



# Pre-Budget Submission 2020-21

December 2019

## Who we are

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

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

Australian Grape & Wine's voluntary membership represents over 75% of the national grape crush. We represent small, medium and large winemakers, and grape growers from across the country. Policy decisions by the Australian Grape & Wine Board require 80% support, ensuring no single category can dominate the decision-making process, and guaranteeing policy is only determined if it provides significant industry benefit. In practice, most decisions are determined by consensus.

Australian Grape & Wine is recognised as a representative organisation for grape and wine producers under the *Wine Australia Act 2013*, and is incorporated under the *SA Associations Incorporation Act 1985*. We work in partnership with the Australian Government to develop and implement policy that is in the best interests of grape growers and winemakers across Australia.

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## Executive Summary

This budget provides the Australian Government an opportunity to partner with the grape and wine sector to drive profitability and regional prosperity into the future. The challenges of drought and climate change, and the opportunities provided in the markets of China and the United States, place the sector on the cusp of transformational change. We have the opportunity to reshape the sector of tomorrow and deliver a sustainable and profitable future for generations to come by building on the activities and engagement funded by the Export and Regional Wine Support Package (\$50 million package). These activities are underpinning improving market sentiment and sales in key export markets, and increasing wine-related tourism in Australia. However, in the face of stiff competition from a range of heavily subsidized producer nations, it is clear that government investment will be required in the short term to cement this growth, and fast-track the sector's path towards a self-secure and prosperous future.

If it is to drive its own destiny, the Australian grape and wine sector must challenge itself to identify what it needs to do today and tomorrow to be prosperous and sustainable in the long term. In a rapidly changing external environment, it is important that we have a vision that will enable us to future-proof our sector, driven by careful planning and the implementation of strategies that will return sustainable profits over the long term.

Being a prosperous and sustainable sector means that we will:

- have access to, and provide stewardship over, the land and water we need for production
- understand our customers and markets, and have an unwavering focus on meeting their needs
- invest in our people by encouraging and facilitating their development, and fostering an environment where they can have professionally fulfilling lives
- harness new knowledge and technology to enable improvements in productivity, sustainability and quality, and
- be profitable so we can continue to support the economic prosperity of rural and regional Australia.

Australian Grape & Wine and Wine Australia have developed a whole of Grape and Wine Sector Strategic Vision 2020-2050 (2050 Vision), which serves to guide decisions in future years. The 2050 Vision provides the framework for the Wine Australia *Strategic Plan 2020-25* and the Australian Grape & Wine five-year plan, both of which will deliver against that vision. Some of the issues raised in the 2050 Vision will need to be dealt with in the next five years, to help achieve the longer-term goals.

While 2050 may seem distant, it is important to develop aspirational goals that allow us individually and collectively to make sound decisions and investments, and to implement strategies and actions to achieve these goals. This vision delivers the foresight required to provide the final stimulus to unlock the full potential of the Australian wine sector and provide the foundations for a profitable industry for future generations. This will generate export revenue for Australia in the form of exports and tourism, strong regional growth, and increased investment in the sector.

This budget provides the key to commencing that journey and builds on the existing partnership between the grape and wine sector and the government.

## Investment Recommendations

<b>Investment Recommendation 1:</b>	<b>The Australian Government should invest \$103 million over the next four years to cement the gains made from the \$50 million package.</b>
<b>Investment Recommendation 2:</b>	<b>The pool for the Wine Tourism and Cellar Door Grant be extended to \$20 million per annum.</b>
<b>Investment Recommendation 3:</b>	<b>The Australian Government allocate \$850,000 to support the development of a Digital Biosecurity Platform to safeguard Australia's wine sector and associated businesses.</b>
<b>Investment Recommendation 4:</b>	<b>That the Government allocate \$580,000 over three years to implement a wine tourism biosecurity program.</b>
<b>Investment Recommendation 5:</b>	<b>The Australian Government provide \$200,000 per annum over the next two years to implement a program to support women in the Australian wine sector.</b>
<b>Investment Recommendation 6:</b>	<b>That the Australian Government allocate \$500,000 plus \$150,000 per annum to implement a national grapevine germplasm collection.</b>

