a new Director-General, Mr Pau Rocco of Spain, commencing his term on 1 January 2019.

Free Trade Agreements and Geographical Indications (GIs)

Australian Grape & Wine is a committed supporter of free trade. We stand firmly behind the objective of ensuring our bilateral and regional FTAs are comprehensive and liberalising, as compatible with one-another as possible and promote regional economic integration. However, it is essential that in our efforts to reach agreement on text we do not undermine long-standing principles and systems that serve our economy well.

The European Union and some of their member States are extending their protection of Geographical Indications (GI) through trademark applications, applications for GI protection and FTAs which is of concern to the Australian wine sector. Australian Grape & Wine has been active in lodging objections to such GIs within Australia and internationally for some time, and the assistance of the industry-funded Wine Australia in this respect has been welcomed. However, it has been clear that we are fighting a losing battle and the European Union is steadily restricting the rights of Australian wine exporters through their protection of grape variety names internationally. Despite our best efforts, we have failed to actively address the issues of grape variety names in our FTA negotiations to the potential detriment of Australian industry.

Given this, in the context of the upcoming Australia – European Union (EU) FTA, Australian Grape & Wine strongly urges the Government to protect the right of Australian wine producers to continue to use grape variety terms, such as *Prosecco*, but also other commonly used grape-variety names and common-English descriptive terms, on Australian wine products. Australian Grape & Wine is committed to holding the line and will pursue all possible opportunities to maintain Australian producers' international right to describe Australian wine using grape variety names.

This sector provides a significant growth opportunity for Australian wine producers in domestic and international markets as producers diversify their product to meet changing consumer tastes, a warmer climate and as specialised producers utilise new ways to reach a broader consumer market.

This also has broader ramifications than the wine sector. Clearly, the European Union will pursue GI protection for other foods in the negotiations. If Australia gives in to these demands, then this will require the establishment of a GI system for all food products. The wine industry will be very keen to ensure this does not erode our protection of our GIs and prevent us from marketing wine.

Australian Grape & Wine strongly believes that the Australian Government needs to include in all future FTA negotiations and in FTA reviews the objective of protecting Australian winemakers' rights to use grape variety names. Reliance on TRIPS and TRIPS text is not sufficient.

Other sectors will be keenly watching what happens with grape variety names to see if Australia is strong enough to preserve the integrity of a GI system. Given our extensive experience with GIs, both within Australia and internationally, Australian Grape & Wine is willing to work with the Australian Government in the development of any GI system and to strengthen our future FTA negotiations in this area.

Prosecco: why it is so important

Italy's creation of the Prosecco GI is cynical protectionism

Italian Prosecco: The true story

Prosecco has always been a grape variety traditionally grown in the hillside vineyards of the Valdobbiadene-Conegliano region of north-eastern Italy.

In 2009, in an attempt to restrict Prosecoo wine production, Italy (through the European Union) made a number changes. Firstly, they changed the name of the "Prosecco" grape variety in the EU to "Glera", a made up name that has no historical reference before this point in time. They then created a Prosecco GI within the 6,500 hectares of the Valdobbiadene-Conegliano region. To this day, Italy is the only country that is recognised by the International Organisation of Vine and Wine (OIV) as producing "Glera" grapes.

The intention of this move was to restrict global Prosecco production to within the newly created Italian GI. The region of "Prosecco" had never existed previously, and not had the grape variety "Glera". There used to be a small village in Trieste named Prosecco, however, this no longer exists and is now instead a small suburb. The Prosecco suburb falls on the very edge of the current GI, over 150km away from the Valdobbiadene-Conegliano region. Further to this, the Prosecco village/suburb has no history of producing Prosecco grapes.

In Italy, the Prosecco GI boundaries have grown rapidly. The variety used to be grown only within the 6,500 hectares of the Valdobbiadene-Conegliano region. However, in 2009, the total area where Prosecco could be grown increased to nearly 20,000 hectares. To put this change into perspective, this change would be akin to overnight in the Coonawarra (planted area of 5,600 hectares) growing to the size of the Riverina, Australia's largest wine region (plated area of more than 20,000 hectares). Clearly, Italy has chosen to expand the boundaries of the GI to accommodate market demand. Furthermore, in 2016, Stefano Zanette, President of the Consortium tasked with maintaining the Prosecco GI announced plans to expand vineyards by about five per cent per year from 2017-2019.

Prosecco is a different story to Champagne

The Prosecco variety and the attempts to create new regions for its production is a completely different story to the protection of the Champagne GI, which occurred in Australia some years ago. They key difference is that Prosecco is a grape variety, but there is no single grape variety used to make champagne (typically it made from the Chardonnay, Pinot Noir and Pinot Meunier grape varieties, or a combination of the three).

Restricting the use of Prosecco in Australia is like restricting Shiraz, Chardonnay or Riesling. The attempts to now restrict Australian producers' ability to use the Prosecco grape variety is the thin edge of the wedge. There are other varieties that are currently under threat and more will follow if the Italians are allowed to dictate which varieties Australian can grow.

Italy's Prosecco GI is not based on any historical or cultural significance. It is simply an attempt to monopolise the market for this highly valuable winegrape variety with huge potential. We can't undermine Australian producers, and we can't undermine Australia's long-standing system for protecting and registering GIs in Australia.

Export Market Development Grants (EMDGs)

The consultation process around the $50 million package has highlighted some challenges with the existing EMDGs. The core issue is that existing exporters, with export sales expansion capabilities, aren't able to capitalise on opportunities as many have reached the eight year sunset for EMDG claims.

