Winemakers' Federation of Australia

For the Industry by the Industry

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WINEMAKERS' FEDERATION OF AUSTRALIA

Policy Statement

A statement of policy and programs to deliver greater sustainability for the Australian wine sector

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1. Executive Summary

In May 2007, the Australian Wine Sector Launched *Wine Australia: Directions to 2025* as an industry strategy for sustainable success. Following a decade of unprecedented change in global wine trading conditions, *Directions* was developed to reassess the priorities and challenges facing the industry.

Directions recognised that Australia's wineries require more than a vision, and provides a series of practical tools and information which is currently being rolled out to industry through a series of national workshops under the *WineSkills* banner. These training modules have received the backing of the Australian Government through the Department of Agriculture, Fisheries and Forestry.

Altered global trading conditions also bring new pressures and responsibilities to the environmental and social aspects of the sector. As the industry has expanded, so too has the policy and regulatory framework within which it operates. The Australian wine sector seeks to achieve positive environmental and social results for the industry, and the broader community as a whole, in a financially sustainable business environment. This can, and must be, achieved in partnership with the Australian Government through shared policy and program priorities, as outlined in this document.

The key areas highlighted in this document are:

Health and Social Responsibility

<u>Required Outcomes</u>

That the Australian Government:
acknowledges that alcohol is a broadly accepted part of Australian life, and that the policy and regulatory framework should not discourage responsible consumption;

- ensures that decisions regarding alcohol policy and regulation are based on sound scientific fact, backed up by reliable evidence;
- ensures that there is a formal process of consultation with the Australian wine sector on policy and regulatory positions taken both in domestic and global forums that impact the operating environment of grape growers and winemakers;
- consults and actively engages the Australian wine sector on decisions made and positions taken regarding alcohol policy at the World Health Organisation and associated forums;
- supports the quasi-regulatory[1] approach to the control of alcohol advertising through the Alcohol Beverages Advertising Code; and
- continues to support DrinkWise Australia and its goal to promote a more responsible drinking culture in Australia, by minimising potential harms and supporting the positive aspects of alcohol consumption

[1] As defined in the Government's Best Practice Regulation Handbook (August 2007)

Capacity Building

Required Outcomes

That the Australian Government:

- acknowledges and supports the Australian wine sector's effort in and commitment to capacity building across leadership development, skills enhancement and sustainability;
- supports the Australian wine sector's review of statutory and peak industry bodies, including the implementation of any required structural changes; and
- provides greater opportunity for industry engagement in the development and review of government policy on education and training with respect to the Australian wine sector.

Wine Tourism

Required Outcomes

That the Australian Government:

- continues to recognise the importance and growth of wine tourism by providing sufficient marketing and research resources through Tourism Australia and Tourism Research Australia; and
- consults with industry (through the Winemakers' Federation of Australia) on the allocation of tourism funds towards the wine sector.

Wine Sector Voluntary Code of Conduct

Required Outcome

That the Australian Government supports the Australian wine sector in the development of a voluntary code of conduct covering the trading relationship between wine grape growers and winemakers .

Wine Taxation

Required Outcomes

That the Australian Government:

- supports a WET exemption for the first $6 million of domestic sales indexed to CPI, with a 29% WET to apply after that;
- allows wineries with a turnover of less than $4 million to account for their GST and WET liabilities on a cash basis;
- supports an adjustment to the definition of an Associated Producer, using the Corporations Law rather than the Income Tax Assessment Act so that legitimate smaller wineries can access the WET rebate; and
- introduces prescribed minimum values for wine stocks on hand, similar in concept to that which existed between 1953-1973.

Environment

Required Outcomes

That the Australian Government:

- actively promotes an accelerated uptake of the National Water Initiative;
- implements the National Plan for Water Security as a matter of urgency; and
- recognises the extensive efforts the Australian wine sector is making with regard to continuous improvement of environmental performance

International Trading Environment

Required Outcomes

That the Australian Government continues to work in partnership with the Australian wine sector to ensure that wine can be traded freely on the international market. This is to be achieved through the following:

- ensuring and enhancing market access through the removal of trade barriers and harmonisation of import requirements where appropriate;
- supporting multilateral trade liberalisation and maintaining the integrity of the current multilateral trade agreements under the auspices of the World Trade Organisation;
- ensuring that industry competitiveness and the integrity of Australian wine are maintained in the market place through appropriate government policy and regulation;
- supporting the removal of, or appropriate response to, domestic assistance for wine products being imported into Australia; and
- ensuring that international standards are harmonised, set on a basis of sound science, and do not become an impediment to trade.

Research and Development

Required Outcomes

That the Australian Government:

- continues to match funding for Rural Research and Development Corporations (RRDCs) such as the Grape and Wine Research and Development Corporation; and
- provides support of $9.5 million to enhance the Wine Innovation Cluster and develop a world leading research program on climate change as it relates to the wine sector.

Biosecurity

Required Outcome

That the Australian Government works with the Australian wine sector and other plant industries to ensure a coordinated, swift and effective response can be made to any exotic pest or disease incursion.

2. State of the Australian Wine Sector

2.1 Background and Importance to Australia

The Australian wine industry is one of our country's major success stories. Over recent decades, the sector has enjoyed strong production and export growth, substantial investment, high levels of innovation and increased employment, particularly in regional communities. The wine industry has contributed positively to the economy, through income and employment particularly in regional areas, as well as through multiplier effects to other industries (including tourism and retail) and the balance of payments in major export earning.

In 2006-07 the value of domestic sales reached $1.9 billion and the value of export sales $3.0B. ABS Census data indicate that direct employment in the grape growing and wine making industries exceeded 30,000 in 2001. In addition, once allied supply industries are taken into account, the number of jobs supported by the wine industry is estimated at around 57,000 people for 2001, a number that certainly would have grown significantly since the last census.

Table 1: Snapshot of the Australian Wine Industry

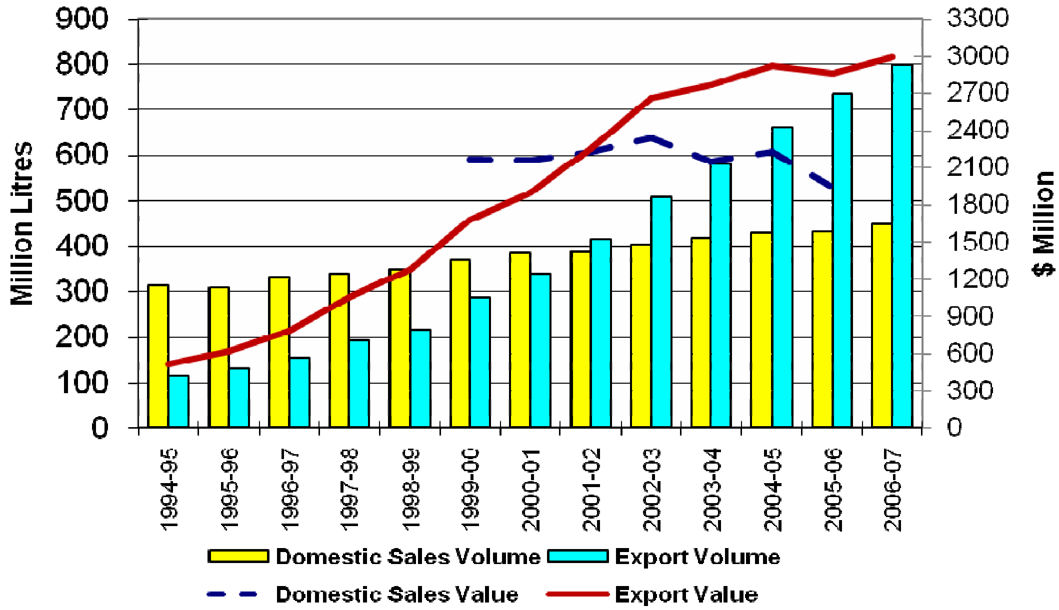
(2006-07 figures unless otherwise indicated)		
Wineries (2006)[1]	number	2,146
With Cellar Doors	number	1,565
Direct Employment (2001)[2]		
Grape Growing	number	15,629
Wine Making	number	14,480
Wine Grape Crush[3]	'000 tonnes	1,420
Wine Production[3]	million litres	1,050
Domestic Sales - Volume[4]	million litres	449
Domestic Sales - Value[4] (2005/06)	$A million	1,899
Exports - Volume[5]	million litres	798
Exports - Value[5]	$A million	2,994
Imports - Volume[4]	million litres	34
Imports - Value[4]	$A million	307
Taxation (2006)		
Wine Equalisation Tax	$A million	660
Goods and Services Tax	$A million	450

