



Australian Government

**Australian Wine and
Brandy Corporation**

SUBMISSION TO THE REVIEW OF EXPORT POLICIES AND PROGRAMS

AUSTRALIAN WINE AND BRANDY CORPORATION

&

WINEMAKERS' FEDERATION OF AUSTRALIA

2 MAY 2008

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Executive Summary

The Australian wine industry welcomes the opportunity to provide input into the Government's important Review of Export Policies and Programs.

In 2007, Australian wine exports totalled a record 787 million litres with an estimated value of \$2.9 billion which accounted for around 10% of Australia's agricultural exports. These wine export volumes currently represent almost 60% of Australian wine sales and make Australia the world's fourth largest wine exporter although we only account for 4% of total world production. Approximately half of Australia's wineries currently export to overseas markets. In short, exports have driven and sustained the growth of the domestic wine industry and market access has been, and will continue to be, critical to the sector's ongoing success.

The Australian grape and wine sector is renowned for its ability to innovate which has been a key driver behind its recent success. As the industry could not draw on history or prestige like its European counterparts it has focused on continuous quality improvement and efficiency in production to secure a competitive advantage. Innovation has been, and will continue to be, critical to improving export performance.

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 to 2025* was developed to reassess the priorities and challenges facing the industry. It is founded on the firm conviction that Australia must become a more significant participant in the regionally distinct and fine wine market, and its target is to increase the value of Australian wine trade over the next five years by a cumulative \$4 billion. It also identified 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.

Australian exporters generally face a low-tariff environment in our major export markets, namely the EU, the USA and Canada although a number of our closer export markets in Asia impose substantial import duties and taxes on imported wine which significantly impede market access. Non-tariff regulatory barriers, however, in the form of labelling, wine-making or certification standards in some markets arguably represent a more serious challenge for Australian wine exporters impacting negatively on export performance. In addition there are a number of impediments in the global wine trade supply chain that deny or inhibit the sector's access to the sales channels that specialise in higher value wines.

Given the industry's reliance on exports, we support the WTO rule-based trading system as a valuable international institution, and, in particular, the dispute settlement system as having an agreed binding process for resolving trade disputes provides important liberalising outcomes. For example, pressure applied recently by wine exporting countries through the WTO dispute settlement process assisted in obtaining a partial liberalisation of India's onerous tariff regime for imported wine.

Although the Doha Round is yet to be finalised, our assessment though is that is unlikely to provide significant and meaningful market access gains for Australian wine and accordingly we support other avenues to secure tariff elimination. With respect to the major developed countries, for example, we are working towards obtaining industry wide support for a wine sectoral initiative to eliminate residual wine tariffs applied by the EU, Australia, New Zealand, Canada and the USA.

Bilateral FTAs also represent as an important alternative mechanism for locking in meaningful market access gains for Australian wine exports. On balance, our assessment is that Australian wine exporters have benefited, albeit not significantly, from the FTAs negotiated to date especially as the tariff concessions for bottled exports to the US under the AUSFTA have yet to commence.

That said, we remain optimistic that FTAs can deliver important commercial gains provided they comprehensive and truly liberalising. Looking ahead, the industry is keen to see the suite of FTAs currently under negotiation – in particular, China, ASEAN and Japan- promptly concluded with significant market access gains for all wine product lines with limited phase-out periods and no carve-outs. Concluding high-quality FTAs with South Korea and India should also be a priority. In addition we believe it is imperative non-tariff barriers are comprehensively addressed in FTAs. We are concerned, in particular, that one of our major competitors, Chile is gaining a significant competitive advantage in several key markets as result of tariff preferences obtained under its FTAs.

Finally, we would wish to emphasise the importance of productive working relationships with various Federal and State government agencies. With respect to market development activities, the AWBC as the peak marketing authority for the Australian wine industry works toward this by the integration of planning and strategy with Austrade (including co-location in key markets) and the chairing of a State agency forum design to improve awareness and equity in export program planning, funding and participation. And we maintain ongoing dialogue with both DFAT and DAFF both in Canberra and in relevant missions overseas to progress market access issues. It is critical that we work together cooperatively in order to provide a comprehensive response capability in the event of adverse developments arising and to assist exporters to resolve specific market access issues as they arise.

1. Introduction

This is a joint submission from the Australian Wine and Brandy Corporation (AWBC) and the Winemakers' Federation of Australia (WFA).

The AWBC was established in 1981 to provide strategic support to the Australian wine sector. It is an Australian Government statutory authority directed by a board appointed by the federal Minister for Agriculture, Fisheries and Forestry.

AWBC's responsibilities include:

- export regulation compliance;
- maintaining the integrity of Australia's wine labels and winemaking practices;
- defining the boundaries of Australia's wine areas;
- strategic marketing of the Australian wine sector;
- negotiating to reduce trade barriers with other countries; and
- providing high quality wine sector statistics and analysis.

WFA is the national peak body for the wine industry with voluntary membership representing more than 95% of the wine produced in Australia. It develops policies and programs for the whole industry on a range of political, social, environmental, trade and technical issues with both a national and international dimension.

The AWBC and WFA welcome the opportunity to contribute to this important Review of Export Policies and Programs that has been initiated by the Australian Government. Maintaining a strong export orientation is imperative to the continued viability of the Australian wine industry. With limited growth potential for the domestic market, future increases in Australia's wine production will require continued export growth. In the face of declining world prices Australia's international competitiveness will depend on continued innovation, product targeting, quality improvement, and cost reduction.

We have provided below our comments on a number of key questions posed in the Issues Paper that are of relevance to the Australian wine industry.

2. The Australian Wine Sector

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 to 2025* was developed to reassess the priorities and challenges facing the industry. It is founded on the firm conviction that Australia must become a more significant participant in the regionally distinct and fine wine market, and its target is to increase the value of Australian wine trade over the next five years by a cumulative \$4 billion.

Directions to 2025 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 DAFF.

Altered global trading conditions have also brought 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.

a. Background and importance to Australia

Wine is an important industry in Australia, contributing significantly to a number of regional economies and directly employing some 28,000 people in both winemaking and grape growing (2006 Census), with further downstream employment in retail, wholesale, hospitality and tourism industries. The Australian wine industry is comprised of approximately 8,000 wine grape growers supplying over 2,000 wineries. In 2007, the total vineyard area reached almost 164,000 hectares. Wine grapes are grown in all states of Australia, with South Australia, New South Wales and Victoria accounting for the majority of production.

Table 1: Snapshot of the Australian Wine Industry

(2007 figures unless otherwise indicated)		
Wineries (2008)	number	2,299
Direct Employment (2006)		
Grape Growing	number	11,003
Wine Making	number	16,956
Wine Grape Crush	'000 tonnes	1,397
Wine Production	million litres	978.4
Domestic Sales - Volume	million litres	449
Domestic Sales - Value (2005/06)	\$A million	1,899
Exports - Volume	million litres	787.2
Exports - Value	\$A million	2,878.6
Imports - Volume	million litres	34.2
Imports - Value	\$A million	307

Sources: Australian and New Zealand Wine Industry Directory 2008, ABS and AWBC.

The rapid expansion of wine production in Australia over the last decade combined with a small domestic market has seen the Australian industry become increasingly export oriented. Australia exports wine to 104 countries, and has an eight per cent volume share of global wine exports. In 2007 wine exports totalled a record 787 million litres with an estimated value of \$2.9 billion which accounted for around 10 per cent of Australia's agricultural exports. These wine export volumes currently represent almost 60 per cent of Australian wine sales and make Australia the world's fourth largest wine exporter. This is despite Australia's wine production accounting for only four per cent of total world production. Approximately half of Australia's wineries currently export to overseas markets.

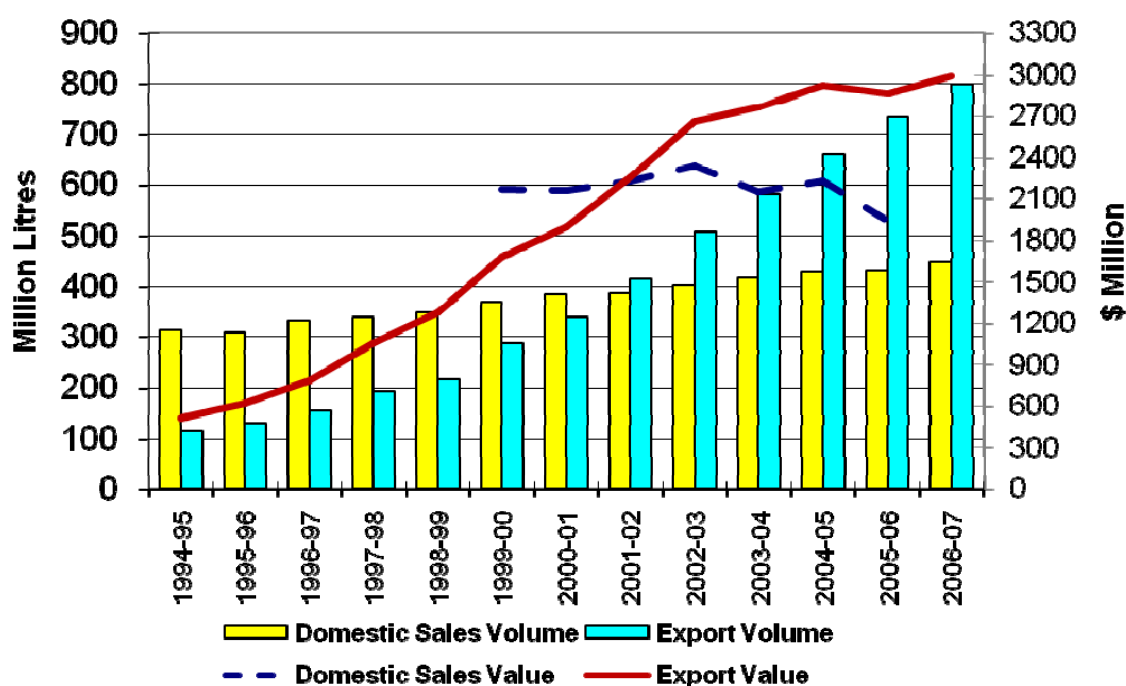
Wine production and exports have also been expanding from other New World wine producing countries including: Argentina, Chile, South Africa and the USA. This growth has led to global wine production expanding faster than demand and has resulted in a

significant decline in world wine prices.¹ As a result, the profit margins for Australia's winemakers has declined in recent years, exacerbated by the increased number of competitors in the market as well as the capital intensive nature of the industry. Accordingly, the Australian wine industry is facing the challenge of maintaining profitability in a global market characterised by flat demand, increasing supply and declining prices.