Given the Government's focus on helping businesses to develop export opportunities, we believe there are a number of changes the government can make to further support export market development. The program could incorporate a designated funding-pool contributed to by Government each year, which would be distributed to winemakers, based on two streams:

1. A base grant guaranteed stream which would be paid on a matched winemaker expenditure basis which is similar in principle to the current EMDG scheme payment rules; and
2. A merits based stream, in that winemakers will have to demonstrate export sales growth to be able to access a grant from the funding pool and that the quantum of grants paid are paid pro-rata in line with sales increases from year to year.

The new grants should also only be available to wine businesses with "skin in the game", in order to prevent the grants being dominated by those whose only investment is in stock. This would help to provide a greater incentive to invested wine businesses, which currently represent less than half of the exporting wine businesses. Those without skin in the game could continue to access current EMDGs but not the new scheme.

This means that the economic benefits of export sales growth will be captured in the regions with the associated economic multiplier effect, due to increased direct and indirect employment as well as increased use of service operations to supply the increased winemaker production.

While issues around practicality and scope would need to be carefully considered, we believe changes are worth pursuing and would be delighted to work with government on the program's design.

Recommendation 6: Work with the Australian wine industry to develop the next iteration of the EMDG scheme that acknowledges market practicalities and new opportunities for Australian wine exporters.

Trade with China

The Australian wine industry's trading relationship with China, and the potential for a boom in Chinese wine tourism in Australia, is self-evident. China is our largest wine export destination by value ($1.4 billion in 2018), with further forecast growth projected.

However, we also recognize that the Chinese market can itself be challenging. It is changing rapidly and barriers to trade can arise quickly as a result. Further to this, Australia faces stiff competition from other wine producing countries, along with a rapidly growing domestic Chinese wine industry, which has been steadily growing in both size and expertise for some time.

Like the Australian Government, Australian Grape & Wine recognises the importance of close and positive relations with China. While geopolitics can drive governments to take firm positions on a range of issues, we urge the Australian Government to ensure it keeps the interests of businesses and the local communities they support firmly in mind when considering the bilateral relationship. Noting the importance of China to the wine industry and indeed other commodities, we believe it most important the Australian Government adopts a balanced and positive approach to future Government dealings with China.

In more practical terms, it is important to ensure government continues to support the efforts of Australian wine businesses to make the most of the China opportunity over the long term. In 2019, Australian Grape & Wine will be focusing on building greater industry/government relations with China.

In June 2019, Australian Grape & Wine will partner with the AFL and other agriculture and food industry bodies to showcase Australian food and wine around the round 11 clash between St Kilda and Port Adelaide at Shanghai's Jiangwan Stadium. It is expected the game will attract an audience of 30,000 people at the ground, with a television audience in the millions.

With the event growing in interest in China at government and consumer levels, we believe this is a great opportunity to strengthen relationships with Chinese consumers, business leaders and government officials. It is an ideal example of 'soft power' diplomacy and presents an opportunity for government and industry to work together to further improve the bilateral relationship. We encourage the Australian Government to work with us to make sure this event reaches its potential.

We also note the particular importance revising the existing Memorandum of Understanding (MoU) relating to trade in wine between China (AQSIQ) and Australia (Wine Australia). As there has been significant change within both the Authorities and their respective Ministers, there is great potential to take the opportunity to revise the MoU and utilise it as a means of promoting greater relations, resolving technical issues and expanding trade in wine.

Australian Grape & Wine also encourages the continuation and expansion of existing grants and funding opportunities focused on Chinese exports. Programs such as the Agricultural Trade and Market Access Cooperation (ATMAC) program and others, provide businesses and their representative bodies opportunities to engage and expand trade with China.

Recommendation 7: The Australian Government adopts a balanced and positive approach to future Government dealings with China.

Recommendation 8: The Australian Government continues to expand investment in industry for engagement, and broader trading activities with China.

Recommendation 9: The Australian Government supports industry efforts to host an event in collaboration with the AFL in Shanghai, in June 2019.

Recommendation 10: Australian Grape & Wine encourages the Australian Government to review its MOU with China, in collaboration with industry, as a mechanism to working towards resolving technical issues and strengthening trading relationships.

Domestic regulatory settings

Overview

Profitable and sustainable wine businesses require high capital investment and a permanent regional footprint. Winegrape growers' success depends on weather, water availability, pest and disease pressures, and global supply and demand trends. In turn, the price and availability of grapes determines the quantity and quality of their wine opportunity to manufacture wine each year. For both, these issues can lead to volatility in revenue.

Within this challenging business environment, the wine sector operates in a complex maze of federal, state and local government regulations.

Regulation extends across the full production and supply chain from agricultural production, on-site manufacturing, on-site packaging, food handling, export, workforce, transport and logistics, to cellar door sales and restaurant/café services. Changes to regulations have a significant impact on wine businesses which are largely small businesses, with many family-owned and run.

One bottle of Australian wine is subject to regulations (and associated costs/levies) in the following areas:

- Water use EPA (licenses and compliance)
- Production management (chemical use – reporting, management, training)
- State and local wine/grape levies
- National grape research levy, the wine export charge, the wine grapes levy
- Grape supply contracts - Manufacturing regulations (relating to winery operations)
- National Greenhouse Energy Reporting Scheme
- National Pollution Inventory reporting
- Biosecurity (certificates related to the movement of grapes between and within states)
- Label Integrity Program and other labelling requirements
- Geographical Indications requirements
- Food Standards Code (additives, production, traceability)
- Local Government permits related to development, events etc
- Food safety and handling certificates
- Tax compliance and reporting (payroll, income, WET, GST)
- Liquor licensing approvals and renewals
- Insurance, Workplace health and safety requirements
- Seasonal Labour Hire Requirements
- Multiple Workforce awards (agricultural, manufacturing, hospitality, cellar door) and conditions (leave, superannuation, entitlements, gender reporting)
- Export approvals and import requirements in other countries (certificates of origin, labelling, Free Trade Agreement documentation, UK anti-bribery laws and Modern Slavery Act)
- Consumer Law regulations (marketing, pricing, promotion, competitions)
- ASX compliance, where applicable.