Sources:
[1] *Australian and New Zealand Wine Industry Directory 2007*
[2] *ABS Catalogue No: 1329.0 Australian Wine and Grape Industry*
[3] *WFA crush estimate. WFA Production estimate based on extraction rate of 740 litres of wine produced per tonne. Extraction rate derived from ABS*
[4] *ABS Cat No. 8504.0 Sales of Australian Wine & Brandy by Winemakers*
[5] *AWBC WINEFACTS Statistics*

2.2 Rapid Growth

Export volumes have increased five fold over the past decade, while the export value has almost quadrupled. Meanwhile, domestic sales of Australian wine have grown 35% by volume over the same period.

Figure 1: Domestic Sales of Australian Wine and Wine Exports



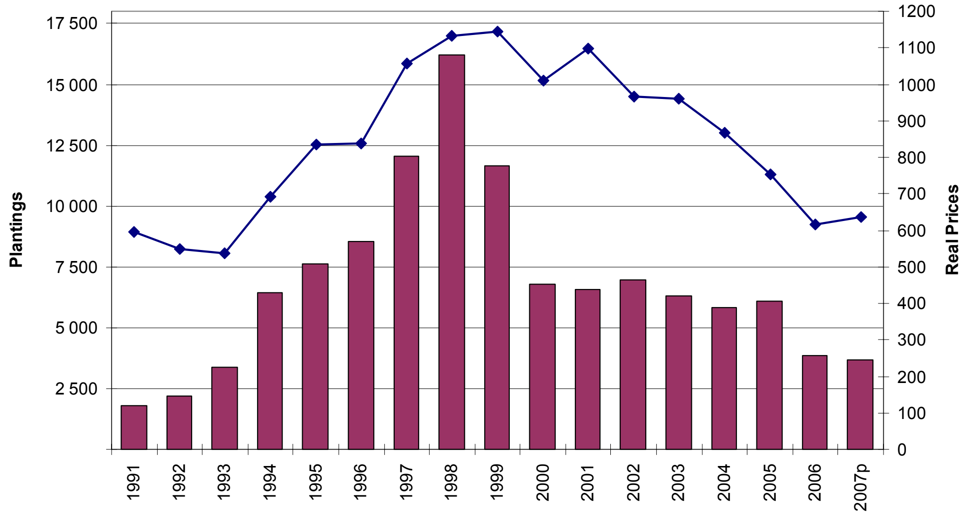
Note: *Domestic Sales and Export Sales values are 2006-07 real prices*

Sources: *ABS Catalogue No: 8504.0 Sales of Australian Wine & Brandy by Winemakers & Catalogue No: 1329.0 Australian Wine & Grape Industry, AWBC Wine Export Approval Report via WINEFACTS Statistics*

Much of the growth in Australian wine production was driven by the surge in plantings in the late 1990s, which was in turn stimulated by high grape prices. However it is important to note that a significant proportion of the new plantings were 'speculative', and not necessarily backed by a winery contract.

Between 1993 and 1999, real average grape prices more than doubled to almost $1,120 per tonne. In reaction to this price growth, annual vineyard plantings increased from less than 3,000 hectares per year up to 1993, to almost 17,000ha in 1998 – equivalent to 145 million litres (over 16 million cases) in additional annual wine capacity. Figure 2 demonstrates the close tracking of planting to winegrape prices.

Figure 2: Real Grape Prices and Plantings



Source: *Australian Regional Winegrape Crush Survey via AWBC WINEFACTS Statistics & ABS Catalogue No: 1329.0 Australian Wine & Grape Industry.* Note: *2007 Plantings and wine grape price preliminary*

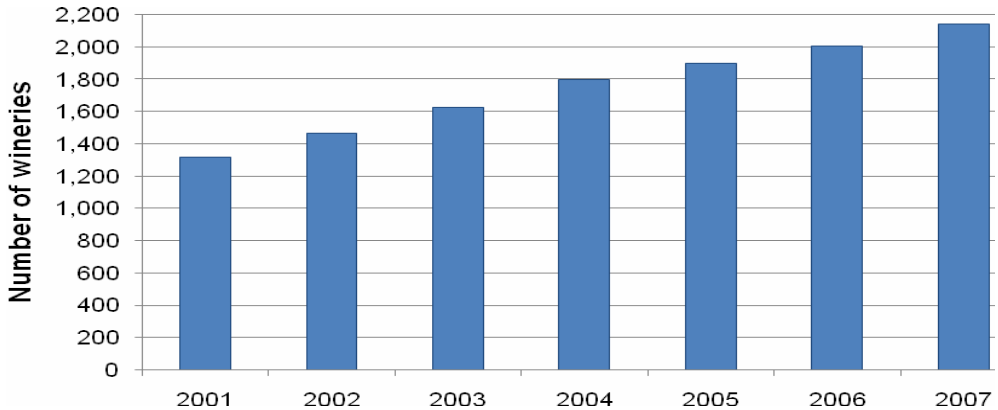
In hindsight, it becomes clear that the rapid vineyard plantings in the late 1990s were not sustainable, and nor were the high wine grape prices that prompted them. Grape prices have in fact progressively declined since their 1999 peak. Despite a slightly reduced crush in 2006, average grape prices were still slightly above those received prior to the planting boom (in real terms).

2.3 Regional Impacts

The strong growth seen in the wine sector has been particularly important for regional communities in Australia. This is indicated by the following trends:

The number of wineries has more than doubled in 10 years, to exceed 2,100 in 2007. The vast majority of wineries are small and located in regional areas, and around 70% have an annual crush of less than 100 tonnes. In excess of 800 wineries have been added since 2000, and around 640 of these have been small, again with a crush of less than 100 tonnes. In contrast, Australia's largest wine businesses crush more than 300,000 tonnes annually and the 5 largest accounted for 61% of the total crush in 2007.

Figure 3: Growth in winery numbers - 2001- 2007



Source: *Winetitles – www.winetitles.com.au*

Employment in grape growing and wine manufacturing rose by 60% between 1991 and 1996, yet in the subsequent five year period to 2001, it doubled again, from almost 15,750 to over 30,100.

There has also been a strong rise in regional investment in infrastructure. Around $1.8B was invested in new vineyard development in the 1990s and $1.1B in the first 7 years of this decade. There was around $1.6B of capital investment in winery infrastructure between 2001 and 2005.

Wine tourism has also seen healthy growth. Between 2000 and 2006, the number of domestic overnight wine visitors increased at an annual average rate of 6%, while domestic and international day visitors increased 5% and 8% respectively. In 2006 there were approximately 5.6 million international and local visitors to Australian wineries. During the June and September quarters of 2006, $335 million of wine was purchased, resulting in an estimated spend of $666 million by winery visitors in 2006. (Tourism Australia).

2.4 Winery Viability

An indication of the profitability of Australian wineries is provided by the ABS Manufacturing Survey. Figure 5 shows that since 2001 the profit margin of wineries varied between -11% in 2002-03 and +19% in 2003-04. Over the same period the average profit margin for total manufacturing enterprises varied between 6.5% and 8.5%. Between 2003-04 and 2004-05 the profit margin for wineries declined 12.1 percentage points.