b. 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



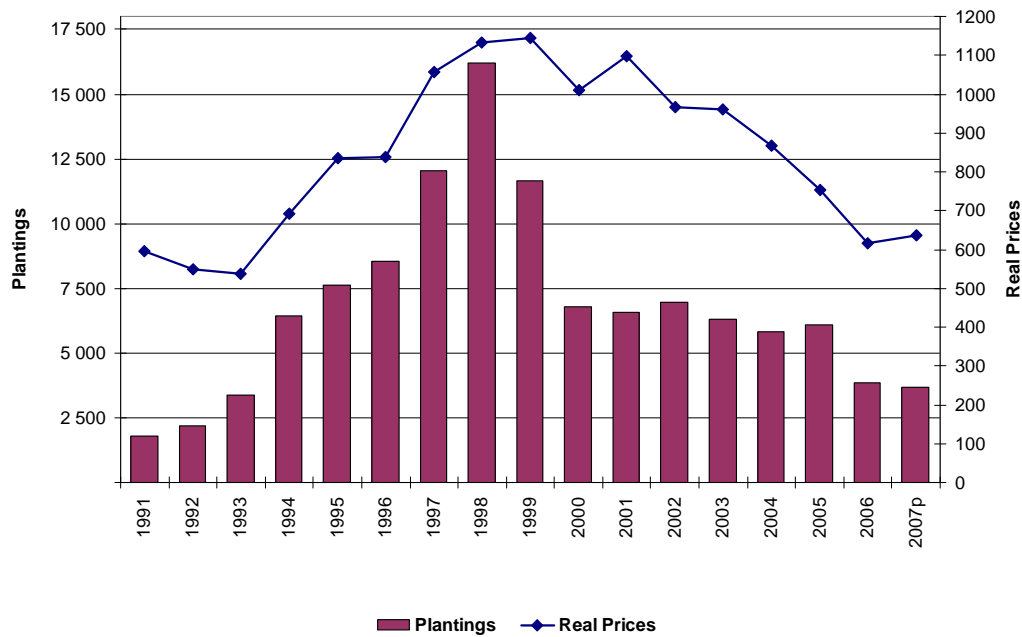
Note: Domestic Sales and Export Sales values are 2006-07 real prices Sources: ABS Catalogue No: 8504.0 Sales of Australian Wine & Brandy by Winemakers & Catalogue No: 1329.0 Australian Wine & Grape Industry, AWBC Wine Export Approval Report via WINEFACTS Statistics

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.

¹ Sheales, T., Apted, S., Dickson, A., Kendall, R., and French, S. 2006, *Australian Wine Industry: Challenges for the Future*, ABARE Research Report 06.16, Canberra, October.

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

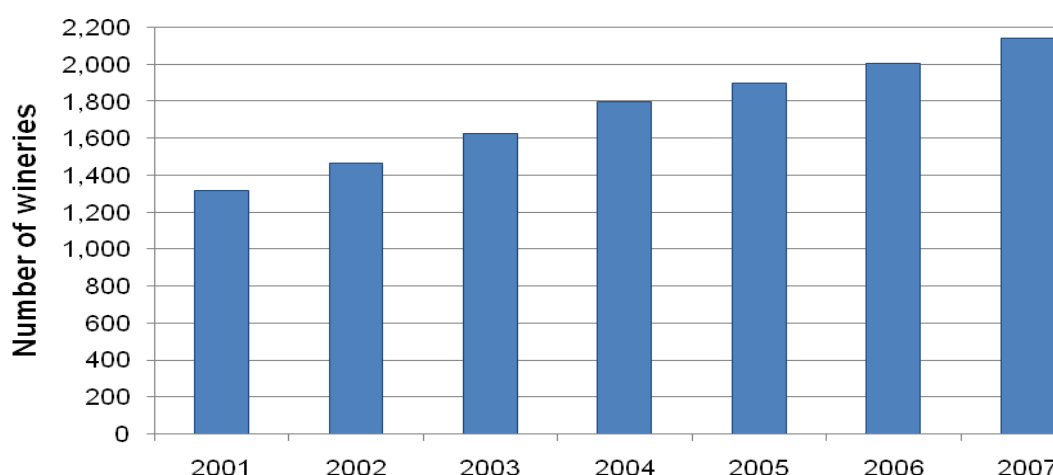
In hindsight, it has become clear that neither the rapid vineyard plantings in the late 1990s were sustainable nor were the high wine grape prices that prompted them. Grape prices have in fact progressively declined since their 1999 peak. Despite a slightly reduced crush in 2006, average grape prices were still slightly above those received prior to the planting boom (in real terms).

c. 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. Since 2001, overall employment has declined slightly to around 28,000.

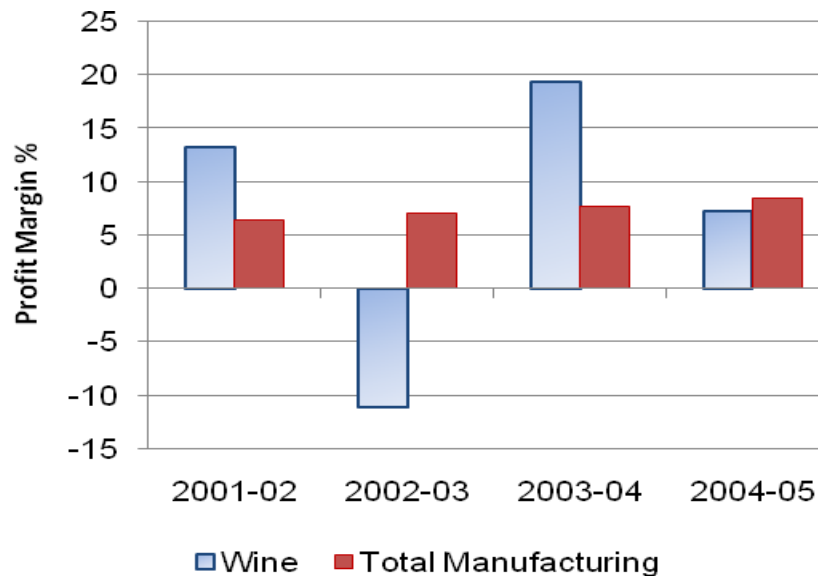
There has also been a strong rise in regional investment in infrastructure. Around \$1.8 billion was invested in new vineyard development in the 1990s and \$1.1 billion in the first 7 years of this decade. There was around \$1.6 billion of capital investment in winery infrastructure between 2001 and 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 resulting in an estimated expenditure of \$666 million.

d. Winery viability

An indication of the profitability of Australian wineries is provided by the ABS Manufacturing Survey. Figure 4 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 4: Profit Margin (percentage) : 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.

e. 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 *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 2008 winegrape crush is estimated between 1.55 and 1.65 million tonnes, above the 2007 harvest of 1.397 million tonnes but still almost 13% lower than the 1.9 million tonne crush of 2006. 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, with official government support of €1.3 billion per annum. 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\$3.86 per litre for the year ending March 2008, representing the sixth consecutive year that the average price for Australian wine has fallen.

3. Structural and supply side factors

a. Environmental issues

Environmental issues 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.

b. Innovation

(i) Contribution to export performance

The Australian grape and wine sector is renowned for its ability to innovate which has been a key driver behind its recent success. As the industry could not draw on history or prestige like its European counterparts it has focused on continuous quality improvement and efficiency in production to secure a competitive advantage. Such product quality improvements flowing from the industry's investment in research and development - which coincided with the expansion of large retailers in the UK market and the need to meet their requirements for larger volumes of wines with consistent quality - underpinned the industry's stellar export performance.

In a rapidly changing domestic and global market continued innovation will safeguard and deliver more jobs, successful businesses, better wines and services for customers and consumers, and new, more environmentally friendly processes. Defining, however, an appropriate amount for research and development investment will always be difficult.

While individuals and companies will have their own methods for determining business success, general analyses of the grape and wine sector demonstrate a return of about \$8 for every \$1 invested in research and development. In order to tackle the challenges the industry faces today and to maintain Australia's competitiveness, we remain convinced that additional research is needed. Accordingly, in 2004, the wine industry boosted its funding to the Grape and Wine Research Development Corporation (GWRDC), with winemakers agreeing to increase the research and development levy from \$3 per tonne to \$5 per tonne. The Commonwealth Government has demonstrated a similar commitment to research and development by matching such industry contributions up to a maximum of 0.5% of gross value of production. This commitment recognises the significant market failure typical of 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. Furthermore, rural industries have a substantial impact on Australia's natural resources and significant research is directed towards ways of better managing these resources to minimise harmful environmental impacts.