In addition, many wine businesses operate across international, state and/or territory borders and the jurisdictional variations within these categories add a complex dimension to business operations.

Wine Equalisation Tax (WET)

The Australian wine sector is a major contributor to Australia's economic growth and prosperity. It provides significant benefits to rural and regional Australia and provides a key impetus to regional development. The wine sector is also a major contributor to Australia's tax revenue, through the Wine Equalisation Tax (WET), company tax and other taxes.

Australian Grape & Wine's position on wine industry taxation is clear. We recommend:

- No overall increase in the total tax revenue from the wine sector.
- Certainty in the tax system to reduce sovereign risk and create a stable business environment.
- The retention of WET rebate as a targeted measure to support wine businesses and regional communities over the longer term.
- No use of tax or artificial minimum pricing measures as a lever for health reform, as non-price measures target hazardous consumption more effectively.
- Maintenance of the differential tax rates for wine, beer and spirits (ie, no 'equivalency') to reflect the significant differences between the production of wine and other forms of alcohol.
- Wine to be taxed within the existing WET legislative framework and not an excise-based approach as is the case for beer and spirits

It is critical for the Australian wine industry's future viability that taxation remains under the WET system. As the Department of the Treasury noted in its discussion paper on the WET Rebate in August 2015:

> *Wine production is also more capital intensive than other alcohol industries and uses long-life assets, which can contribute to lower returns on capital compared to other industries. Profitability is generally more stable for producers of other types of alcohol such as beer and spirits, as these products are less dependent on the climate and other external factors. In particular, beer and spirits are produced from crops (such as hops, barley, other grains and potatoes) that are readily available all year round and are not subject to the challenges of seasonal vintages. Beer and spirits also tend to have higher returns to capital and lower cost structures than wine, particularly because they often have significantly larger economies of scale.*

The WET recognises these differences, and since its introduction in 2000 as part of the introduction of the GST, it has provided a stable taxation basis for the industry's 2,500 wineries, dominated by small, family-run businesses.

Among our international competitors, Australia is one of the most highly taxed wine industries in the world. Australia's 29 per cent WET is one of the highest rates among significant wine-exporting countries, compared with: France (0.8%), Italy (0%), Spain (0%), Argentina (0%), Chile (15%), South Africa (3.8%) and the US (6.6%). In Australia, the GST is imposed after WET, significantly increasing the GST tax take on wine products.

The Government's reforms to the WET rebate of 2017 are already achieving their objectives. The WET rebate is now working in a more efficient and fair way, with many of the problems of recent years having been addressed. Furthermore, the Government's Mid-Year Economic and Fiscal Outlook for 2018-19 shows tax receipts from the WET increasing over the forward estimates.

Australian Grape & Wine is now urging a period of tax stability to bed down these reforms and facilitate long-term investment by businesses. Constant public calls for taxation changes by other interests are of concern to Australian wine producers and undermine long-term confidence in the sector.

Recommendation 11: Ensure taxation certainty and stability for industry by maintaining the WET system for wine products.

Recommendation 12: Retain the WET rebate in its current form.

Alcohol and Health

The vast majority of Australians who choose to drink alcohol do so responsibly. Indeed, the Australian Institute for Health and Welfare (AIHW) notes in its National Drug Strategy Household Survey that:

- the level of binge drinking in Australia is falling
- the rate of underage drinking is declining
- more Australians are abstaining from alcohol while pregnant and, in general,
- Australians are drinking less often.

While the AIHW statistics tell us Australians are on the right track in how they drink, Australian Grape & Wine accepts there are some people who misuse alcohol, and that dangerous levels of consumption can lead to health problems and other social costs. We also accept that government has a role to play in designing health policies to address dangerous drinking.

Australian Grape & Wine is committed to working to achieve a safe drinking culture in Australia, but we need to have a seat at the table when policies are being designed to achieve this. We are keen to work with the federal, state and territory governments, and other members of the alcohol beverage industry, to design targeted, evidence-based policies that help reduce the level of dangerous drinking.

Australian Grape & Wine strongly supports organisations like DrinkWise Australia, which designs and promotes effective initiatives aimed at reducing risky drinking, particularly in young people and at risk groups. Internationally, it is important that the Australian Government works with WFA and other alcoholic beverage stakeholders in its engagement with the World Health Organization (WHO) and other fora. It is important that we work together to ensure the global debate around alcohol regulation is balanced, evidence based and centred upon targeting dangerous drinking.

Recommendation 13: Ensure industry has a seat at the table when designing policies relating to alcohol and health

Recommendation 14: Ensure health policies are evidence-based and target dangerous drinking.

Pregnancy Labelling

Australian Grape & Wine will work closely with government to develop a mandatory pregnancy warning label.

In its communiqué of 11 October 2018, Ministers requested that Food Standards Australia New Zealand (FSANZ) develop a mandatory labelling standard, including a pictogram and warning statement, as soon as possible. The new standard should meet the requirements of ministers, but impose minimal cost on Australian wine businesses.

Any requirements for coloured warning statements or mandatory placement requirements would impose significant costs on Australian wine producers, despite there being little evidence to support such labelling requirements achieving behavioral change. Given this, it is particularly important that FSANZ draws upon credible evidence in designing the labelling standard. Any recommendations must have rigorous scientific backing and include a substantial complementary education campaign in Australia as part of an integrated strategy.

In addition to our work towards an effective pregnancy warning label, Australian Grape & Wine will continue to support targeted campaigns to reduce Fetal Alcohol Spectrum Disorder (FASD) in Australia, such as that being rolled-out by DrinkWise Australia's ***Fetal Alcohol Spectrum Disorder Awareness Program***. Indeed, we have committed a substantial investment over the next two years to support this very campaign.