Figure 5: Profit Margin % - 2001-02 to 2004-05

Source: *ABS Catalogue No: 8221.0 Manufacturing Industry 2001-02 to 2004-05*

Note: *Profit margin percentage = operating profit before tax as a percentage of sales and service income.*

The Australian wine industry derives a further indication of the financial performance of wineries from the annual Deloitte Financial Benchmarking Survey.

The following table shows the proportion of loss making wineries, expressed as a proportion of respondents in the Deloitte survey, in each size category.

Table 2: Proportion of Loss Making Wineries by Size Category, 2003 to 2006 (as a proportion of respondents in the Deloitte annual survey)

Winery Size	2003	2004	2005	2006
$0m-$1m	40%	33.3%	12%	63%
$1m-$5m	52.9%	40.0%	32%	38%
$5m-$10m	16.7%	44.4%	23%	17%
$10m-$20m	37.5%	40.0%	38%	0%
$20m+	22.2%	42.9%	25%	25%

Source*: Deloitte Annual Financial Benchmarking Survey for the Australian Wine Industry*

From table 2 it can be seen that in 2006, of those wineries in the $0-1M category that participated in the Deloitte survey, 63% reported that they had recorded a loss.

Factors that have been driving this fall in margins and profitability include increasing domestic and international competition and the stronger Australian dollar. High and generally rising domestic taxation was also a major impost until the introduction of the Wine Equalisation Tax Federal Producer Rebate in 2004 which was extended in 2006, although further reform of wine tax is still a major issue. The capital intensive nature of the winery business, combined with strong production growth in recent years, has resulted in a high dependence on debt to fund growth, particularly for wineries whose revenue falls between $1M and $10M.

High gearing and lower margins, particularly when combined with poor cash flow, can have a crippling effect on business, with employment and investment plans shelved to meet debt commitments. Unfortunately, these factors are likely to constrain future growth in the wine industry.

2.5 Today's Challenges

The wine industry faces a number of interlinked challenges and issues that it will need to overcome, if it is to maintain strong growth and continue to increase the substantial contribution it makes to the Australian economy and society in general. These challenges and issues, as identified in *Wine Australia: Directions to 2025,* include:

- a structural imbalance between the cost of production and the price opportunity;
- grape and wine supply and demand fluctuations;
- retail consolidation driving downward pressure on pricing and margin;
- slow domestic growth and a tougher market for export growth;
- a resurgent Old World and better resourced New World competitors;
- greater environmental and sustainability challenges and responsibilities, particularly exacerbated by climate change;
- changing social concerns; and
- changing demographics and consumer expectations.

As the rapid plantings of the late 1990s came online in the five years leading up to 2006, the industry faced growing pressure from the challenges of oversupply. Prior to the 2007 vintage, the Australian wine sector was in a situation of significant surplus of grapes and wine, which in turn put significant downward pressure on prices.

The 2007 winegrape crush is expected to be around 1.42 million tonnes, 25% lower than the 1.9 million tonne crush of 2006. A continuation of drought conditions during winter and spring 2007 means that the 2008 crush will again be significantly reduced. As this follows a period of lower grape prices, many grape growers will experience further financial pressure. The wine industry will be moving from a surplus situation to one of balance or shortfall in the short-term as a result of these reduced tonnages. It is likely that a period of adjustment will occur and this may ultimately involve some producers (wineries and grape growers) exiting the industry. There is also a continued drive towards consolidation as companies try to achieve economies of scale, access key distribution channels and cut costs.

The global wine industry is becoming increasingly competitive. There has been strong production growth in the New World wine producing regions, including Argentina, California, Chile and South Africa. Meanwhile, Old World wine areas such as France and Italy are responding to such growth by improving marketing, adjusting production methods and making regulatory changes to increase their efficiency. These trends have resulted in more intense competition, an oversupply of some wine varieties, and a consequent downward pressure on prices for wine.

Retail consolidation and the trend to discounting is hitting wine manufacturers. The major grocery retailers in Australia (Coles and Woolworths) are steadily acquiring and expanding liquor retail outlets and increasing their share of the wine retailing market, to an estimated 45-50% currently. Future expansion plans of these major retailers imply that this share will only increase. This trend is also taking place in major export markets, such as the United Kingdom. This is increasing the bargaining position of buyers, and their ability to discount wine, which is placing downward pressure on winemakers' margins.

Retail consolidation, the desire of retailers to reduce the number of suppliers they deal with and the growth of retailers' own-brands is causing difficulties for some winemakers. Small producers in particular are facing an increased challenge to find a route to market and maintain margins. Many are relying more heavily on cellar door, mail order and internet sales than their larger counterparts, with the smaller wineries ($0M-$10M) selling over 20% of their wine through these means, compared to just 7% for wineries with revenues in excess of $10M (Deloitte Financial Benchmarking Survey 2006).

Table 3: Distribution by cellar door, mail order or website by winery size

Winery Size	Cellar door, Mail Order, Website
$0m-$1m	24%
$1m-$5m	19%
$5m-$10m	11%
$10m-$20m	7%
$20m+	<1%

The strong appreciation of the Australian dollar has contributed to slower growth in export earnings, and has hurt international competitiveness. The export unit value for wine in real terms, fell from a peak of A$5.61 per litre in 2000-01 to A$3.75 per litre in 2006-07, representing the sixth consecutive year that the average price for Australian wine has fallen.

Access to export markets, particularly non-English speaking countries, remains a challenge for the wine industry. The two largest markets, the United Kingdom and the United States, account for around 63% of Australian wine exports, by both volume and value. Two of the next three largest markets, Canada and New Zealand, are also English speaking, and raise the share of exports to more than 74% by volume and 77% by value.

A number of our closer export markets in Asia have substantial tariff and non-tariff barriers. Language and cultural barriers, including different consumption patterns and different ways of doing business, can also impede growth in these markets. The signing of bilateral free trade agreements with Singapore and Thailand will assist wine exporters in growing their market share in these countries and progress is also being made with other trade agreements.

While there are a number of notable exceptions, many winemakers have difficulty in establishing and building a "brand". Indeed, there are in excess of 8000 labels currently on the market. This reflects the structure of the wine industry (the high and growing number of small and medium-sized wineries, the large number of regions, and the large number of grape varieties and blends), as well as increasing consumer expectations of higher quality at each price point, and the lack of consumer loyalty (particularly relative to other beverages, such as beer and soft drinks).

For the future of the Australian wine sector, it is vital that the industry sustains the confidence and support of the broader Australian community. In order to achieve this, it is critical to ensure that the industry continues to embrace a socially responsible approach towards the production, promotion and sale of wine. It is equally important that this approach is recognised by politicians and regulators and to ensure that calls for increases on taxation, further restriction on advertising, or warning messages that are not justified by any scientific evidence of delivering a positive outcome for the community, are rejected.

Environmental issues also play a major role in the future of the wine industry. Security of access to, and the quality of, water supplies are major issues for all Australian rural-based industries. Reforms to the water supply industry may have a major impact on the future growth potential of the wine industry, particularly if access to water is restricted, or if the price of water rises substantially. Other environmental issues that the industry will have to tackle include: waste management and recycling, chemical use and disposal, biodiversity and energy use.

3. Policy and Program Priorities

3.1 Health and Social Responsibility

Required Outcomes

That the Australian Government:

- acknowledges that alcohol is a broadly accepted part of Australian life, and that the policy and regulatory framework should not discourage responsible consumption;
- ensures that decisions regarding alcohol policy and regulation are based on sound scientific fact, backed up by reliable evidence;
- ensures that there is a formal process of consultation with the Australian wine sector on policy and regulatory positions taken both in domestic and global forums that impact the operating environment of grape growers and winemakers;
- consults and actively engages the Australian wine sector on decisions made and positions taken regarding alcohol policy at the World Health Organisation and associated forums;
- supports the quasi-regulatory[2] approach to the control of alcohol advertising through the Alcohol Beverages Advertising Code; and
- continues to support DrinkWise Australia and its goal to promote a more responsible drinking culture in Australia, by minimising potential harms and supporting the positive aspects of alcohol consumption.