(ii) Committed to research and development

The Australian wine industry's vision is to ensure that returns from R&D activities are maximised and driven by industry demands, to encourage a high level of industry participation in setting the R&D agenda and to expand the funding base for R&D through the attraction of new investors and a broader range of research participants.

The WFA in particular has a number of strategies that it is committed to in the development of R&D policies, including:

- ensuring WFA provides clear policy advice to the government on R&D issues on behalf of the wine industry;
- ensuring the wine industry's research priorities are clearly stated and that they meet national and regional needs;
- effective and efficient dissemination and extension of the outcomes/results of R&D in line with industry expectations;
- comprehensive intellectual property management giving priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry; and
- a cooperative research approach between industry, researches, funding bodies and government.

Wine/vine R&D has always been aimed to address market failure and is pre-competitive. Its focus has been to increase scientific knowledge with the development component of such investments traditionally been interpreted as extension – that is taking the results of the research to the practitioner. Arguably, however, it is the technical innovation as developed by the wine producers and grapegrowers that has yielded the significant cost savings, efficiency gains and quality guarantees that have accrued to the industry. Recent initiatives from GWRDC in funding extension positions in the National Wine and Grape Industry Centre (NWGIC) and internally in the GWRDC have increased the capacity to extend the results of such research to the industry. Industry generated structural change in forming the Strategic Directions Group (SDG) has also assisted in refocusing the research agenda towards industry priorities.

c. Supply chain constraints

As outlined above, *Directions to 2025* has identified the potential for the Australian wine sector to sell an extra \$4 billion worth of wine over the next five years – lifting cumulative domestic and export sales for the period to \$30 billion, rather than the \$26 billion expected based on current production levels and consumer trends. The gains will come through a combination of new marketing based on regional and fine wines and a clearer identification of niche market opportunities

Directions to 2025 represents a comprehensive plan for the Australian wine sector to transform itself from a volume-driven approach to one that delivers a more sustainable and profitable business environment for more growers and producers. That is it is a shift from a volume growth to a value growth strategy. This requires improved performance in penetrating high value export market segments.

However the key to achieving this plan outcome is to eliminate the impediments in the global wine trade supply chain that deny or inhibit Australian wine's access to the sales channels that specialise in higher value wines. These channels (supply chain) are very fragmented - unlike the concentration in high volume everyday wine channels - and are dominated by wine trade gatekeepers (importers, wholesalers, speciality retailers and restaurants) who are skeptical of the capability and credibility of Australian wine. The challenge is a different one in emerging wine markets where the wine supply chain is relatively undeveloped and typically suffers deficiencies in cold chain infrastructure, logistical performance, intellectual property protection (label integrity), market access regulation and product knowledge.

Different again is the challenge in monopoly markets such as Canada and Sweden where Government plays a direct and dominant role in the supply chain. The supply chain gatekeepers for the wine industry are different according to the geographical export market and the type of wine. For example the USA market legislatively mandates that wine moves through a three tier supply chain of importer, wholesaler and retailer with different regulatory requirements in each state. Likewise high value "fine wine" goes to market through different channels to everyday wine although there is some overlap at the retail stage of the supply chain. Therefore the supply chain customer for wine is a category of route to market intermediaries that varies according to market and to the wine offer.

The scale of the opportunity dependent on supply chain innovation and development is around \$1 billion dollars of export sales over the next five years, that is 25% of the \$4 billion total sales opportunity identified by the *Directions to 2025* market opportunity research. The remaining \$3 billion sales will be through existing channels in existing markets, albeit with substantial investment in market development.

Directions to 2025 identified the following geographic markets for targeting, subject to further market intelligence findings:

- UK, USA, Germany, Netherlands, Denmark, Japan, Ireland (high value segments)
- Canada, Sweden (monopoly markets)
- China, South Korea, India, Russia (emerging markets)

4. Trade negotiations and market access issues

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.

I. Significance of non-tariff barriers

Australian exporters generally face a low-tariff environment in our major export markets, namely the EU, the USA and Canada although naturally we would welcome full elimination (see discussion below). That said, given wine is subject to varying levels of excise tax in these markets to some extent the market access benefits flowing from the low duties are eroded. A number of our closer export markets in Asia, however, impose substantial import duties and taxes on imported wine which significantly impede market access.

Beyond tariffs and excise taxes, however, non-tariff regulatory barriers in the form of labelling, wine-making or certification standards in some markets arguably represent a more serious challenge for Australian wine exporters impacting negatively on export performance. With respect to our major markets such as the EU, the USA and Canada we have successfully negotiated trade facilitating agreements which generally remove such barriers as outlined below, although recent developments in the areas of health and nutrition labelling in these markets have the potential to require major changes to the labels of Australian wines exported to these markets thereby imposing costs on Australian wine producers. Non-tariff barriers are also a significant issue in key Asian markets and continue to be source of frustration for Australian exporters.

a. European Union

(i) EU Wine Agreement

Non-tariff trade barriers for Australian wine exports to the EU have largely been resolved by virtue of the *1994 Agreement between the Australia and the European Community on Trade in Wine, and Protocol* (1994 EU Wine Agreement) and the replacement agreement which was initialed in June 2007 with signing expected to take place later in 2008. The 1994 EU Wine Agreement has provided market access certainty for Australian exporters. For example, it clarifies how Australian wine may be described and presented in the EC and stipulates oenological practices and processes authorised for Australian wines to be marketed in the EU.

(ii) Health Warnings

Health warning labelling has been mandatory in several overseas markets for some time including the US, Japan, Thailand, Taiwan and Korea. Recently, a number of international markets have introduced, or have indicated they intend to introduce, a new set of health warning statements for wine labels. France became the first market in the EU to legislate for mandatory health labelling with the regulation coming into force on 3 October 2007. The French labelling requirement can be met by a statement or a logo. The UK has now also finalised the proposed format for 'sensible drinking' messages on alcohol drinks labels. This health warning will be a voluntary requirement but the Department of Health wishes this message to be shown on all alcoholic drinks labels and secondary packaging sold in the UK by the end of 2008. Health warnings are also in the pipeline in other EU member states. Finland recently passed legislation which will mandate two health warning statements from January 2009, while Ireland, Poland, Italy

and Germany have indicated they will be looking at introducing similar legislation in their markets.

The inclusion of health warnings in labelling requirements in the EU is an important emerging issue for Australian wine exporters. The lack of consistency amongst the current proposals on the table in the EU is of concern. As a result, it appears that the concept of a common EU label(s) will be threatened with specific labels being required for each Member State that adopts a unique health warning unless a common formulation is adopted. If consensus is reached on a uniform approach ideally the French initiative, allowing a pictogram instead of a written warning, would become the EU model as it would obviate the need to translate warnings into up to twenty plus official EU languages. We are exploring in various international fora possible approaches to coordinate such health advisory labelling requirements. In our view, pictograms or symbols are an effective way of communicating a simple message without the complications of language and at the same time will result in significant future savings for the Australian wine industry.

(iii) Support Measures

Although EU agriculture ministers agreed in late 2007 to reform the Common Market Organisation (CMO) for wine with the intention of bringing balance to their wine market, we doubt it will do so.

When it embarked on this reform, we strongly supported the European Commission's stated goal of reducing excess production and market intervention as these mechanisms currently distort markets for wine. In particular we welcomed the proposal to eliminate market support measures, such as distillation and storage aids, and general shift to green box-type decoupled support. Such measures would enable producers to respond more readily to market signals and would – if taken far enough – reduce the structural surpluses that have long plagued the European wine sector and global marketplace.

The final reform package, however, was not so ambitious. For example, planting rights will not be phased out until 2015 with the possibility of an extension to 2018. In addition, subsidies for distillation schemes will remain in place until 2012-13 and by-product distillation will remain in place. Distillation subsidies costs the EU approximately €630 million a year and account for the major part of the spending under the Wine CMO. These distillation subsidies have been a key driver behind the EU's excess production which has put downward pressure on global wine prices and it is therefore extremely disappointing that such measures have not been immediately abolished as originally proposed by the European Commission.

Given the considerable level of support – the overall annual budget of €1.3 billion remains unchanged by the reform – we continue to urge the EC to ensure that all programmes proposed as “green box” are truly “green”, and do not effectively continue to provide production incentives. We would encourage the Commission to focus on targeted green box measures that do not interfere with market signals and to reduce the overall level of support. Both the magnitude and design of support structures and market intervention should be kept under constant review in order to tackle the problem of overproduction more effectively.

Transparency in the new system will also be important. The proposed devolution of responsibility to Member States needs to be done within a framework of robust horizontal rules that prohibit distortionary measures such as production-linked payments. The use of “national envelopes” should not inadvertently allow production- and trade-

distorting policies to be reinstated. Monitoring and compliance are critical, especially to ensure full WTO-consistency of new measures.

b. USA, Canada and New Zealand

To progress Australia's interests internationally, Australia participates in the World Wine Trade Group (WWTG) which is an informal group of government and industry representatives from countries with a mutual interest in facilitating the international trade in wine and avoiding the application of obstacles to the international wine trade. Other participants in the WWTG are Argentina, Canada, Chile, New Zealand, South Africa and the United States. The WWTG is a valuable forum for information exchange and discussion on wine trade issues. The joint participation of government and industry representatives at meetings is designed to ensure a free exchange of information and a better understanding of issues being discussed.