Recommendation 15: Government should develop a pregnancy warning labelling standard that achieves the policy objectives of the Australia and New Zealand Ministerial Forum on Food Regulation's decision of 11 October 2018, but impose minimal costs to Australian wine businesses.

Energy Labelling

The Australian and New Zealand Ministerial Forum on Food Regulation (the Forum) is currently considering its response to the recommendations of 2011 Blewett review (Labelling Logic: Review of Food Labelling Law and Policy) with regard to energy labelling for alcoholic beverages. The report recommends energy content be displayed on the labels of all alcoholic beverages, consistent with the requirements for other food products (recommendation 26). This was based on the premise that providing this information would help people manage their energy intake. The Forum took up this recommendation but tasked FSANZ with seeking further information through a cost-benefit analysis and further industry consultation before a position could be taken.

The cost-benefit analysis later commissioned by FSANZ[13] in 2015 noted that:

> *Internationally there is currently very little mandatory energy labelling on alcoholic beverages so there is little prior experience of how effective it might be……*
>
> *There are many uncertainties around the estimates but on the evidence examined there are reasons to doubt whether the energy content labelling considered in this report would be sufficiently effective to*

induce the behaviour change required to produce net benefits….

…….the evidence on the relationship between alcohol consumption and weight gain is mixed and the effect of alcohol consumption on weight gain is not readily predictable due to other confounding factors…..

The literature on labelling effectiveness in general shows it can raise awareness and aid recall, but there is less evidence conclusively linking it to changes in behaviour. There are currently very few instances internationally of mandatory energy labelling on alcoholic beverages and there is no empirical evidence on effectiveness specific to this sort of labelling.

The cost-benefit analysis as well as the significantly changed consumer preference to access product information since 2011 (given significant digital and web-based content growth) does not support the original premise of the recommendation that mandatory energy labelling will be effective in helping consumers to manage their energy intake.

Australian Grape & Wine supports providing information to consumers about alcohol products, including our strong messaging around responsible consumption. However, we disagree that energy labelling on alcohol is the most effective means of informing or educating consumers. In the digital age there are dynamic and flexible technologies available such as websites, social media, calorie calculators and web/smartphone applications, which are significantly more effective at informing and educating modern consumers, especially when combined with public health campaigns around all the factors relating to obesity. WFA will continue to participate in the consultation processes of the Ministerial Forum in 2019 to strongly urge Governments to consider modern and innovative solutions to these issues.

The Australian wine industry rejects mandatory energy labelling as it would result in significant on-going costs, as identified in the previous cost-benefit analysis, over ten years of between $71 million and $411 million[14] (depending on the scenario chosen) with no clear evidence that weight management benefits would be achieved.

Recommendation 16: Provide national leadership to explore alternative off-label digital-based solutions to communicate with consumers on energy labelling.

National Alcohol Strategy

The draft National Alcohol Strategy 2018-2028 (NAS), released for public consultation in December 2017 by the Ministerial Drug and Alcohol Forum, describes priority actions to prevent and minimise alcohol-related harm. As noted above, Australian Grape & Wine supports targeted, evidence-based approaches to achieving this goal.

However, we continue to have significant concerns with the draft strategy, as it fails to highlight the positive long-term trends of improved drinking habits in the community and does not analyse the reasons for that improvement. The majority of the actions outlined in the draft are broad-based regulatory and pricing measures, including minimum-unit pricing, increased taxation and availability restrictions. Many actions also simply call for tightening of current restrictions.

We (under our previous name, the Winemakers' Federation of Australia) welcomed the government's decision to conduct further consultation on the draft NAS in July 2018. We had previously expressed our serious concern that the draft explicitly excluded industry as an ongoing partner and stakeholder in future program development and delivery, and we were pleased the government took a more inclusive and balanced approach. However, we remain concerned that many of the most troubling features of the draft remain, and that it does not recognise the positive consumption trends in Australia. Furthermore, we are concerned about the lack of acknowledgement of the efforts made by industry to promote responsible drinking through point of sale messaging at cellar doors, or through the industry's strong support for existing secondary supply laws.

As noted above, the Australian Institute for Health and Welfare (AIHW) already provides evidence clearly identifying where alcohol related harm is prevalent, and where budgetary funds should be strategically and precisely targeted to address the causal factors leading to that harm.

Australian Grape & Wine continues to urge the Australian Government to work with industry to ensure the NAS presents recommendations targeted toward curbing dangerous drinking and based on strong evidence.

Recommendation 17: Provide national leadership through the Ministerial Forum on Drugs and Alcohol to ensure that future alcohol policy and programs build on the effectiveness of current policies and are targeted as specific causal factors of harm.

Biosecurity

Australia has some of the oldest grapevines in the world, with no other country in the world possessing so many surviving 19th century vineyards. This narrative is immensely powerful in building our wine credentials in a highly competitive global market and demonstrates our industry's strong case for protecting our most valuable asset, our vines. Concerns surround the increasingly complex national biosecurity landscape, driven by trends such as skyrocketing global trade and tourism, agricultural expansion and intensification, urbanisation and climate change. The wine industry has specific trends that are driving up biosecurity risk within our borders including:

- Increased consolidation, with regional grape processing being replaced by 'super' processing facilities that transport higher volumes of grapes across regional and state boundaries;
- Complexity of increased international ownership of Australian wineries and vineyards;
- Increased specialisation, with more contract vineyard management, pruning and harvesting, raising the risk of cross regional and cross-vineyard contamination;
- Increased wine-tourism and improved transportation corridors;
- Knowledge gaps around how certain key emergency pests (such as Xylella fastidiosa complex) would interact in the Australian environment impacting upon incursion preparedness; and
- Ongoing tight margins for grape growers.