Background

The Australian wine sector is a major contributor to the economic and social fabric of Australian life. Responsible for employing more than 60,000 Australians, generating more than $2.7 billion in export earnings and fostering the prosperity of many regional communities, the Australian wine sector creates a product that is responsibly enjoyed by millions of people around the world every day.

When consumed in moderation, in a manner consistent with the Australian Alcohol Guidelines, wine is part of a healthy lifestyle.

The industry also recognises when wine or other alcohol products are consumed to excess, either in the short or long term, they can contribute to a range of social and physical harms. The abuse is an unnecessary blight on an otherwise positive industry.

The Australian wine sector has a responsibility to continue working with the Australian Government and the wider community to ensure the benefits of moderate wine consumption are maximised and excessive consumption and associated harms are minimised in every possible way.

[2] As defined in the Government's Best Practice Regulation Handbook (August 2007)

This includes consultation and partnership across regulatory and policy deliberations for both the domestic and international environment. The Australian wine sector is seeking to establish a formal channel of consultation with the Australian Government on input into World Health Organisation policy and strategy positions in relation to alcohol policy.

Alcohol Beverages Advertising Code

Australia has a quasi-regulatory system for alcohol advertising: Guidelines for advertising have been negotiated with government, consumer complaints are handled independently, but all costs are borne by industry.

The Alcohol Beverages Advertising Code (ABAC) Scheme is the centrepiece of Australia's co-regulatory system and is administered by a Management Committee which includes industry, advertising and government representatives.

Over the many years since its formation, the role and scope of ABAC has expanded considerably. It has gone from a purely industry self regulatory scheme to include government in a co-regulatory arrangement, extended its reach into new forms of media and incorporated the Alcohol Advertising Pre-vetting Scheme into its fold.

All wineries are expected to comply with the ABAC, which sets standards for the responsible advertising of alcohol in electronic, print and online media. It is believed ABAC is the first attempt to regulate on-line advertising of this nature in the world. Complaints made about alcohol advertisements are handled by an independent adjudication panel and, if found to have breached the code, ads are expected to be withdrawn or modified to comply. There are no cases where an upheld complaint has not resulted in the rapid withdrawal or modification of the advertisement.

Producers undertaking any television or cinema advertising are expected to have their advertisements pre-vetted against ABAC prior to their filming.

As well as the ABAC Scheme, alcohol advertisers must also comply with a range of other advertising standards, including:

- The Trade Practices Act & State fair trading legislation;
- The Australian Association of National Advertisers (AANA) Code of Ethics;
- The Commercial Television Industry Code of Practice;
- The Commercial Radio Codes of Practice; and
- The Outdoor Advertising Code of Ethics.

There were more than 900 alcohol adverts pre-vetted in 2006 and approximately 20 percent were rejected. Of 54 complaints in relation to alcohol ads, 9 were found to fall specifically under the ABAC Scheme and 2 complaints were upheld. The significant cost associated with major changes and withdrawal of an advertising campaign through upheld complaints demonstrates the veracity and strength of the quasi-regulatory system.

DrinkWise Australia

The Australian wine sector is a founding partner of DrinkWise Australia, an evidence-based organisation funded by the liquor industry, which is focused on promoting change towards a more responsible drinking culture in Australia. A key component of this aim is to minimise potential harms and maximise any benefits from alcohol consumption.

DrinkWise is controlled by an independent board comprising equal numbers of industry representatives and community representatives with expertise in the areas of health, law enforcement, youth affairs and communications and no link to the alcohol industry. It is funded through significant industry contributions of around $5 million per year which is expected to increase, plus support from the Australian Government through a $5 million grant.

Promoting responsible alcohol consumption will require an approach that balances industry self-regulation, personal responsibility and legislation. DrinkWise Australia's approach involves pursuing an effective means of addressing irresponsible drinking while maximising the positive health and social impacts of responsible drinking. This approach will be underpinned by the application of evidence-based policies necessary to influence both adverse patterns of drinking and the harm caused by chronic excessive alcohol intake. DrinkWise Australia acknowledges that the National Health and Medical Research Council's Australian Alcohol Guidelines: Health Risks and Benefits provides an initial and appropriate foundation for educating the community on responsible drinking patterns.

To maximise results and achieve genuine change, DrinkWise Australia will pursue long-term partnerships with government, community and other key stakeholders. DrinkWise Australia is a national body located in Melbourne.

3.2 Capacity Building

Required Outcomes

That the Australian Government:

- acknowledges and supports the Australian wine sector's effort in and commitment to capacity building across leadership development, skills enhancement and sustainability;
- supports the Australian wine sector's review of statutory and peak industry bodies, including the implementation of any required structural changes; and
- provides greater opportunity for industry engagement in the development and review of government policy on education and training with respect to the Australian wine sector.

Background

The Australian wine sector has a strong and proactive approach to building capacity through industry driven programs, as outlined below. In order to ensure maximum benefit and impact from these programs, Australian Government support in the form of funding, the regulatory environment, or access to skills and expertise has been, and will continue to be, required.

Leadership program

The Australian wine sector recognises that a process to foster a 'next generation' of skilled and committed industry leaders is essential to the future success of the industry. This led to the launch of leadership development program, *'Future leaders - succession for the Australian wine sector*', in May 2006. Fifteen talented, skilled and enthusiastic Future Leaders have now completed the formal part of the first program and are primed to take on key industry roles and responsibilities.

The three year innovative program was jointly initiated by the Winemakers' Federation of Australia, the Australian Wine & Brandy Corporation, the Grape & Wine Research & Development Corporation and Wine Grape Growers Australia. WBM - Australia's Wine Business Magazine, is the program's Founding Partner. WBM plays an important role in distributing information about the program and profiling participants.

Developing leadership talent within the wine sector ensures the next generation of leaders can continue to develop the industry's collaborative networks, and it is intended that the program will run for three successive years, with 10-15 participants each year. A new intake of 15 participants, from a field of more than 80 applicants, is currently completing the second course.

The program incorporates the capture and transfer of decades of invaluable industry wisdom from successful industry veterans, and capitalises on this asset in the context of a future-driven approach to industry development.

Graduates of the program may be invited to become members of boards and/or committees of wine sector peak bodies, and most of the first group of graduates have already taken on new roles within industry organisations.

The Future Leaders program develops leadership and collaboration talents that will not only benefit the sector but will also be of considerable value to participants and to their organisations.

WineSkills III and Directions Workshop Program

The Winemakers' Federation of Australia (WFA) recently received approval for a Department of Agriculture, Fisheries and Forestry (DAFF) Action Partnerships grant. The overall project objective is to progress the implementation of *Directions to 2025 – An Industry Strategy for Sustainable Success,* launched by the Australian wine sector in May this year.

In the words of the strategy, "*The Directions to 2025* process represents the best opportunity to secure the future of Australian wine through economic prosperity, environmental sustainability, technological innovation and social responsibility." One of the most important strategies is, "Continuous improvement in business skills and practices for the Australian wine sector through the creation of a dynamic culture of self-reliance."

Therefore a key objective of this project is to accelerate the rate of knowledge and skill transfer necessary to improve the business capability of the wine sector. In order to do so the objectives of the project are:

- to disseminate an understanding of the findings, recommended actions and extensive online resource kit of *Directions to 2025;*
- to build support for collaborative industry commitment to the strategy;
- to transfer knowledge and skills that enhance business capability;
- to showcase the portfolio of tools that can be accessed for self help solutions.

The project will mobilise industry commitment to the implementation of *Directions to 2025*, improve the sector's business capability and strengthen the self reliance necessary to secure the sustainable profitability benefits of the strategy.

The workshop program will be delivered under the *WineSkills* banner.

The WFA developed the *WineSkills* program to provide small and medium-sized wineries with specialist expertise to manage their way through the profitability issues many are facing as a result of competitive pressures in the Australian market.