(i) Oenological Practices

The group's first major outcome was the conclusion of a *Mutual Acceptance Agreement on Oenological Practices* (MAA).

Under the MAA, WWTG parties have agreed, provided there is no risk to human health or safety, to accept each other's wine making practices on a reciprocal basis as well as the regulatory framework underpinning the integrity of those practices. Wine, therefore, made in accordance with oenological practices in force in one party may be imported into any party regardless of the wine-making rules currently in force in that importing country. The MAA recognizes that although oenological practices may differ around the world, unless there is a risk to human health and safety, they should be regarded as legitimate and not used to impede international trade in wine. Parties to the MAA have also agreed not to require certification of winemaking practices as a condition for market access. The MAA therefore effectively removes winemaking practices as a source of trade disputes amongst the parties.

(ii) Labelling

The most recent major outcome of WWTG is the *Agreement on Requirements for Wine Labelling* (the WWTG Labelling Agreement) which harmonises and simplifies member countries' wine labelling requirements.

Labelling costs represent a significant component of the cost of Australian wine production, especially for exporters. This is because most export markets have different requirements for the placement of information on the wine container compared to Australia's domestic market requirements. Thus, wineries are required to print separate wine labels according to each importing country's requirements for the placement of mandatory product information. The expense of producing separately labelled wine for different markets is further exacerbated by the need to maintain separate buffer stocks for each market.

Once the WWTG Labelling Agreement is in force Australian winemakers can develop a single wine label that would be acceptable in all major export markets and the domestic market, while providing flexibility for producers to adopt the "single field of vision" approach on a voluntary basis. The single field of vision approach is to allow the four items of common mandatory information to be placed anywhere on a wine container, with the exception of the cap or the base, provided they are displayed in a single field of vision. Importantly, this single field of vision approach is consistent with current practice in the European Union.

Ratification of the Agreement is pending, requiring amendment to domestic wine labelling regulations by State and Territory Governments, and completion of relevant JSCOT processes including preparation of a National Impact Analysis prior to tabling in Federal Parliament.

We estimate that the Australian wine industry would benefit from ongoing cost reductions of approximately \$25 million annually from the adoption of the single field of vision approach to wine labelling once the WWTG Labelling Agreement comes into force. This estimate has been verified by ABARE. The ability to use a single label for most markets may offer growth opportunities for small wineries to enter export markets due to the lower cost structures expected to result from the WWTG Labelling Agreement. Because small wineries operate at a lower scale, the need to produce a variety of labels for different export markets incurs proportionally higher total costs, which often makes exporting prohibitive. Accordingly, the WWTG Labelling Agreement may offer proportionally greater benefits to small wineries by assisting them to be more efficient and competitively positioned to enter export markets.

The Australian wine industry's ability to improve its competitiveness is critical to its sustainability and its ability to expand its overseas market share. Exports are extremely important to the Australian wine industry. As outlined above, in 2007, more than 60 per cent of Australia's wine sales (by volume) were exports, while imports accounted for only about 7 per cent of domestic consumption. In comparison, three of Australia's top four export markets, who are also signatories to the Labelling Agreement, are highly reliant on imports to satisfy domestic consumption. The United States, Canada and New Zealand accounted for almost 42 per cent of Australia's wine exports in 2007. As a percentage of consumption in 2005, imports accounted for 89.3 per cent in Canada, 43.5 per cent in New Zealand and 29.9 per cent in the United States. Not all countries will receive an equal production efficiency benefit through the Labelling Agreement. Assuming the WWTG Labelling Agreement assists Australia's global competitiveness in the current environment of relatively flat demand, increasing supplies and declining prices, it could be expected that there would also be broader flow-on benefits to the industry.

There a number of wine labelling issues - vintage dating and claims for multi-regions and multi-varieties – for Australian wine destined for the US market that continue, however, to be trade irritants. These issues, however, were carved out of the WWTG labelling agreement signed in January 2007, but under that agreement the parties have committed to continue discussing them with a view to concluding a second-stage labelling agreement. We are continuing to work with DFAT and DAFF to resolve these outstanding labelling issues as our preliminary estimate of the benefits to industry are in the order of at least \$50mn per annum.

In addition, the US has proposed an extension to their health labelling regime. The Alcohol, Tobacco Tax and Trade Bureau (TTB) has recently issued a Notice of Proposed Rulemaking for the adoption of a mandatory serving facts panel for wines. This proposal, if adopted in its current form, will require major changes to the labels of Australian wine exported to the USA and inevitably impose significant costs on exporters.

(iii) Certification

Simplifying certification procedures is another priority for the Australian wine industry. Our position on this issue is that such requirements are unnecessary given AWBC's stringent export control procedures (see Appendix I). We believe no other wine-producing country has such comprehensive controls on the export of wine and

accordingly the export approval granted by the AWBC should itself provide a sufficient basis for import into the respective country. To that end we are pursuing a Memorandum of Understanding on Certification in the WWTG under which participants will not require certification of wine composition for imported wine, or analytical reports on wine constituents, unless these are required to protect human health and safety consistent with the WTO Agreement.

c. APEC

To date the international wine trade has been focused on the traditional large wine consuming nations - in particular Western Europe and North and South America. However, with consumption declining in Western Europe in particular wine exporters are moving their focus to the Asia-Pacific region. The key drivers of this growth will be increasing economic growth in the Asian region, leading to higher incomes, increased consumption of consumer goods resulting in increased demand for quality wine products. In addition to existing tariff barriers which are high in Asia relative to western markets, non-tariff barriers such as wine composition standards in Japan and certification requirements for China, for example, amount to significant non-tariff barriers for Australian exports.

If such countries were to either join the WWTG or in the alternative refer to the WWTG Agreements when making regulating change in the areas of wine labelling and oenological practices it will assist in facilitating trade while ensuring adequate consumer protection.

At the first APEC Sub-Committee on Standards and Conformance (SCSC) Meeting held in Peru in late February 2008, Australia reported on the progress of the work of the WWTG and asked SCSC members to endorse the establishment of a Wine Regulatory Forum (WRF). The SCSC endorsed this proposal to enable interested APEC Member Economies to further this initiative. It is proposed that the WRF will undertake a stock take on existing wine regulations and recommend action on future cooperation and harmonisation opportunities; consult with and coordinate with the activities of the Food Safety Forum to facilitate the best use of capacity building activities and ensure maximum efficiency of time and resources between both fora and place a high priority on an examination of capacity building needs in the region. It will also consider the potential benefits of running capacity building training workshops in the field of wine regulation with the support Trade & Investment Liberalisation & Facilitation funding.

Although in its infancy we see considerable value in this endeavour and indeed more widely within APEC as a means to enhance trade facilitation in wine in the region.

d. Maximum residue limits for agrichemicals

One issue that cuts across a number of export markets concerns maximum residue limits (MRLs) for agrichemicals.

Some agrichemicals permitted in Australia sometimes do not have a MRL in overseas markets, often because grapes are not grown commercially in these countries, and the agrichemicals are therefore not registered for use on grapes. As a result, there is no requirement for an MRL for grapes, or even when a MRL does exist, it often differs in value between countries.

As a result, grapes grown for wine destined for export require carefully planned spray programs and agrichemicals must be selected to ensure that its application will not result in a residue that is unacceptable to Australia's major wine markets. To achieve this, it

may be necessary to avoid the use of certain agrichemicals altogether, or to restrict their use.

Given the cost to industry of ensuring different MRLs in export markets are complied with, we believe there is merit in pursuing harmonization of MRLs for agrichemicals commonly used in the production of grapes in accordance with international standards.

This issue is a particular problem in Canada where the sale of alcoholic beverages is controlled by provincial Liquor Control Boards which, among other things, set MRLs regarding a range of agrichemicals. Australian wine exporters have concerns regarding the application of MRLs by the Liquor Control Board of Ontario (LCBO) to chemical residues found in wine. The LCBO lists many chemicals but sets MRLs for only some and all chemicals listed but without MRLs revert to the default maximum level of 0.1ppm which is usually many times lower than is recommended by Health Canada. This causes confusion and higher costs for Australian exporters. The policy approach of the LCBO forces growers in exporting countries to adjust application rates and timing of pest control products to meet unique LCBO standards. This does not allow for optimal use of pest control product applications that are deemed safe by Health Canada.

This problem is not limited to wine exports to Ontario. The LCBO is a large importer of wine and wine exports are not typically segregated for the Ontario market so that the LCBO's MRL policy applies across Canada, despite other provincially controlled liquor boards not impose unique MRLs.

e. Trade and the Environment

Central to the Australian wine industry's ambitious new strategy – *Directions to 2025* – is a commitment to continuous improvement in the sector's strong environmental performance to meet the changing consumer and community demands for sustainability. The industry has set itself to take a leadership position across key environmental policy areas such as water, biodiversity and climate change. Responding and adapting to demands in overseas market from consumers, gatekeepers and governments regarding environmental performance presents a serious challenge to all Australian wine exporters. That said, it is important for the industry to continue to influence and shape these developments to mitigate the potential trade impact from such measures. Given the industry's reliance on exports, it may be necessary at some stage to challenge such measures if following a rigorous assessment it appears they amount to no more than thinly-disguised trade barriers with environmental protection used as a convenient cover. Otherwise, successive trade liberalising successes over the past twenty years will unravel if divergent and nebulous environmental standards, including labelling requirements, are widely adopted in key export markets such as the EU.