Xylella (the cause of Pierce's disease in grapevines) is Australia's number one plant pest. The economic impact of a Xylella incursion on the Australian wine sector could be over $7.9 billion[11]. Australian Grape & Wine welcomes the investment by Wine Australia and Hort Innovation in a National Xylella Co-ordinator position.

Biosecurity funding

An analysis conducted by the Department of Agriculture and Water Resources identified that a tripling of investment in interventions at the border would not be sufficient to keep biosecurity risk at 2014-15 levels[12]. Smarter allocation and prioritisation of resources and a value for money approach to funding biosecurity that considers return on investment should remain front of mind.

The independent review of the capacity of Australia's Intergovernmental Agreement on Biosecurity (IGAB[13]) refers to 'widespread support for the view that the National biosecurity system is underfunded and that, in particular, there is inadequate funding for those areas where the greatest return is likely to be achieved'. These are those

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[11] ABARES (2017) maximum cost calculated as net present value of lost gross margins and replanting costs over a 50 year time frame assuming all vineyard proved susceptible sourced from http://data.daff.gov.au/data/warehouse/9aab/2017/EcoImpactsXylella/EcoImpactsXylellaFastidiosa_20171123_v1.0.0.pdf

[12] Craik et al (2017) Priorities for Australia's biosecurity system An Independent review of the capacity of the national biosecurity system and its underpinning Intergovernmental Agreement sourced from http://www.agriculture.gov.au/SiteCollectionDocuments/biosecurity/partnerships/nbc/priorities-for-aus-bio-system.pdf (p 18)

[13] IGAB (p 114)

activities before the border and at the border on the left-hand side of the biosecurity invasion curve[14]. With this fact in mind, Australian Grape & Wine supports the allocation of $137.8M for further new biosecurity investment over 5 years announced in June 2018 [15] bringing the total investment to $313 million.

However, there is a need to consider implementation of further funding mechanisms whereby risk-creators contribute to the costs in equitable proportions to risk beneficiaries. Furthermore there remains and a strong case for maintaining transparency to industry as to how cost-recovered activities are deployed. Hypothecating funds collected on container imports through the Biosecurity Imports Levy would ensure that there is ongoing resources available for protecting our significant agricultural economic assets, including grape vines.

Recommendation 18: The Australian Government hypothecate funds collected through the Biosecurity Import Levy and increase biosecurity investment in those areas where the greatest return is likely to be achieved.

Industry involvement

The involvement of industry in investment decision making should be a priority. Industry's current involvement is focused on emergency responses and those biosecurity activities specific to the respective industries. There would be strategic benefits that could be achieved by strengthening industry's involvement in decision making. Given that over 70% of biosecurity -related expenditure at Australian Government level and 57% of national system expenditure is funded by industry (based on 2015–16 FY[16]), such involvement is certainly justified.

Recommendation 19: Explore opportunities to strengthen industry involvement in biosecurity investment decision making.

Surveillance and data management

The grape and wine sector has identified a critical gap in its current surveillance ability and performance, including the way it manages information. The current system is outdated, inflexible, not scalable and not fit for purpose to meet the grape and wine industry's needs and expectations in the face of rising threats. The inadequacy of the current system leaves Australia's multi-billion-dollar wine industry – and all those it supports – dangerously vulnerable. Funds invested in areas of data management and surveillance would provide a lasting legacy to assist with early detection of incursions, at the same time as optimising response efforts.

Industry partners have scoped out a Digital Biosecurity Platform to effectively safeguard Australia's wine and grape industries into the future. Its modern database and interface tools will provide multiple ways for all stakeholders – Vinehealth Australia, State Biosecurity agencies, growers, wineries, nurseries, suppliers, individuals, industry bodies, government and research partners – to produce and consume data, and share and generate knowledge.

The proposed Digital Biosecurity Platform will position Australia as a clear global leader in the biosecurity field through the establishment of a new world's best-practice benchmark; strengthening and substantiating our valuable 'clean and green' reputation and providing powerful leverage in international markets.

The platform will harness the capability of modern technology to seamlessly integrate all elements of the plant biosecurity system – preparedness, prevention, response and recovery. Individual growers will also access significant added value through the ability to use, manage and exchange information in a secure way. The platform will make it easier for growers to store and manage their geospatial data, and share it with neighbours and contractors. It will

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[14] 2015 16 national stocktake of biosecurity investment sourced from http://www.agriculture.gov.au/SiteCollectionDocuments/biosecurity/partnerships/nbc/priorities-for-aus-bio-system.pdf p102

[15] Media Release (2018) Coalition beefs up biosecurity sourced from http://minister.agriculture.gov.au/littleproud/Pages/Media-Releases/coalition-beefs-up-biosecurity.aspx

[16] IGAB, (p 102)

also facilitate community engagement through researcher and citizen science tools, allowing the tagging of vines with important data, and the expedient identification of biosecurity risks.

The platform will support researchers and regulators to rapidly distribute critical new biosecurity knowledge, and help growers immediately apply it. The design of the platform will enable it to be scaled, both across the wine and grape industries nationally, and across other agricultural sectors (such as olives and almonds), if desired. It will deliver direct benefits to all stakeholders, including grape growers, wineries, nurseries, contractors, suppliers, national, state and regional wine associations and the broader community.

The proposed Digital Biosecurity Platform's development and delivery, together with the necessary data cleanse and transition, will be executed as a staged process. The total estimated cost will be $1.1 million for this transformative project and industry is seeking an additional $850,000 in leveraged support from the Australian Government.