Funded by the Australian Government Department of Agriculture, Fisheries and Forestry, *WineSkills I - Tackling Business Challenges* consisted of 27 workshops around Australia in 2003/04 focusing on practical advice on market, business and financial planning.

In 2005, additional Government funding was obtained for *WineSkills II - Negotiating the Market Maze*, with 15 workshops held around regional Australia focusing on the process for identifying markets and appropriate routes to market, including wine tourism, domestic and export distribution.

The third *WineSkills* program will encompass *Strategies for Growth - From Volume to Value* and focus on delivering the latest insights and market intelligence of *Directions to 2025* through the hands-on WineSkills workshop framework.

Organisational Review

A key requirement arising from the *Directions to 2025* strategy was for a review of the statutory and peak bodies associated with the wine industry, with the objective of ensuring that future structures deliver against an aligned set of strategic objectives.

A Task Force has been established comprising the Chairs of the Winemakers' Federation of Australia, Wine Grape Growers Australia, the Australian Wine and Brandy Corporation, and the Grape and Wine Research and Development Corporation, to oversee a Review of the National Organisational Structures of the Australian wine sector. The Task Force is chaired by the Federation President, Mr David Clarke.

The review will make recommendations for the structural and legislative changes required to best deliver against the following outcomes:

- delivery of aligned industry strategic imperatives and goals;
- equity regarding levy contributions;
- management efficiency in program delivery;
- functional relationships between industry and government;
- sustainable industry funding;
- genuine accountability to industry that meets government requirements;
- communication and strategic alignment between the national bodies and State and regional associations; and
- securing the contribution of matching Australian Government funding against industry research and development levies up to the Gross Value of Production cap.

The Review process will include consultation with government, State and regional associations, other related entities, industry leaders and stakeholders with an options paper due for widespread release in October.

Workforce Development

The Winemakers' Federation of Australia Workforce Development Committee advocates greater opportunity for industry engagement in the development and review of government policy on education and training.

Wine industry expertise and experiences should be a major input to government policy relating to Vocational and Technical Education (VTE) and Higher Education (HE) where they impact on the industry. This will assist to maximise both the wine sector's benefit to the Australian economy and the return on investment of government funding in education and training.

The Winemakers' Federation of Australia, as the national peak industry body, should be the first point of contact for input relating to education and training where it impacts on the wine sector.

3.3 Wine Tourism

Required Outcomes

That the Australian Government:

- continues to recognise the importance and growth of wine tourism by providing sufficient marketing and research resources through Tourism Australia and Tourism Research Australia; and
- consults with industry (through the Winemakers' Federation of Australia) on the allocation of tourism funds towards the wine sector.

Background

The Federation supports the Australian Government in maintaining and increasing its commitment to tourism development through the Tourism White Paper.

The Winemakers' Federation of Australia, in partnership with the Australian Government, has played a major strategic and program delivery role in enhancing wine tourism, including development of the National Wine Tourism Strategy in 1998 and the Wine Tourism Strategic Business Plan 2002 – 2005.

In 2002 the WFA received a 3 year Australian Government grant of $450,000 to implement projects identified in the National Wine Tourism Strategy Strategic Business Plan, followed by a one year Action Partnerships grant of $195,000 in 2006.

The key objectives over the past 4 years have been around the development of the wine tourism industry and building wine tourism products and services. Capacity building and product development are critical areas to enable wineries to provide viable tourism experiences capable of being marketed effectively through tourism distribution channels.

A wide range of resources have been developed through the Federation's Wine Tourism Program that would not have been possible without Australian Government support including:

- employment of a Tourism Development Director to administer projects;
- formation of the Australian Wine Tourism Alliance (AWTA) comprising industry, government and tourism organisation representatives;
- development of a series of major resources:
  - Wine Tourism Fact Sheets (2003)
  - *Wine Tourism Uncorked* booklet (2004)
  - *The Wine Tourism Toolkit* CD-ROM (2005)
- hosting the inaugural Australian Wine & Food Tourism Conference in conjunction with Restaurant & Catering Australia and Tourism Australia (2005);
- development of a joint Wine & Food Tourism Action Plan in collaboration with Restaurant & Catering Australia and Tourism Australia (2005);
- development of a national Cellar Door Benchmarking program known as Cellar Door METRICS (2006/07); and
- development and delivery of a national Wine Tourism Workshop Program in conjunction with Tourism Australia and the State Tourism Organisations (2006/07 – 28 workshops).

The success of the projects undertaken since 2002 highlighted the need for the Federation to continue taking a lead role in developing this sector for the benefit of Australia's wine producers involved in wine tourism. Tourism is now a major portfolio area for the Federation. With the finalisation of the Australian Government funded activities, the Federation has maintained a dedicated Tourism Development Director and wine tourism program. Priority areas required to maintain and grow wine tourism in Australia include:

- Infrastructure Development (Resources);
- Skills Development (Training);
- Product Development (Experiences);
- Consumer Trends & Expectations (Research);
- Consistent Signage (National Infrastructure);
- Wine & Food Trails (Experiences);
- Benchmarking (Research); and
- Regional Visitation (Marketing & Promotion).

3.4 Wine Sector Voluntary Code of Conduct

Required Outcome

That the Australian Government supports the Australian wine sector in the development of a voluntary code of conduct covering the trading relationship between wine grape growers and winemakers

Background

The Wine Industry Relations Committee (WIRC) (and its predecessor the Wine Industry Liaison Committee) is a joint initiative of the Winemakers' Federation of Australia and the peak national grape grower body (Wine Grape Growers Australia) that has been working on initiatives to improve the trading relationship between growers and winemakers for several years.

This has seen the development of:

- guidelines for wine grape assessment in the vineyard and at the winery;
- standard elements of contracts; and
- a dispute resolution clause and process.

The Winemakers' Federation of Australia is strongly opposed to government imposing a mandatory code of conduct on the Australian wine sector. WIRC agreed to the development of a voluntary code of conduct in November 2005 and formed a 'Code of conduct' working group. The process to date has been:

- WFA wrote a brief for the engagement of a consultant to develop the code;
- WIRC interviewed candidates on 21 April 2006 and appointed a consultant in June 2006. The process for engaging the consultant was managed by WGGA;
- WIRC agreed that the consultant's first draft was unsatisfactory and formed a small code drafting team comprising both winemaker and grape grower representatives of WIRC;
- the WIRC agreed that the items they had previously prepared such as the 'wine grape assessment' document would form the basis of the voluntary code. That is, the voluntary code would formalise and integrate this work;
- the drafting team met several times during 2006/07 and have developed several drafts of the voluntary code; and
- agreement has been reached on most points, with both parties working from the same draft document and negotiating the final details.

The winemaker members of the WIRC are fully committed to the development of a voluntary code of conduct and are working to have the code in place as soon as possible.

3.5 Wine Taxation

Required Outcomes

That the Australian Government:

- supports a WET exemption for the first $6 million of domestic sales indexed to CPI, with a 29% WET to apply after that;
- allows wineries with a turnover of less than $4 million to account for their GST and WET liabilities on a cash basis;
- supports an adjustment to the definition of an Associated Producer, using the Corporations Law rather than the Income Tax Assessment Act so that legitimate smaller wineries can access the WET rebate; and
- introduces prescribed minimum values for wine stocks on hand, similar in concept to that which existed between 1953-1973.

Background

Wine Equalisation Tax is still a major burden on the business environment of Australian wineries.

The Winemakers' Federation of Australia recognises the significant Australian Government initiatives in introducing the Federal Wine Producer Rebate on the first $1 million of domestic sales (announced in the 2004/05 Budget), and the extension of the rebate to the first $1.724 million of domestic sales (announced in the 2006/07 Budget). According to Treasury data, approximately 92% of Australia's wineries no longer pay WET, while all of the remaining wineries get the full $500,000 rebate. These initiatives have provided a significant improvement for all Australian wineries.

There are a number of areas associated with wine taxation that require further adjustment or amendment to facilitate an internationally competitive business environment for Australia's wine businesses as outlined below.