At this stage, there are no mandatory, coercive EU member state regulations with respect to environmental issues that are imposing significant barriers to Australian wine exports. And arguably such measures are unlikely to be implemented in the short to medium term, in part due to possible contravention of WTO disciplines. That said, in the UK there a range of government policies and private sector programs and standards relating to environmental issues which collectively have the potential to fundamentally reshape the trading environment for Australian wine exports.

(i) UK Push to Bulk Wine Imports

Practical implementation of packaging waste recovery and recycling goals in the UK has been driven by the Waste and Resources Action Programme (WRAP) – a private company wholly funded by the UK Government. WRAP has focused its activities on the

wine sector amongst others, through its Wine Initiative, as the UK accounts for approximately 18% of world wine imports by volume and over 20% by value. This Wine Initiative aims to encourage more wine importers and retailers to bulk import wine and bottle it in lighter UK produced glass bottles in order to reduce the amount of green glass waste in the UK, boost the UK glass recycling market and improve the industry's carbon emissions output.

Central to WRAP's Wine Initiative is the promotion of bulk wine importation to UK as it argued that it makes sense from both an environmental and commercial perspective. Not surprisingly this push towards encouraging bulk wines imports instead of bottled products on the basis of environmental considerations will continue to be closely monitored by the Australian wine industry to ensure they do not become thinly-disguised non-tariff trade barriers. For example, one criticism of WRAP's work with regard to the environmental benefits of importing bulk wine is that it has only focused on the transportation and packaging elements of the production process which inherently discriminates against southern hemisphere producers. The carbon footprint associated with the production process itself has not been factored in and in addition the EU support measures (and associated carbon emissions) that keep many of their unprofitable winemakers in business have not been incorporated.

(ii) Private Sector Standards

In addition to these broad-based government (or at least government funded or supported) environmental initiatives, many major UK retailers are now also demanding environmental assurances from wine exporters. Such assurances enable these retailers to demonstrate that they are taking responsibility for the environmental performance of their supply chains with business success being increasingly judged against a number of societal and other indicia in addition to profitability. UK retailers are formulating the current benchmark for global market assurance trends and given supermarkets account for 80% of off-licence sales of wine in the UK and the UK market itself is the largest for Australian wine exports, responding to these trends is critical to maintaining Australia's market share position and reputation as an environmentally responsible wine producer. Supplier programmes focussing on environmental performance are proliferating with a unified standard not considered a likely outcome in the medium-term. For example, suppliers to Tesco are required to comply with its 'Nature's Choice' program which endeavours to ensure production and produce handling systems are sustainable, environmentally sound and responsible. This program covers issues such as the use of pesticides, fertilizers and manure; pollution prevention; efficient energy, water and other natural resource use; recycling and reuse of materials. Tesco, which is the single largest overseas buyer of Australian wine cites environmental issues as key considerations for them when considering their potential suppliers. According to a senior Tesco executive "there shouldn't be a company out there not thinking about climate change and the environment when they come to talk to us about their product".²

Such private sector standards are increasingly setting higher barriers for entry for a whole range of foodstuffs, including wine. At the national level, there is nothing to constrain private sector actors from defining and applying specific requirements for the products they intend to purchase. Indeed such measures are designed to assist with managing business risk and arguably should be supported as part of responsible commercial behaviour. For suppliers, however, faced with a divergent and increasing list of

² Winemakers' Federation of Australia Media Release 'Tesco looks for fresh personality' 28 November 2007.

standards, certain challenges arise. Compliance, for example, requires significant investment in equipment and buildings for chemical storage, hygiene and temperature controlled facilities. Admittedly this is more problematic for exporters from least-developed countries as such activities would amount to good manufacturing process for any Australian wine exporter. And on the other hand, meeting such standards does confer certain benefits including the ability to access a global value chain to establish long term profitable trading relationships and improved efficiency in operations. It appears that these private standards are here to stay and large retailers with market power will enforce them along with other commercial requirements such as volumes and flexible delivery schedules.

In short, the web of private environmental assurance schemes is steadily expanding in scope. Although only voluntary at this stage, the combined effect of the collective power of the major UK retailers coupled with quasi-Government campaigns on bulk shipping and bottle lightweighting will more than likely create a more difficult trading environment for those Australian wine exporters intent on selling branded packaged product into the UK. As these pressures increase we believe down the track there will be increased scrutiny to ascertain how such measures comply with WTO disciplines if they discriminate against imported products.

(iii) Environmental Labelling

As retailers and consumers increasingly demand environmental assurances, particularly in key export markets such as the UK, green labelling is become more widespread although wine is not currently subjected to compulsory environmental labelling. At this stage, green labelling initiatives are generally being driven by the major retailers. For example some of the major UK supermarket chains impose mandatory green labelling requirements for their own-brand wine products. In addition, Tesco recently announced an initiative to give a carbon rating to all products sold in its stores, including wine, and the rating would cover the energy consumed in both manufacture and transportation.

Such is the growth in environmental labelling schemes with minimal, if any, harmonisation of environmental standards or program requirements, in July 2007, the UK Parliament's Environmental Audit Committee established a sub-committee to inquire into this issue.

Before seriously considering further work on a common environmental label harmonising the underlying environment-related standards is critical. Undoubtedly, the proliferation of environmental labels is a symptom of the plethora of environment-related standards and programs currently in place. Furthermore, rather than assuming environmental labelling is inevitable, it is worth considering whether it is indeed desirable. For example, under the South African wine industry's Integrated Production of Wine scheme, environmental sustainability is being encouraged as a pre-competitive issue and environmental labels are not favoured as it is argued that environmental sustainability should be a basic assumption of the product rather than a point of difference. In addition, the proliferation of environmental labels has also given rise to accusations of 'greenwashing' and the potential damage to brand image. Threats of exposure for 'greenwashing' combined with the absence of any universally recognised environmental assurance standards can act as a disincentive for companies to make any claims with respect to their environmental management activities, which can, in turn, act as a disincentive to undertake environmental management activities.

As outlined above in the discussion about WRAP's Wine Initiative, if climate change related labelling is to be adopted, the underlying premise of any such carbon footprinting

labelling should be a life cycle assessment which is a more robust assessment of a product's environmental impact rather than the simplistic 'food miles' notion which has gained popular currency but lacks rigour. As argued by WFA in its submission to the inquiry:

The issue of labelling without consideration of the underlying standard, calculation method or program can give rise to misinformation that is then picked up by media and given a profile amongst consumers. The wholesale adoption of the food miles concept as an indicator of a product's environmental impact, in the absence of any data, is evidence of how an over-simplified notion can become popularised. When that popularity is retained in the public domain, even when authorities acknowledge that the concept does not reflect the environmental impact of a product across its life cycle, another environmental myth is created. This only adds to consumer confusion and mistrust of environmental claims in the long term.

Rationalising the use of environmental labels currently required or proposed by retailers (or governments if a mandatory labelling is adopted) is critical to facilitating international trade in wine. Wine labels for the EU are already required to include information about geographical indication, allergens (in multiple languages), alcohol content and (increasingly) health warnings which are being adopted at the Member State level and not harmonised across the EC. Such specialised labelling requirements create an additional cost to producers because they shorten the label run sizes, add to inventory and waste, create unnecessary complexity, limit market flexibility ultimately increasing production costs. Rationalisation of environmental labels based on internationally-accepted and agreed standards would save suppliers from compliance and other costs associated with different retailer environmental assurance programs. In the absence of any harmonisation, complying with these requirements is likely to add additional layers of costs to the Australian industry.

Sustainable environmental production may possibly confer marketing benefits giving green producers an advantage over their competitors. Currently, however, producers supplying a number of retailers are required to certify the operations according to different assurance schemes, which is an increasingly expensive undertaking, and the cost will either ultimately be borne by the consumer or margins are squeezed. Numerous studies already available point to customer confusion and varying levels of support for existing 'environmental' labels. Furthermore, studies have also shown that so-called consumer preference for 'environmentally friendly' labelled product does not always correlate to the consumer purchasing such products and price-premiums for environmentally-friendly products to date have not been significant.

II. Multilateral Trade System

a. Introduction

Given the Australian wine sector's reliance on exports we strongly support the principle of free trade and open markets and accordingly regard the WTO rule-based trading system as a valuable institution. In particular, we support the dispute settlement system as having an agreed binding process for resolving trade disputes provides important liberalising outcomes. For example, pressure applied recently by wine exporting countries through the WTO dispute settlement process assisted in obtaining a partial liberalisation of India's onerous tariff regime for imported wine. India's import duties and discriminatory excise taxes are the most significant impediment hindering market access for Australian wine exports in that market.

b. Doha Round and Wine Sector Initiative

Although the Doha Round is yet to be finalised, our assessment is that is unlikely to provide significant and meaningful market access gains for Australian wine. Following the Uruguay Round, bound rate of duty for wine in many developing countries remains significantly higher than the applied duty, resulting in ‘water’ that in most cases, will shield these countries from opening up their market through the use of the reduction formulae currently on the table.

With respect to the major developed countries, residual tariffs on wine applied by major developed countries would go from low to very low. Exporters of wine from the EU, Australia, New Zealand, Canada and the USA, would continue to be faced with nuisance tariffs, which afford no protection to domestic industry and essentially constitute a financial irritant. For such exporters, only a sectoral initiative, specific to wines, is likely to achieve genuine tariff elimination.