Recommendation 20: Allocate $850,000 to support the development of a Digital Biosecurity Platform to safeguard Australia's wine industry and associated businesses.

Wine Industry Code of Conduct

On 26 September 2018, the ACCC announced it would conduct a market study of the Australian winegrape industry. The purpose of the study is to complete an in-depth review of the industry and identify any market failures or trade practices issues that may be preventing the functioning of competitive markets or resulting in detriment to winegrape growers. Prior to their amalgamation, WFA and AV both welcomed this study, hoping it could identify key issues that could be addressed to enhance competition and transparency in the supply chain. A copy of the WFA submission is here.

Australian Grape & Wine is committed to free and open competition for its products as well as within its supply chain. All participants in the supply chain must be profitable for the industry to continue sustained growth. We also recognise that some risk is shared across the supply chain, and that other risks are concentrated within a particular segment of the chain. For example, winegrape growers carry a level of risk in the process of growing winegrapes, but this risk is shared with winemakers. For example, if an event such as a hail storm or the emergence of significant disease pressure severely damaged a crop of winegrapes in a particular vintage, growers would not have as much to sell to purchasers and winemakers would not be able to source the grapes they require to make their wine. In this instance, both winemakers and winegrape growers share the risk, and both would suffer financially. Further to this, many winemakers are also vineyard owners who grow their own grapes, in which case the agricultural risk would be concentrated within a vertically integrated supply-chain.

Secondly, winemakers carry a significant amount of risk in their businesses that is not shared with winegrape growers. For example, winemakers make large scale capital investments in equipment, branding, marketing and storage in the hope of successful returns over the long-term. In terms of the process of making and selling wine, it is important note that winemakers assume the risk burden in its entirety at the moment a delivery of winegrapes is accepted at the weighbridge. It can be many years before the wine produced from these winegrapes is sold. In addition to this, the alcohol beverage industry is subject to a broad range of additional regulatory restrictions around sales, delivery and advertising, that other agricultural commodities are not subject to.

Disputes do occur on occasion between winemakers and winegrape growers over the price of grapes. To help facilitate this, Australian Grape & Wine strongly supports the voluntary Wine Industry Code of Conduct and encourages all members to become signatories to the code and to implement its best practices.

The Code is clearly working. In 2017-18, there were 50 enquiries, which is significantly more than the 29 enquiries received in the 2016-17 period. However, we acknowledge that signatories to the Code remain below the target of half of the top 100 Australian wine producers (by tonnes processed) signing the code by the end of 2013.

More can be done. It is clear that the sector would benefit from the provision of publicly available data which contributes to pricing decisions. This could include bulk wine availability and prices, domestically and internationally; information on market demand in key markets; information on Australian juice and bulk wine prices, vintage conditions and outcomes in major competitors. Wine Australia could be well placed to provide this data on a regular basis to inform growers and winemakers of market and supply conditions.

Container Deposit Schemes

Container deposit schemes (CDS) are currently in place in South Australia, the Northern Territory, New South Wales, the ACT and Queensland, with Western Australia to introduce its own scheme in 2020. South Australia is currently reviewing its scheme.

The purpose of the original South Australian CDS (established in 1977) was to reduce drink-container litter across the state. It was argued that wine and spirits, as well as milk and juice cartons, were generally consumed at home and therefore, they did not end up in street litter. Thus, the containers have always been exempted in South Australia, and most new CDS's share this approach. Indeed, nationally, glass containers for wine and spirits make up 0.0009 per cent of all public litter items (or 58 wine and spirit containers out of a total of 66,838 litter items)[17].

There are occasional calls for wine and spirits bottles to be included in CDS schemes. This seems to misunderstand the purpose of such schemes, and ignores the significant costs that would be borne by winemakers. Furthermore, those calling for the inclusion of wine and spirits bottles in a CDS rarely identify the problem such a policy change is trying to address.

In terms of costs, if a state or territory included wine bottles as part of their CDS, winemakers would bear the cost of the 10 cent refund on each unit sold. In the concentrated retail market where margins are already thin, it would be impossible to pass this cost onto consumers. In addition, the costs of changing labels and the administrative costs associated with complying with legislative requirements would be unreasonably burdensome, particularly given wine and spirits bottles make up a negligible fraction of the public litter stream.

If this approach spread to other states and territories, the administrative costs of complying with different systems would prohibitive to business. Indeed, even with wine bottles being excluded in CDSs around the country, there are variations in the scope of wine containers (related to size) excluded from the schemes between jurisdictions.

In New South Wales, where wine remains excluded, the CDS roll-out from 1 December 2017 has led to substantial industry disruption and costs, with many retailers increasing prices significantly beyond the 10 per cent container refund fee to cover costs of compliance and administration. The New South Wales Government was forced to offer interest-free loans to small businesses to cover the additional costs of compliance. Furthermore, the rollout has shown that costs have disproportionately affected small beverage producers, with that effect exponentially magnified if wine containers were included.

Australian Grape & Wine will continue to work closely with States and Territories to ensure they understand the significant impact of a CDS on the wine industry. We will also continue to advocate against the inclusion of wine containers under any CDS in any jurisdiction and for consistency in scope and product definitions. Importantly, inclusion of wine bottles would only add cost to producers and consumers, while contributing nothing to the

[17] National Littler Index 2015-16: Keep Australia Beautiful National Association, November 2016.

reduction in the waste stream. It would of course add revenue to the chief advocates – the businesses collecting and recycling the bottles.

If governments wish to change the scope of CDS's to focus on increasing the amount of recyclable glass, they should carefully consider the costs and benefits of a variety of approaches, rather than immediately jumping to a CDS as the solution. For example, the introduction of recycling bins purely for glass could encourage a higher level of recycling of wine bottles at home and in restaurants, where they are consumed. This would also facilitate less contamination of glass from other recyclable materials like cardboard.