Wine Equalisation Tax Rebate

The Federation's tax policy remains targeted at ensuring small and medium wineries have minimal tax impost. Accordingly, the Federation's tax policy is:

> "Wine Equalisation Tax (WET) exemption for the first $6 million of domestic sales indexed to CPI, with a 29% WET to apply after that."

The threshold of $6 million is based on evidence from Deloitte's annual survey that wineries with turnover of between $5 million and $20 million are the lowest performing sector. This is largely due to their limited access to the WET rebate in comparison to their total business and their inability to access the economies of scale available to large companies. At $6 million, the threshold would provide significant relief to these wineries.

WET and Cash Accounting

Under the New Tax System all businesses are expected to operate under an accrual accounting basis for the purpose of GST remittances unless turnover is less than $2 million, in which case cash accounting may be used. This threshold was extended in 2007 from $1 million in recognition of the impact on cash flow that the collection of GST has on small businesses under an accruals-based system. These businesses are deemed to operate under the simplified tax system (STS), which also provides for simplified stock trading rules and depreciation rules.

The result for smaller wineries under the $2 million threshold is that they don't remit GST or WET in their BAS until they have received income from the sale of goods. They also can't claim GST credits until they've paid them.

For businesses over $2 million turnover, GST and WET must be remitted when the next BAS is lodged, regardless as to whether income from the sale of products has been received or not.

Following is an example based on the actual numbers from a small winery.

For a winery that turns over $4 million, the WET and GST component of their debtors' trial balance could be expected to be approximately $200,000. That is, each month with lodgement of their BAS the winery remits $200,000 in WET and GST that has not yet been received - $200,000 of their working capital is in the hands of the ATO.

For example, when an order is secured from a major retailer for 1,000 dozen bottles of wine valued at $80 plus WET and GST per dozen, it creates a WET and GST liability, payable on the 21st of the next month, of $25,520. Yet the terms of payment for such a sale with a major retailer would generally stretch out to a period 5 weeks after payment of the tax.

The $2 million figure for requiring the use of accrual accounting was decided, arbitrarily, to differentiate small businesses from larger for the purposes of carrying the GST liability. Businesses over $2 million turnover were seen as large enough to carry the variances created by payment of the GST. However, no differentiation was made for the wine industry where the combination of the 10 per cent GST plus the 29 per cent WET has a substantially higher impact on cash-flow and accrued tax liability.

The Federation seeks a change to a system whereby wine businesses with a turnover of less than $4 million, who are remitting both GST and WET, have the option of complying on a cash or accrual accounting basis.

While not all businesses would choose to take advantage of this option, the effect of such a reform would be to return up to $200,000 of working capital to many smaller wineries.

WET and Definition of Associated Producer

Section 128 of the ATO ruling WETR 2004/1 states:

> *"The maximum amount of producer rebate to which a producer is entitled for a financial year is $500,000. However, if the producer is an associated producer (refer paragraph 129) of one or more other producers for a financial year, the maximum amount of producer rebates to which those producers are entitled as a group for the financial year is $500,000."*

Section 129 goes on to define an 'Associated Producer' in reference to Subsection 152-30(2) of the Income Tax Assessment Act 1997 which essentially means that if one winery has 40% or more equity in another winery, the two wineries may only access one rebate of $500,000.

If the intent of the legislation was to limit larger wineries with control over other wineries from gaining access to the rebate multiple times, it can be argued that a 40% equity share does not define control. In circumstances where a larger winery has a 50:50 partnership with a small operator, the smaller winery operation should have access to the $500,000 WET rebate in its own right (as is currently the case if the larger operator has less than 40% equity).

WFA recommends that the reference to the Income Tax Assessment Act 1997 be replaced with a reference to Corporations Law, which would deem entities to be an associated producer if one of them:

- controls more than 50% of the issued capital; or
- controls the composition of the Board of Directors; or
- can cast, or control the casting of, more than 50% of votes at AGM

This would seem a more logical and equitable arrangement for the purposes of defining control and therefore 'associated producers'.

Trading Stock valuation

The Federation seeks a change to the taxation treatment of wine stock on hand based on the following points:

- Current full-absorption costing for wine stocks on hand means that wine businesses pay tax against the retail price of wine that is stored for maturation, quality improvement and awaiting sale in their annual accounting period.
- The combination of the high levels of investment in inventory and the lack of tax relief provided as a consequence of the adoption of full absorption costing results in a greatly increased financing cost. It produces significant negative cash flows for Australian wineries when investing in inventory, which puts them at a commercial disadvantage compared to other industries which have a higher turnover of stock. It has a negative impact on both the ability of winemakers to make further investments in their own businesses as well as for the industry to attract further investment.
- In particular the current system imposes a greater financial burden on those wineries which produce premium wines and whose stock is turned over even less frequently. Consequently the premium winemaker must fund the cost of wine production for a longer period of time without obtaining tax relief for those costs. This undermines the industry's strong commitment to stable growth in wine sales based on the need to produce quality premium wines in both domestic and, in particular, export markets.

The Federation's policy position is for trading stocks of wine on hand at the end of an income year to be brought to account for income tax purposes at prescribed minimum values as was the case under section 31A of the ITAA 1936. Reasons for this include:

- it was used successfully for the wine industry between 1953 and 1973;
- it would assist in alleviating the financial burden on negative cash flow from operating activities without creating a distortion in favour of holding wine stocks;
- it is simple to implement and can be administered in a way to properly reflect the true costs of holding wine stocks;
- it is presently available to other primary producers by way of the use of standard values for the natural increase of livestock which are incorporated into the ITAA under section 70-55; and
- there is no reduction in taxation revenue gained by the Commonwealth Government. Rather it results in a difference in the timing of the collection of the taxation revenue.

Other options for consideration that would improve economic efficiency for the Australian wine sector would include:

- the use of direct costing rather than absorption costing;
- deferral of tax collection;
- averaging of wine stock values; and
- closing stock value only included in respect of bottles held ready for sale (i.e. that have matured into a saleable product)

3.6 Environment

Required outcomes

That the Australian Government:

- actively promotes an accelerated uptake of the National Water Initiative;
- implements the National Plan for Water Security as a matter of urgency; and
- recognises the extensive efforts the Australian wine sector is making with regard to continuous improvement of environmental performance.

Background

The Australian wine sector identified the priority for continuous improvement in our strong environmental performance in the 2007 industry strategy *Directions to 2025*. This is consistent with the National Environment Strategy, *Sustaining Success,* in the drive to meet changing consumer and community demands for sustainability. Key drivers are focused around identifying opportunities to improve our performance and ensuring achievement and progress is measured with feedback to practitioners.

Climate Change

The Australian wine sector recognises the importance of climate change. Major considerations driving the sector's strategic approach include:

- the likely impact of climate change on production systems;
- market implications of Australia's responses to climate change (climate change and greenhouse gas emissions are consistently within the top five key issues for the major retailers in the UK and the EU, as is increasingly being observed in their purchasing behaviour); and
- the relatively small contribution of Australia (and the Australian wine sector) to global greenhouse emissions.

Water policy and associated position statements

Continued access to sufficient volumes of water of appropriate quality is essential to the long term sustainability of the Australian wine sector. There has been a steady increase in the industry's uptake of more efficient methods of water application – furrow or flood methods account for 8 per cent of the area of irrigated vines whereas drip or micro systems account for 75 per cent of the area of irrigated vines.

Table 4: Water Application Methods

Method of application	*2001-2002*	*2005-2006*
Drip or micro spray	67%	75%
Furrow or flood	12%	8%
Spray or sprinkler (excluding micro spray)	19%	17%
Other	2%	0%

Source: ABS Australian Wine and Grape Industry, 1329.0

Grapevines represent approximately 6 per cent of total water extracted for agricultural use and the application rate is relatively low at around 4.9 mega litres per hectare per year.