Current applied tariff schedules of EU, Australia, New Zealand, Canada and the USA

Table 4: European Union applied tariffs

Category	Tariff rate (€/litre)
Sparkling wine	0.32
Bottled still wine, with alcoholic strength < 13%	0.131
Bottled wine, with alcoholic strength > 13%	0.154 to 0.209
Bulk still wine, with alc. strength < 13%	0.099
Bulk still wine, with alc. strength > 13%	0.121 to 0.209

Table 5: Australian applied tariffs

Category	Tariff rate
Wine	5%

Note: US wines have entered Australia duty-free since 2005 under the AUSFTA

Table 6: New Zealand applied tariffs

Category	Tariff rate
Champagne	0
Other sparkling and still wines	7%

Table 7: Canadian applied tariffs

Category	Tariff rate (CAN cents/litre)
Sparkling wine	37.4

Bottled still wine, with alcoholic strength < 13.7%	3.74
Bottled still wine, with alcoholic strength > 13.7%	9.35 to 17.2
Bulk still wine, with alcoholic strength < 13.7%	2.82
Bulk still wine, with alcoholic strength > 13.7%	7.04 to 12.95

Note: Australian & NZ still wines > 13,7% are entitled to preferential tariffs (both bottled and bulk)

Table 8: US applied tariffs

Category	Tariff rate (US cents/litre)
Sparkling wine	19.8
Bottled still wine, with alcoholic strength < 14%	6.3
Bottled still wine, with alcoholic strength > 14%	16.9
Bulk still wine, with alcoholic strength < 14%	14.0
Bulk still wine, with alcoholic strength > 14%	22.4

Note : From 1 January 2008 Australian bulk still wine exports with alcoholic strength < 14% face a preferential rate of 8.3 US cents/litre and bulk still wine exports with alcoholic strength > 14% face a preferential tariff rates of 13.2 US cents/litre.

Trade in wines between the EU, Australia, New Zealand, the USA and Canada

All of these countries have significant flows of trade of wine amongst each other. In fact, tariffs between the USA and Canada are already removed (NAFTA) as are tariffs between Australia and New Zealand. Therefore, for tariff analysis purposes, the following trade flows are of interest.

Table 9: Trade to and from the EU

EU trade flows	with Australia	with NZ	with the USA	with Canada
EU wine exports	€ 63 million	€ 17 million	€ 1,983 million	€ 438 million
EU wine imports	€ 847 million	€ 125 million	€ 361 million	€ 1,8 million

Source : Eurostat figures for 2005

Looking at developments since 1995 (end of Uruguay Round, setting of present tariff levels), the following can be noted:

- Australian and NZ wine exports to the EU grew enormously, while EU wines exports to these two countries increased albeit at a slower pace (by 125% to Australia and by 50% to New Zealand over the 1995-2005 period)
- EU wine exports to Canada both doubled over the past decade, while Canadian wine exports have been increasing recently (but remain at quite low levels)

- US-EU trade of wine more than doubled since 1996, both sides increasing their exports to the other by over 100%, to reach present levels

Table 10: Trade between the USA and Australia / NZ

US trade flows	To / from Australia	To / from NZ
US wine exports	US\$ 5.08 million	US\$ 1 million
US wine imports	US\$ 765 million	US\$ 101.8 million

Source : US ITC figures for 2005

Looking at recent developments, the following can be noted:

- Australian wine exports to the USA doubled over the past 5 years, while NZ exports increased four-fold. Conversely, US wine exports to these two countries generally increased dramatically, but from a very low base.

Table 11: Trade between Canada and Australia / NZ

Canadian trade flows	To / from Australia	To / from NZ
wine exports	> US\$ 0,5 million	> US\$ 0,5 million
wine imports	US\$ 224 million	US\$ 14 million

Source: Statistics Canada figures for 2005

Looking at developments since 2001:

- Australian & NZ wine exports to Canada increased many-fold, although reaching very different levels in value. Canadian wine exports to both countries remained static, with extremely low values.

Effect of tariffs on trade

Evidently, the small tariffs applied by each of the five countries concerned have had little effect on trade flows and have offered no protection to the domestic industry against foreign competition.

- EU, US and Canadian tariffs on wine did not prevent an enormous surge in Australian & NZ wine exports, nor did Canadian tariffs on wine restrict the growth of EU exports
- Australian & NZ wine tariffs have not hindered a growth in EU and US exports either, even if that growth was off a low base

In addition, given their very low levels, these tariffs cannot be considered as a serious source of revenue for the governments concerned.

In sum, these tariffs no longer serve any fiscal or trade purpose, they only create bureaucratic burdens in clearing goods from customs and associated financial costs for exporters and importers. Such costs are not high enough to affect trade. They only represent monies that importers and exporters would rather spend in a more profitable fashion than in paying customs duties which serve no public policy aim. For instance, Australian companies could be using such savings to help fund better market penetration of emerging economies in Asia where considerable potential remains untapped.

We are in the process of garnering the support of other peak wine industry groups in the key countries to ensure they undertake active advocacy efforts in order for this initiative to gain momentum. If a coherent industry position is developed we envisage a coordinated message will be delivered to respective governments requesting the elimination of these tariffs in a reciprocal fashion at the earliest opportunity.

III. Free Trade Agreements

Given the increased global competition and more difficult trading environment for Australian wine exports, securing improved market access for Australian wine exports is critical to the industry's ongoing export success. Bilateral FTAs therefore represent as an important alternative mechanism for locking in meaningful market access gains for Australian wine exports.

On balance, our assessment is that Australian wine exporters have benefited, albeit not significantly, from the FTAs negotiated to date especially as the tariff concessions for bottled exports to the US under the AUSFTA have yet to commence.

That said, we remain optimistic that FTAs can deliver important commercial gains provided they comprehensive and truly liberalising. Looking ahead, the industry is keen to see the suite of FTAs currently under negotiation – in particular, China, ASEAN and Japan- promptly concluded with significant market access gains for all wine product lines with limited phase-out periods and no carve-outs. Concluding high-quality FTAs with South Korea and India should also be a priority. In addition we believe given the significant non-tariff barriers in some key Asian markets, where possible such issues should be comprehensively addressed in FTAs.

We acknowledge that wine, like other alcoholic beverages, is not an ordinary consumer product and governments implement various national fiscal and other policies to reduce the potential harm associated with such products. To that end, addressing behind the border taxation issues such as excise taxes through FTAs presents difficulties. That said, where significant excise and other domestic taxes are imposed, we would expect FTAs should reasonably allow for the immediate removal of import duties, as unlike other goods, the tariff is usually just a small component of the total tax impost and domestic taxes are often remain unchanged.

Furthermore, we are concerned, in particular, that one of our major competitors, Chile is gaining a significant competitive advantage in several key markets as result of tariff preferences obtained under its FTAs. Chile now has duty free access into the EU, and will do so in South Korea from 2009. In addition, it enjoys tariff preferences in China and Japan although phased in over 10 or more years in both instances.

a. TAFTA

(i) Tariffs

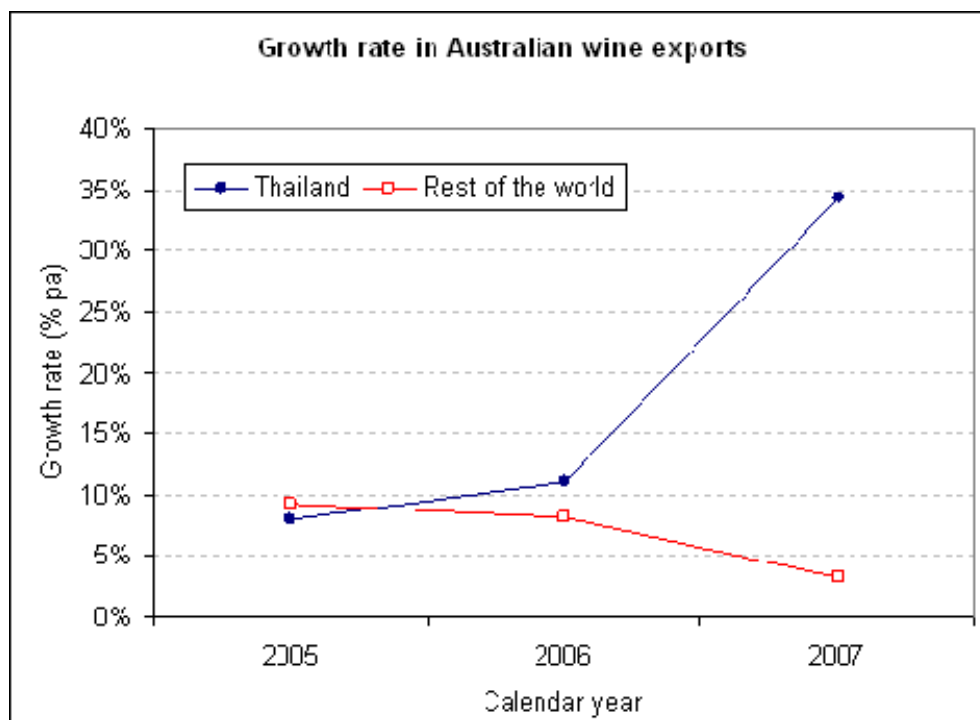
Under the TAFTA wine tariffs have one of the longest phase-out periods with the tariff rate reducing by 4% each year and reaching zero on 1 January 2015. Australian wine faces an import duty of 28% from 1 January 2008 compared with the MFN rate ranging from 54.6 to 60% and as a result the Australian wine industry has secured market gains. That said, the onerous domestic tax regime for wine continues to act as a heavy brake on further market penetration. When import duties (even at the TAFTA preferential rate), the excise tax (60% of value or 100 baht per litre of pure alcohol, whichever is the higher), and other surcharges are calculated, imported Australian wines face a total tax of nearly 300%.