While this is a jurisdictional issue, there will be a role for the Australian Government if States and Territories seek to implement a nationally coordinated program. Australian Grape & Wine would consider the merits of a national CDS in order to iron out the inconsistencies between state and territory schemes, and reduce the compliance burden and costs on Australian winemakers. However, we would only do so if such a system excluded wine containers.

Recommendation 21: Closely monitor the implementation of CDS in other jurisdictions to ensure the Australian remain outside the scope of these schemes as they do not contribute to the away-from-home public litter stream.

Food Standards Code

State, Territory and Local Governments are primarily responsible for implementing and enforcing food standards and the Australian Government Department of Agriculture and Water Resources has a role in enforcing the Australia New Zealand Food Standards Code at the border. In 1998, the Blair Review recommended Australia adopt an integrated and coordinated food regulatory system with nationally uniform laws and a co-regulatory approach.

An Intergovernmental Food Regulation Agreement (FRA) signed by COAG in 2000, included the Model Food Act as a template for developing consistent legislation in each state and territory. The FRA also established a Ministerial Council now known as the Ministerial Forum on Food Regulation, which develops food regulation policy and adopts, amends, rejects or requests the review of food standards.

Despite an overarching national approach, inconsistent regulation arises due to the autonomy of State and Territory Governments in determining whether and how to implement national standards. FSANZ will not provide interpretations for the food standards they develop unless they receive payment. Small businesses cannot afford to seek such interpretations, with costs multiplying where it is necessary to contact regulatory bodies in each jurisdiction to ensure compliance with their interpretation of standards.

This is an untenable situation, as poorly drafted food regulations have differing interpretations between enforcement jurisdictions, resulting in increasing costs and uncertainty for businesses trying to comply with the law. Wine businesses want to comply with the law, but are increasingly frustrated in the inability to obtain clear guidance. Australian Grape & Wine seeks the Australian Government's commitment to provide free interpretations of the Food Standards Code to provide greater regulatory certainty.

Recommendation 22: Remove the cost to business of obtaining interpretations of the Food Standards Code.

Responsible Service of Alcohol (RSA)

States and Territories across Australia require employees associated with the selling of alcohol to hold Responsible Service of Alcohol (RSA) certification. Despite the widespread application of the national competency *Provide Responsible Service of Alcohol* in all jurisdictions, a certificate achieved in one jurisdiction is not easily or fully recognised in all others. For example, New South Wales and Victorian Governments require additional study and/or costs before recognising interstate certifications. This has a significant impact on the wine industry, especially when small businesses regularly undertake tastings in other states and territories for a short period, and are required to fully comply with RSA state requirements.

All Tourism Ministers announced in 2013 that as part of Tourism 2020, all jurisdictions had measures in place, or were introducing measures, to recognise interstate RSA certificates. This has not been achieved in a way that minimises costs to industry or facilitates the mobility of workers.

Small winemaking business depend on a national sales market including member tastings and special events interstate. A South Australian wine region, participating in a roadshow of regional wines in another state, incurred $28,000 in additional costs to achieve RSA compliance (beyond SA certificates already held) prior to one glass of wine being poured.

Short-term, automatic recognition of RSA certificates limited to tasting events is critical to the wine industry in diversifying markets, and will not undermine any jurisdictional integrity. Given consistency in national competencies, and common policy agreement under the Tourism 2020 Strategy, this should be achievable immediately. Australian Grape & Wine will continue to seek this practical solution to an unnecessary and costly red-tape restriction.

Recommendation 23: Work with State and Territory Governments to achieve national recognition of RSA certifications without additional cost or study requirements.

Recommendation 24: In the short-term, facilitate national agreement to immediately recognise interstate RSA certifications for the purposes of carrying out tastings.

Research and Development (R&D) Funding

The Australian grape and wine industry has grown and prospered through innovation and strong leadership. Industry has used two processes to drive this innovation, the provision of new knowledge from research, and through industry led and directed activity. Innovation is driven by the companies that make up the Australian wine industry, either individually or collaboratively, and uses information from a wide variety of sources. These include in-house research and technical activity, publicly funded research, extension and education, suppliers to the industry, private companies and consulting organisations, CSIRO, Universities and the Australian Wine Research Institute (AWRI).

R&D in the wine industry is the responsibility of a large number of organisations. The primary stakeholders are the industry (grape growers and winemakers) and the Government (Australian and State jurisdictions). Both groups invest directly in R&D as well as jointly through organisations such as the AGWA and research providers. Research providers and funders also have high vested interests in the R&D process. Efficiency in the funding and provision of research are essential to ensure that scarce funding is not competed away in the scramble for funding or duplication of research. Coordination of this complex structure is though the National Primary Industries Research, Development & Extension (RD&E) Framework Wine Sector Strategy (PISC Strategy).

From an industry perspective, it is important to ensure that the structures in place to initiate, fund, undertake and provide extension of R&D, maintain capacity and capability by State and federal providers/funders, minimise duplication and maximise efficiency in research and delivery.

It is also important to understand that RD&E not only underpins the profitability of the wine sector, but is also an important generator of income in its own right. Australia is fortunate to have a number of internationally recognised world class research providers including the Australian Wine Research Institute, CSIRO, SARDI, the National Grape and Wine industry Centre, and a vibrant university sector including Adelaide, Melbourne, Flinders, and Curtin Universities.