Table 5: Water Use Comparisons

Activity	*Share of water extracted (2004-05) %*	*Application rate (2004-2005) ML/ha*
Pasture	43	5.1
Rice	5	12.4
Cotton	15	6.7
Vegetables	4	4.0
Fruit	5	5.3
Grapevines	6	4.9
Other	22	3.9
Total	100	

Source: ABS water account 2004-05, 4610.0

Even at current wine grape prices, wine grapes are a relatively 'high-value' water user.

Table 6: Comparison of Water Returns by Activity

Activity	*Water Returns* 1996-97 ($/ML)*
Dairy	94
Cotton	452
Rice	31
Sugar Cane	21
Beef	14
Grapes	600
Fruit	1276

* profit at full equity

Source: Australian National Land and Water Resources Audit, 2002

The current approach to managing the Murray-Darling system is dysfunctional and problems are typical of those commonly observed in the multi-jurisdictional management of a natural resource. The Federation supports initiatives directed at management and accountability through a single jurisdiction.

In addition, the Federation supports appropriate initiatives to address the following critical issues:

- water over-allocation;
- water losses through both the supply system and on-farm use; and
- greater efficiencies in the delivery and application of water.

Addressing these issues will lead to healthier river systems through greater flows and would ultimately benefit Australia's winemakers and grape growers as well as other agricultural industries.

The Federation's water policy position statements (2005) are consistent with the National Water Initiative and represent our longer term approach:

- that water access entitlements be more clearly specified;
- that water access entitlements be perpetual;
- that water access entitlements be separated from land title;
- that constraints on water trade within and between regions and States be minimised;
- that where governments require water for environmental or other purposes they acquire it on the open market and pay fair market rates for it; and
- that before any changes to the way that water is managed are made that appropriate consideration be given to the environmental and social impacts at the regional level.

Life Cycle Assessment of Australian wine

The Australian wine sector is often required to respond to simplistic, single issue 'environmental campaigns' that gain temporary popularity in export markets. Examples include the 'food miles' and 'carbon footprint' issues.

In an effort to gain a more comprehensive and accurate picture of the sector's environmental footprint and to allow for prioritisation of environmental action against those production phases that have the greatest environmental impact, the Australian wine sector is embarking on a product Life Cycle Assessment.

The Assessment will look at the entire life cycle of wine – from 'cradle to grave' – to identify potential impacts on all environmental aspects, including greenhouse gas emissions, biodiversity, water quality and quantity, and waste generation.

The results of the assessment will inform all aspects of the Federation's environmental policy development.

Australian Wine Industry Stewardship (AWIS)

AWIS is the wine sector's national environmental stewardship programme, developed with support from the Australian Government's Natural Heritage Trust 'Pathways to Industry EMS' programme. AWIS is now fully resourced by the industry, and continues to evolve into a credible and widely-adopted wine sector environmental assurance program.

A number of resource documents are available from the WFA in the area of environmental assurance, including '*Environmental Stewardship in the Australian wine industry – General Edition*', Winemakers' Federation of Australia, and '*Trends in environmental assurance in key Australian wine export markets*', Winemakers' Federation of Australia.

National Packaging Covenant

The National Packaging Covenant is the voluntary component of a co-regulatory arrangement for managing the environmental impacts of consumer packaging in Australia. Regulatory underpinning to the Covenant is provided by the National Environmental Protection (Used Packaging Materials) Measure, designed to deal with free riders and non-signatories and is applied at the jurisdictional level.

In March 2006, the Board of the WFA endorsed the Federation becoming a signatory of the National Packaging Covenant and a member of the National Packaging Covenant Industry Association.

Since then, the Federation has also been in discussions with various State wine industry associations about them adopting a covenant mentor program, similar to that run by the South Australian Wine Industry Association (SAWIA). This approach has been taken by the Federation in recognition of SAWIA's experience and expertise in running a mentor program and also to maximise the wine sector's understanding of, and participation in, the National Packaging Covenant, while also minimising the costs to winemaking companies of their participation.

National Pollutant Inventory

The National Pollutant Inventory (NPI) is another national initiative that is administered through the various jurisdictions.

The Federation acts as a conduit for the transfer of information about the NPI from the NPI to its membership.

3.7 International Trading Environment

Required outcomes

That the Australian Government continues to work in partnership with the Australian wine sector to ensure that wine can be traded freely on the international market. This is to be achieved through the following:

- ensuring and enhancing market access through the removal of trade barriers and harmonisation of import requirements where appropriate;
- supporting multilateral trade liberalisation and maintaining the integrity of the current multilateral trade agreements under the auspices of the World Trade Organisation;
- ensuring that industry competitiveness and the integrity of Australian wine are maintained in the market place through appropriate government policy and regulation;
- supporting the removal of, or appropriate response to, domestic assistance for wine products being imported into Australia; and
- ensuring that international standards are harmonised, set on a basis of sound science, and do not become an impediment to trade.

Background

Bilateral Agreements

Australia is currently negotiating a number of free trade agreements and exploring the possibility of a number of others. While this does provide the wine sector with opportunities, negotiation resources are being stretched very thin and industry organisations are seeking to continue close engagement with the Government to ensure that wine interests are not forgotten. Many of these negotiations involve strong defensive interests on wine from a competitive or social standpoint by other countries. Free Trade Agreements currently under negotiation included ASEAN, China, Gulf Cooperation Council (GCC), Malaysia and Japan. Free Trade Agreements with the Republic of Korea and Mexico are also under consideration.

The Bilateral Agreement on Wine between the European Commission and Australia has been initialled and should be signed in early 2008. Implementation of the Agreement will involve legislative changes and education of stakeholders on implications for trade. The Australian Government and Australian wine sector must work together to use mechanisms created under the Agreement to reduce problems in trade with the European Union.

APEC

The Australian wine sector is seeking the adoption by the Asia-Pacific Economic Cooperation forum (APEC) of a series of principles or guidelines that can be considered when Members' Economies are making regulatory change in the areas of wine labelling and oenological practices based on the agreements developed in the World Wine Trade Group. The industry seeks continued government engagement in the activities of the APEC Sub-Committee on Standards and Conformance (SCSC) to help drive this initiative. The use of such industry developed guidelines by Members' Economies will facilitate trade, ensure WTO consistency, protect government policy initiatives relating to wine and ensure consumers are protected. Member Economies are considering these guidelines and are providing comments out of session in order to seek adoption in Peru in 2008. The Department of Industry, Science and Resources in particular has been active in promoting this initiative.

World Wine Trade Group and Labelling Agreement

The Australian wine sector seeks continued strong government engagement through the Department of Foreign Affairs and Trade and the Department of Agriculture, Fisheries and Forestry in the World Wine Trade Group. This group continues to provide an important trade liberalisation role for wine. A key initiative of the WWTG will also require State Government support to enable domestic labelling changes necessary to ratify the WWTG Agreement on Requirements for Wine Labelling (Labelling Agreement). This Agreement will enable wine exporters to sell wine into WWTG markets plus Europe with a common label, only having to alter one label to satisfy each individual market.

Government Policy and Regulation

It is essential to ensure that industry competitiveness and the integrity and reputation of Australian wine in the market place is maintained through appropriate government policy and regulation. This will be achieved in particular through:

- direct engagement with FSANZ to ensure that appropriate standards are put in place in the Food Standards Code;
- ensuring appropriate regulation is in place to maintain standards for production and export of Australian wine; and
- attempting to influence international regulations so as not to discriminate against Australian wine.

Trade Distorting Support for Wine Products

The Australian wine sector successfully applied for countervailing duties to be applied on subsidised French Brandy imports into Australia in 2007. The order and methodology is currently under review by the Trade Measures Revue Officer.

The application that was accepted by the Australian Customs Service conducting the review identified trade distorting subsidies for French Brandy.

The Australian wine sector supports the imposition of countervailing measures or other appropriate responses as sanctioned under WTO rules where there is a demonstrated advantage to competing products from trade distorting domestic assistance.