The table below shows the volume and growth rates of Australia’s wine exports to Thailand and the rest of the world from 2005 to 2007. In 2006 and 2007, the growth in Australian exports to Thailand was significantly greater than the growth in exports to the rest of the world, albeit off a low base. Furthermore, the growth rate to Thailand has been increasing while declining for the rest of the world. The chart illustrates this.

Table 12: Wine exports to Thailand for 2005-2007

Calendar Year	Thailand		Rest of the World	
	Vol (ML)	Growth Rate	Vol (ML)	Growth Rate
2005	1.41	8%	700	9%
2006	1.56	11%	758	8%
2007	2.10	34%	783	3%

Figure 5: Growth Rate in Australian wine exports to Thailand for 2005-2007



Unfortunately, there is very little reliable data on the Thai market so determining our market share is difficult but given the recent strong rate of growth in exports, it is reasonable to assume that we increased our market share.

(ii) Certificates of Origin

As outlined above, simplifying certification procedures is a priority for the Australian wine industry. One particular issue that continues to cause frustration for Australian wine exporters concerns certificates of origin, which is relevant when exporters wish to access preferential tariff rates under the TAFTA.

Increasingly, exporters complain that, in addition to complying with the AWBC’s rigorous export approval process, if a certificate of origin is required they must liaise with another body – the various State Chambers of Commerce. Exporters rightly point out

that all of the information included on such certificates of origin has already been provided to the AWBC as required under the export approval process and query why the AWBC cannot issue such certificates. Our response, naturally, is that the AWBC is not authorised to do so but given this concern is regularly raised with us we believe it is an opportune time to review this process to see if it can be improved for the benefit of the Australian wine industry. To that end, we are seeking a formal role for the AWBC with respect to certifying origin under the TAFTA and other FTAs if a certificate of origin process is adopted.

We have raised this issue formally with DFAT in late 2007 and it has agreed to examine our proposal.

b. AUSFTA

The United States continues to stand out as a prime opportunity for Australian wine producers. There exists significant upside potential to consumption, given the relatively low penetration of wine in the marketplace, and the greater weight of sales opportunities at the high end of the price spectrum. Steady growth will also be supported by positive demographics, a strong import sector and new product development. The opportunity to grow both volumes and values is pronounced. Australia is currently dominant in the US\$5.25-7.49 price segment but has meaningful growth opportunities outside this segment. The opportunities are particularly located as high price points and are available through both taking share and by growing with growing price segments.

On this basis, the Australian wine industry welcomed the conclusion of the AUSFTA in 2004 and our assessment of the benefits for the Australian wine industry under the AUSFTA which we provided to the Joint Standing Committee on Treaties in March 2004 still stands subject to the caveats below.

In short, we identified that our industry would benefit from lower tariffs – once implemented - and the AUSFTA institutional structures could provide a useful platform to pursue a prompt resolution of certain US wine labelling issues.

(i) Tariffs

Under the FTA it was agreed that tariffs for Australian wine would be phased out over 11 years and in 2004 we estimated the benefits would be approximately \$25 million per annum. We now estimate the benefit to the Australian wine industry will be in range of \$10-15 million per annum, however. The main reason for this decline in value is we now expect much lower volumes to be shipped to the US in 2015 compared to the 2004 analysis. The 2004 assessment assumed we could ship 402 million litres by 2015 – this is not achievable given current exchange rates, supply constraints and a weakening US economy. In the last 12 months, for example, we shipped 188 million litres.

The phase out periods for nearly all wine related tariff items - with the exception of bulk wine -do not commence until year 8 (2012) so as such we have not derived any significant gains as yet in this regard. That said, our phase-out period broadly matches those preferences accorded to Chile and given base tariff rates are already generally low - bottled wine with less than 14% alcohol faces a duty of US6.3 cents which equates to an ad valorem rate of less than 2% - we are not at a trading disadvantage.

(ii) Non-tariff barriers

As outlined above there are a number of outstanding labelling issues for Australian wine destined for the US market that continue to be trade irritants. We pressed for them to be addressed in the context of the AUSFTA but the US position at the time was that it

more appropriate that they be raised in the other fora such as the WWTFG. We are nevertheless interested in the option of raising these issues in one of the institutional structures created under the AUSFTA with a view to reaching a satisfactory outcome for industry and are pursuing this option with DFAT and DAFF.

c. SAFTA

Given Australian wine entered Singapore duty free prior to the implementation of SAFTA its impact on the Australian wine industry has been negligible.

d. Future FTA Negotiating Partners

We welcome the key findings of the recently released non-government study into the feasibility of a FTA between Australia and South Korea, in particular the conclusion that there is scope for a high-quality liberalising agreement. In addition, we have provided a submission for the feasibility study as to the merits of entering a FTA with India. In summary, we fully support concluding FTAs with both of these countries.

(i) Korea

South Korea is an increasingly important export market for Australian wine. Australian wine exports grew 39% from 2001 to 2006, and in the year to March 2008, Australia exported 2.4 million litres of wine valued at A\$14.5 million to South Korea. The average price of the wine shipped was a healthy A\$6.04 per litre.

South Korea is a small market for wine, however it is a market that we believe holds significant growth potential for Australian wine exporters. Total consumption of alcoholic products in South Korea is one of the highest in the world. Although wine consumption is low, consumers have high disposable incomes, and are rapidly moving to wine for health and lifestyle reasons.

South Korea's total wine imports showed excellent growth of 31% by value in 2006 at USD\$88.6 million and 22 million litres (*Source: Korea Trade Information Services*). This has increased significantly since 2000, when total imports were only 8 million litres, and USD\$20 million.

Currently Australia is the 5th highest importing nation into South Korea, by value, with a 7.5% share of total imports behind France, Chile, Italy and the USA (*Source: Korea Trade Information Services*), which is a relatively poor result compared to Australia's strong performances in other Asian markets where we are often one of the top three importers of wine. This is believed to be partly due to the following reasons:

- Chile's FTA with South Korea had an immediate positive impact on imports of Chilean wine which have nearly doubled since implementation to USD\$15.4 million (*Source: Korea Trade Information Services*). Chilean wine exports will enter South Korea duty-free in 2009 in accordance with its FTA (in 2008 a 2.5% tariff is imposed);
- US wine imports continue to perform strongly in part due to the depreciating US dollar and close historical and political ties. The recently concluded US-South Korea FTA which grants US wine duty-free access will further bolster strong demand for US wine once ratified;
- The traditional wine producing countries - France, Italy and Spain –still account for more than 50% of the total market due to strong marketing and promotion campaigns although they are losing market share. The EU will be seeking duty-

free access for its wine exports under its FTA negotiations which are currently underway with South Korea which will assist in regaining market share.

Securing preferential market access into South Korea is critical to put Australia back on a level playing field with the other major wine exporting countries who already have preferential market access (Chile) or are likely to do so in the near future (US and EU). As part of the FTA negotiations we would advocate the immediate removal of tariffs on all wine product lines. In the meantime, Australian wine exports will be seriously disadvantaged until we are able to match the preferential tariff rates enjoyed by other major wine exporters.

(ii) India

Prior to July 2007 the cumulative application of India's Basic Customs Duty, Additional Duty and Extra Additional Duty for wine resulted in applied duties of up to 264%. In addition a host of other taxes were also applied.

In 2007 in response to pressure applied from a number of exporting countries, and in particular the EU and USA through the WTO dispute settlement procedure, India partially reformed its import duty regime for wine and spirits by withdrawing the Additional Duty but at the same time the Basic Customs Duty was raised from 100% to 150% which is India's WTO bound rate.

India's import duty and tax regime is the most significant impediment hindering further Australian wine exports to India notwithstanding the recent overall reduction in import duty for wine. Although a welcome development it appears it may be a pyrrhic victory as there have been a number of recent adverse developments at the state level. Maharashtra - the centre of Indian domestic wine production - has imposed a state excise duty of 200% on imported wine only. We understand that a number of other states are also proposing to introduce similar such taxes which discriminate against imported wine.

In short, we still believe the taxation of wine in India is highly discriminatory against imported products and the remaining import duty of 150% effectively bars imported wine from competing with domestic product. We would hope that a free trade agreement with India would address these concerns, as far as possible, thereby opening up a significant potential market for the Australian wine industry.

e. Proposals to carve out alcoholic beverages from trade negotiations

Another recent development of concern to the Australian wine industry is the position advanced by some negotiating partners that alcoholic beverages should be excluded from FTAs on the basis of religious and cultural sensitivities. Our position is that while mindful of religious sensitivities, maintaining high import duties is neither an efficient nor desirable mechanism for regulating such products, especially as there is often sizeable consumer markets in those countries that oppose tariff reductions for alcoholic beverages.

Malaysia, for example was our second-largest export market in ASEAN in 2007 with 2.5 million litres worth \$19.4 million. Australia now holds the position as the number one importer with our wine becoming increasingly popular. Indonesia is a smaller market for Australian wine with exports in 2007 of 450,000 litres worth \$2.5 million. Australia has been the number one exporter to this market for some time and is particularly strong in Bali. Import duties of 170% are a significant impediment to further market gains, however.