Australian Grape & Wine has a common RD&E policy. The objective of the wine sector policy position on RD&E is to enable the efficient provision of research needed to allow the Australian Wine Sector to become the most profitable and competitive supplier of wine to the consumer. The critical policy underpinnings are:

- Government support for agricultural research to address significant market failure issues and underinvestment in innovation.
- Research activities must align with the wine sector's research priorities, be clearly stated and be of national and/or regional benefit to the sector across the entire supply chain.
- Research, development and extension capability within the wine sector needs to be actively built and maintained at an appropriate level to reflect industry conditions.
- A cooperative research approach between industry, researchers, funding bodies and government needs to be fostered to ensure seamless integration of grape and wine research across the whole value chain.
- International collaboration in publicly funded research activities should be undertaken only if there is a likely net benefit to the Australian wine sector and/or the wider Australian community.
- Intellectual property management must give priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry.
- Dissemination and extension of the outcomes/results of R&D must ensure an efficient and effective system in line with industry expectations to ensure adoption of research outcomes.

Maintain investment in research and development

Much of the funding for the Grape and Wine Sector R&D is disbursed through Wine Australia and comes from a levy of $2 per tonne of grapes delivered and $5 per tonne of grapes crushed, matched by the Australian Government (up to 0.5% of the Gross Value of Production). The total fluctuates with the harvest but is around $25 million per annum with $40 million in project partnerships. Research providers through State and National investment also provide funds. In addition to the monies spent in this collaborative sense, many of our wine companies (both small and large) are active in the research space with their own departments or individuals working on their own innovations. In real terms, funding is declining and the levy system itself is constantly under threat as a cost-saving mechanism during the budget process. WFA is a strong supporter of the current system and we are committed to ensuring that Wine Australia retains its focus on research and maintains the investment of research levies for research activities.

The Government matching of industry funding collected through the grape research levy and the R&D component of the wine grapes levy has delivered significant benefits to industry and must be maintained.

Environment

The Australian wine industry is deeply committed to the protection of our environment and stewardship of our natural resources. We acknowledge that the industry’s businesses form a part of the environment in which we operate and governments key role in working with industry to protect the environment.

Climate Change

The industry acknowledges the implications of climate change on the environment and sector and recognises the need for greater understanding with regard to its management. The industry accepts it makes a relatively minor contribution to greenhouse gas emissions at the domestic and global level. However, industry recognises the need to play a leadership role to adopt better emissions practices.

The industry has taken a lead role in climate change management, via the early development of the Australian Wine Industry Carbon Calculator and environmental stewardship through the implementation of Entwine Australia: an industry program designed to underpin the environmental credentials of Australian wine.

Australian Grape & Wine supports an enhanced capacity to respond and adapt to the impacts of climate change on winegrape production at a regional level. To enable this, it is vital that government adopt consistent national approach, aligned with international protocols and in consultation with industry, to deliver effective climate change policy. Understanding the contributions and effects on industry is key to developing policy, which will deliver viable outcomes.

Recommendation 25: Engage with industry to consider ways to recognise vineyard's contribution to carbon sequestration and related offsets.

Water

Water is essential to the viability of Australian grape and wine businesses; therefore Australian Grape & Wine believes that all members of the wine industry must demonstrate good water stewardship. Water use efficiency has been of high priority to Australian winegrape growers and the industry has worked hard over the last ten years to improve its practices. ABS (2015) reports that most winegrapes are watered with efficient drip or micro spray and by mid 2000s growers had all but phased out flood irrigation. Australian Grape & Wine is committed to promoting efficient irrigation and to raising awareness of the industry's impact on water resources. Our innovative environmental sustainability program, Entwine, supports the sector's efforts for continual improvement in water use efficiency. Australia's grape and wine businesses are some of the most efficient and effective managers of water in the world.

Management decisions regarding water allocations have the potential to significantly impact upon winegrape growers and regional communities. Such decisions should be subject to extensive irrigator and community consultation and include a socio-economic impact assessment.

Water is a limiting factor for all agriculture and demands serious and long-term planning and solutions.

Recommendation 26: It is time for the government to commit to a strategic program to increase the supply of water to Australian businesses and communities, while respecting the need to maintain adequate environmental flows. Businesses must adopt water efficiency measures, but this requires serous government attention to maximise the potential of Australian agriculture to support Australia's economic prosperity.

Energy

The Australian wine industry places high importance on the efficient management of energy including fuels, gas and electricity. Australian Grape & Wine believes that all industry should demonstrate efficient and effective management of energy and support the transition to reduced greenhouse gas emissions by addressing energy inefficiencies and, where appropriate, by incorporating alternative energy opportunities and innovative technology in their operations. We support changes or retention of national energy policy, in consultation with industry, which seek to improve affordability, reliability and management of energy.

Electricity

The Australian wine sector is electricity-dependent and is significantly impacted by price rises and unreliability of supply. Electricity can be a significant proportion of the costs of production for businesses in the wine sector. The industry is concerned about the extent and rate of increase of electricity prices that have occurred over recent years. As a result many wine businesses are seeking alternatives to grid reliance.

Australian Grape & Wine is working with the Agricultural Industries Energy Taskforce to ensure this valuable business input is delivered in a more sustainable manner for agricultural businesses. Through the Taskforce, we provided input into the 2017 Blueprint for the Future Security of the National Electricity Market (the Finkel review) and we will continue to engage Governments and seek outcomes focused on improving affordability, reliability, and management of the electricity market.

Recommendation 27: Work with industry to ensure a reformed electricity market delivering improved affordability, reliability, and management of the electricity market.

Fuel Tax Credits

Fuel Tax Credits ensures these businesses are not disadvantaged by paying excise on the off-road use of diesel in the production of goods and services. Fuel tax credits are not a subsidy for fuel use, but a mechanism to reduce or remove the incidence of excise or duty levied on the fuel used by business in off road vehicles. Australian Grape & Wine supports the retention of Fuel Tax Credits for Agricultural business, as they are vital to regional Australian businesses.

Recommendation 28: Retain the existing fuel tax credit scheme for agricultural businesses.

Contact

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