International Organisations and Standards

The International Organisation of Vine and Wine (OIV) is an important forum in which to engage officials from the European member states outside the banner of the European Commission. Australian wine industry expert, Mr Peter Hayes, is the current president of the OIV. Australian involvement through industry and Government is likely to increase in importance as a risk management strategy as the OIV role becomes more significant in standard setting within Europe under the reform of the European common market for wine.

The Australian wine sector supports the Australian Government in continued high level of engagement in international organizations such as OIML and the Codex Alimentarius Commission.

3.8 Research and Development

Required Outcomes

That the Australian Government:

- continues to match funding for Rural Research and Development Corporations (RRDCs) such as the Grape and Wine Research and Development Corporation; and
- provides support of $9.5 million to enhance the Wine Innovation Cluster and develop a world leading research program on climate change as it relates to the wine sector.

Background

Matching Funds for Research and Development (R&D)

The Draft Research Report 'Public Support for Science and Innovation' (Productivity Commission, November 2006) has recommended that:

> *There are strong grounds for significant public co-funding of RRDCs that provide spillover benefits beyond industry members where that research would not proceed in the absence of support. But there is weak rationale for the present substantial co-funding of some industry RRDCs. Any changes to current support arrangements should be delayed until current economic conditions in the rural sector have improved.*

The wine industry in 2004 boosted its R&D funding to the Grape and Wine Research Development Corporation (GWRDC), with winemakers agreeing to increase the R&D levy from $3 per tonne to $5 per tonne. The Commonwealth Government has demonstrated a commitment to rural R&D Corporations and R&D in the wine sector, by matching such industry contributions up to a maximum of 0.5% Gross Value of Production.

This commitment to Rural Research and Development Corporations (RRDCs) recognises the significant market failure typical in rural industries. Most rural enterprises have insufficient capacity to commission research on their own behalf, and/or are unable to exclude "free riders" from also sharing in the benefit of the research. Consequently, without Government intervention, there would be substantial under-investment in rural related research.

In addition, rural industries have a substantial impact on Australia's natural resources and much of the research portfolio of the RRDCs is directed towards ways of better managing these resources to minimise harmful environmental impacts. Indeed, RRDCs typically apply considerable resources towards research priorities and objectives that fit within those defined by the Australian Government.

The benefit to Government, and the broader economy, accrues through the improved international competitiveness of Australian rural industries, and the resulting impact on trade, regional investment and taxation, as well as the social impact on regional communities and better management of Australia's natural resources. Research and Development by the RRDCs has generated average returns of about $7 for every $1 invested (*Innovating Rural Australia*, AFFA, 2001). It is worth noting that there are substantial intangible benefits that are not picked up through this approach but which serve to provide even greater returns on the investment.

With this commitment, combined with the industry contribution, the Australian wine industry has become a world leader in viticulture and oenology research.

Wine Innovation Cluster

The Australian grape and wine sector is seeking $9.5 million dollars from the Australian Government to invest in the Wine Innovation Cluster (WIC) to ensure the ongoing sustainability, international competitiveness and growth of the sector.

The WIC comprises a group of research partners who have worked closely together to develop a physical infrastructure concept enabling all parties to be co-located, creating an environment for world class collaborative research. Critical to the success of this concept is the construction of a new research building to replace the Australian Wine Research Institute's cramped and obsolete 50-year-old accommodation. In addition to the AWRI, the building will house research arms of the University of Adelaide and the South Australian Research and Development Institute (SARDI), and has been costed at around $29 million. Co-located on either side of the main building are a research winery and an expanded building containing CSIRO and Provisor (a successful and developing company arising from the Major National Research Funding program).

Co-locating these partners will provide a working environment highly conducive to interaction and shared knowledge to leverage the best research results for industry and maximise resource efficiencies. The need for the AWRI in particular to urgently relocate to a building that provides facilities to deliver the ambitious research agenda required by industry is critical.

The WIC is not just about a new state-of-the-art research centre, but about enhanced collaboration through shared facilities and joint research activities.

This initiative has generated solid commitment from all parties. The WIC has been supported enthusiastically by the South Australian Government with a grant of $9.5M and the University of Adelaide also contributing $9.5M.

Table 7: WIC Project Funding Model

Agency	Funding Commitment / Request
South Australian Government	$9.5 million
University of Adelaide	$9.5 million
Australian wine sector Seeking funding from Australian Government	$9.5 million
Interest on grant funding	$0.5 million
Total cost	$29 million

Note: SARDI commitment is allocated within South Australian Government contribution.
Note also that CSIRO and Provisor commitments to WIC West are not included in the above analysis.

In the context of climate research, the WIC has much to offer. The WIC partners, together with industry associates, have the capability to undertake a comprehensive economic and scientific assessment of drought across the grape growing and wine production chain including: economic impact analysis at the regional and international level; scenario modelling; soil analysis; leaf and vine physiology including vine root-zone analysis; grape yield and quality; wine quality; and the consumer response to wine produced under variable climatic conditions. WIC partners have a strong track record of success in delivering outcomes in collaborative projects like that proposed herein.

The WIC will underpin the competitiveness of a multi-billion dollar industry and its world-leading research status. Australia's key competitors have reacted to our success and are investing hundreds of millions of dollars in new research facilities and initiatives, and are therefore positioned to snatch the 'world-leading' mantle. This is not just about reputation and influence, but more critically, Australia's robust research base, forward momentum and ability to attract the best international students and staff who will deliver the research outcomes to ensure Australia's continuing competitiveness.

The WIC is being developed at a time when the need for world class research infrastructure and capacity is absolutely essential, but also at a time when the Australian wine sector is unable to fund the required investment. The two vintages of 2007 and 2008 will likely be a total of more than 1.5 million tonnes down on what could be expected in average years. This translates into a reduction of more than $24 million in research dollars, more than $12 million of which would have been the Australian Government contribution in dollar-for-dollar matching levy funds.

The Australian wine sector seeks a transfer of this Government investment that will not go into matching research funds into the Wine Innovation Cluster through the GWRDC.

3.9 Biosecurity

Required Outcome

That the Australian Government works with the Australian wine sector and other plant industries to ensure a coordinated, swift and effective response can be made to any exotic pest or disease incursion.

Background

Plant Health Australia and Emergency Plant Pest Response Deed

The risk of exotic pest and disease incursions affecting the viticulture industry in Australia is very real. Successful eradication of exotic pests and diseases relies on the ability to quickly and effectively respond to threats.

Australian plant industries, State Governments and the Australian Government have negotiated a cost sharing and management agreement to manage exotic pests and disease incursions. The Emergency Plant Pest Response Deed (EPPRD) came into effect on 26 October 2005.

The EPPRD provides a mechanism for governments and industry to work together to reduce the risks and share the costs and responsibility of responding to emergency plant pests. The EPPRD reduces delays in securing funding, provides industry with greater involvement in eradication efforts, and removes disincentives to report suspect pests.

The relative share of the total cost of incursion management that will be covered by industry and government respectively varies according to the relative public and private benefits obtained from eradication

Health status of planting material

Regional and State vine improvement organisations have evolved over the last 3 decades through a wine sector commitment to ensure the widespread availability of planting material of high health status.

With ongoing rapid vineyard expansion in conjunction with poorly co-ordinated national strategies, the risk to the health status of the industry's grapevines is currently higher than ever.

A co-ordinated national approach to upgrade and safeguard Australia's high health status led by the peak industry bodies is therefore warranted. This may require government support to establish a peak body responsible for vine improvement. A co-ordinated national Vine Improvement Strategy would facilitate the following:

- the development of a national elite germplasm(s) that meets the needs of the wine sector. This could include establishment of a national facility;
- the implementation of industry-endorsed accreditation systems for elite germplasms and propagation facilities and distribution of vine material;
- practical application of the standards in production of material for propagation by regional Vine Improvement Associations;
- communication between regional Vine Improvement Associations; and
- policy development on issues such as import protocols.

Import risk assessments

The Australian wine sector supports Australia's quarantine import risk analysis (IRA) process as a comprehensive, science-based process that involves considerable stakeholder consultation.