Domestic producers of alcoholic beverages in both Malaysia and Indonesia continue to benefit from excessive import duties for imported alcohol, including wine. In Indonesia, for example, some Bali wineries are flourishing by exploiting the gap in the domestic wine market for affordable wines. Indonesia and Malaysia also have significant domestic beer industries with more than 90% of beer consumed in Malaysia over the last decade having been brewed, bottled and sold domestically.

Similarly, with respect to the GCC negotiations, while acknowledging the sensitivities concerning alcohol in these states, we nevertheless encourage the Government to seek improved market access for wine products as a matter of principle. We wish to reiterate that we do not believe alcoholic drinks should be excluded from the proposed agreement for a number of reasons.

First of all, the trade statistics indicate there is significant commercial interest to gain enhanced market access through tariff reductions. In those Gulf States which do not prohibit the importation and consumption of alcoholic beverages on religious grounds, we can see no logical reason why Australian wine should be excluded from the negotiations.

Second, we are aware that three FTAs between the USA and some Gulf countries have delivered or about to deliver substantial tariff concessions to our US competitors and we would expect to be treated no less favourably. The US has recently concluded free trade agreements with Bahrain and Oman whereby duties on wine will remain unchanged during years one through nine of the respective agreements but will reduce to zero in year ten. In addition, the US is currently negotiating a free trade agreement with the UAE where we assume wine will receive some preferential market access and the EU is finalising an agreement with the GCC where we expect wine will be covered.

In summary, we query whether religious and cultural concerns are a legitimate basis for maintaining high import duties especially as there is often significant domestic alcohol production and/or consumption in those countries that are seeking to exclude alcoholic beverages from FTA negotiations. If wine were to be carved out from such negotiations it would set an unfortunate precedent, especially when the World Health Organisation is attempting to have trade in alcoholic drinks excluded from all international trade negotiations.

f. Intellectual Property – Trademarks and GIs

Directions to 2025 is founded on the firm conviction that Australia must become a more significant participant in the regionally distinct and fine wine market, and its target is to increase the value of Australian wine trade over the next five years by a cumulative \$4 billion.

Underpinning the sector's intentions to encourage consumers to 'trade up' is the recognition that Australia's success as a maker of multi-regional brands of high quality and affordable price has over-shadowed Australia's place as a producer of top-end wines: wines that reflect their individual sites, their vintages and the philosophies of their makers and growers. Until it is broadly recognised around the world that the imperatives of terroir, typicité, site and vintage are today as much a foundation of Australia's regionally distinct and fine wine dimension as they are in traditional Europe, the industry believes there is no room for complacency.

Central to this ambition to promote Australia's regionally distinct wines is adequate international protection of Australia's geographical indications (GIs) for wine to prevent misappropriation, in addition to proprietary trade marks. To that end the Australian wine

industry is considering how Australian GIs and wine-related trade marks could receive more robust protection in other jurisdictions including under bilateral free trade agreements if appropriate.

5. Maximising the effectiveness of trade development resources

As an industry strategy for sustainable success - *Directions to 2025* focussed on two required outcomes: a revised strategic direction for the Australian wine sector given the rapidly changing commercial, environmental and ethical landscape; and a subsequent review of industry structure to determine whether it could best support the newly presented strategic recommendations.

One of the tension points identified was the risk of duplication in the interplay between national, state and regional bodies, all purporting to deliver discrete benefit to a single constituency on whom they were all reliant for funding: the levy-paying Australian wineries. At the same time, significant players within the industry, including our top-five volume producing companies, expressed a distinct frustration with effectively being 'taxed' at three different levels for the essential provision of one service: market-development. It would be fair to say that this concern was also shared by micro, small and medium producers across the board.

There currently remains duplication – and therefore inefficient use of funds – in the realisation of export strategies whereby these three generic types of representation are joined by a government agency, Austrade, in the planning, execution and delivery of in-market programs and promotions.

A key requirement is to establish an unequivocal hierarchy of agency/body priority and responsibility, directly linked to a proportionate allocation of total industry resources, and a clearly defined schedule of accountability and measurement for each organisation.

The AWBC works toward this by the integration of planning and strategy with Austrade (including co-location in key markets) and the chairing of a State agency forum design to improve awareness and equity in export program planning, funding and participation.

With respect to market access issues we have excellent and productive working relationships with both DFAT and DAFF both in Canberra and in relevant missions overseas. It is imperative that we work cooperatively in order to provide a comprehensive response capability in the event of adverse developments arising and to assist exporters to resolve specific market access issues as they arise.

6. Conclusion

The AWBC and WFA welcomes the opportunity to provide input into this important review of export policies and programs and would be pleased to elaborate further on any of the issues raised in this submission if necessary.

Appendix 1: AWBC Export Control Procedures

1. Export Licence

Firstly, the Australian Wine and Brandy Corporation regulations require exporters of grape products to be licensed where individual shipments exceed 100 litres. The AWBC issues licences for the export of grape products and considers each application against a set of criteria, including the financial standing of the applicant and a range of other matters. The regulations provide for the suspension or cancellation of a licence for breaches of the regulations or in other prescribed circumstances.

2. Product Approval

Secondly, each wine in the export consignment must be approved. Australian wines must be determined to be of “sound and merchantable” quality before they can be exported from Australia. The aim is to maintain the reputation of Australian wine in overseas markets by preventing the export of wines that have faults. An export permit, issued by the AWBC, is required for each wine destined to be exported, unless the total consignment of wine is less than 100 litres. Before an export permit can be issued, the AWBC’s wine inspectors must approve the wine.

The AWBC maintains a panel of wine inspectors of the highest integrity, qualification and experience. The inspectors are drawn from the wine industry and ideally have some experience in wine show judging at a regional or state level.

Wine Inspection Procedures

1. Exporters must submit a completed Continuing Approval Application which includes a certificate of analysis and the compositional details of the blend. The analysis covers the following parameters:
 - a. Specific gravity
 - b. Alcohol
 - c. Volatile acidity
 - d. Titratable acid
 - e. Sulphur dioxide – free
 - f. Sulphur dioxide – total
 - g. Residual sugar
 - h. pH
2. Two samples must be submitted along with a separate copy of the labels. The bottled samples submitted for approval must be the finished product as intended for presentation to the consumer.
3. Labels must be consistent with the product description given on the application.
4. Each grape product to be exported is required to meet the standards and requirements of the AWBC Regulations and the Food Standards Australia New Zealand Code.

Wine Inspection Rejections

Two wine inspectors appointed by the AWBC carry out a sensory evaluation of all export samples. Typical reasons for rejection include the following faults:

- Clarity and condition
- Chemical contamination eg:
 - Sanitation compounds
 - Mechanical oils
 - Burnt rubber
 - Excessive wine additives such as sulphur dioxide
- Oxidation
- Microbial contamination eg:
 - Sulphides
 - Mousiness
 - Mouldiness
 - Volatility
 - Other
- Closure contamination eg:
 - Random oxidation
 - TCA
 - 'Plastic' taint
- Other contaminants or taints

The wine is expected to reasonably reflect the grape varieties and/or wine description claimed on the label. Information with respect to price and quantity is provided to enable inspectors to make commercial judgements.

The sensory evaluation is a masked tasting, however, inspectors are required to view the analysis details and label descriptions to ensure there is nothing on the label or application form which is questionable in light of the sensory evaluation. The inspectors may call for an independent analysis if required.

Where a wine is rejected at the initial inspection, an exporter may resubmit the wine for a second inspection. The second inspection, with the sample masked, will be conducted by a panel of three Inspectors, none of whom were involved in the initial inspection of the wine. If rejected at the second inspection, the product may not be exported although a final review panel process may be initiated subject to certain conditions.

3. Shipping Approval

Finally, exporters must submit a completed shipping application for each consignment of wine leaving Australia that is in excess of 100 litres. The shipping application notifies the AWBC of the intention to export and must be lodged with the AWBC 10 days before the day of departure.

The application must include all shipping details as well as a list of products with their current continuing approval numbers to be shipped. Where the export complies with all necessary requirements, the AWBC will issue an export permit number.

Appendix II: Label Integrity Program

As there are no scientific tests to identify the vintage, variety or regional source of wine, the AWBC established a Label Integrity Program (LIP), at the request of industry, to help substantiate label claims. It is essentially a recording system to provide an audit trail, from grape purchase to finished product.

The LIP was introduced for the 1990 vintage and is now the basis of the Australian label-claim system in respect of vintage, variety and geographical indication. Winemakers are not required to make a label claim about the wine vintage, (grape) variety or region of origin of the grapes, but must keep an audit trail if they do. The LIP prescribes what events must be recorded, but not how records must be kept.

A “label claim” includes claims made on a wine label, in a commercial document or in an advertisement, about the vintage, variety or geographical indication of wine goods or of the wine goods from which they were manufactured. Generic name wines, such as Dry Red, Dry White etc., which make no reference in a label statement as to vintage, variety or geographical indication, are not included.

The provisions of the LIP are additional to other labelling requirements set down under Federal and State legislation. The full LIP requirements are included in the *Australian Wine and Brandy Corporation Act 1980* (Cth).

The Act provides for a penalty of up to \$15,000 for a wine manufacturer who “knowingly or recklessly” fails to make or keep records as required or makes or keeps a record that is false, misleading or incomplete in a material particular.