## Policy Recommendations

<b>Policy Recommendation 1:</b>	<b>The Australian Government maintains its strong presence in international collaborative forums.</b>
<b>Policy Recommendation 2:</b>	<b>The Australian Government continues to work collaboratively with Australian Grape &amp; Wine to share information and address trade impediments.</b>
<b>Policy Recommendation 3:</b>	<b>The Australia – EU FTA must not increase the level of protection for wine GIs above that that has been established in the Australia – EU Wine Agreement, and must provide a system that is clear and unambiguous on the level and form of GI protection.</b>
<b>Policy Recommendation 4:</b>	<b>The Australian Government protects the Australian wine sector's right to produce Prosecco.</b>
<b>Policy Recommendation 5:</b>	<b>The Australian Government continues to progress its ambitious free trade agenda in collaboration with the grape and wine sector.</b>
<b>Policy Recommendation 6:</b>	<b>The Australian Government to work with the Australian grape and wine sector to develop the next iteration of the Export Market Development Grants (EMDG) scheme that acknowledges market practicalities and new opportunities for Australian wine exporters.</b>

<b>Policy Recommendation 7:</b>	<b>The Australian Government seeks to strengthen the bilateral relationship with China, utilising opportunities associated with the Australian Wine Sector Fraudulent and Infringing Wine Strategy, events associated with the AFL’s annual China game, and through technical cooperation with Chinese regulators.</b>
<b>Policy Recommendation 8:</b>	<b>Australian Grape &amp; Wine encourages the Australian Government to review its wine trade MOU with China, in collaboration with industry.</b>
<b>Policy Recommendation 9:</b>	<b>That the Australian Government work with Australian Grape &amp; Wine to address unintended consequences arising from changes to the Wine Equalisation Tax (WET) reforms of 2017.</b>
<b>Policy Recommendation 10:</b>	<b>Ensure the wine industry has a seat at the table when designing policies relating to alcohol and health, and that health policies are evidence-based, targeted and address harmful drinking.</b>
<b>Policy Recommendation 11:</b>	<b>That the Ministerial Forum on Food Regulation agree to a mandatory pregnancy warning label that is as similar as possible in terms of size, colour and design, to the existing voluntary pregnancy warning labels on alcohol beverages.</b>
<b>Policy Recommendation 12:</b>	<b>The Australian Government considers alternative ways to provide information about energy content to consumers.</b>
<b>Policy Recommendation 13:</b>	<b>That governments do not introduce Minimum Unit Pricing (MUP) Arrangements.</b>
<b>Policy Recommendation 14:</b>	<b>That the Australian Government recognises the need to improve biosecurity preparedness and practices within agricultural sectors through the provision of grants for industry groups to build capacity and raise awareness.</b>
<b>Policy Recommendation 15:</b>	<b>The Australian Government tightens Australia’s border controls to reduce pest and disease entry risk through increasing resourcing at the border, hypothecating funds collected through the Biosecurity Import Levy for biosecurity; and providing information to the agriculture sector regarding border breaches in order to improve understanding of the risk.</b>
<b>Policy Recommendation 16:</b>	<b>That Australian Governments do not include wine bottles in existing or future Container Deposit Scheme (CDS) arrangements.</b>
<b>Policy Recommendation 17:</b>	<b>That the Australian Government works in collaboration with the grape and wine industry to establish effective, nationally consistent waste management policies that do not impose any unnecessary regulatory burden and/or cost on wine businesses.</b>
<b>Policy Recommendation 18:</b>	<b>Remove the cost to business of obtaining interpretations of the Food Standards Code.</b>

<b>Policy Recommendation 19:</b>	<b>Work with State and Territory Governments to immediately recognise interstate Responsible Service of Alcohol (RSA) certifications for the purpose of carrying out tastings, with a view to quickly agreeing national RSA certification arrangements.</b>
<b>Policy Recommendation 20:</b>	<b>The Australian Government to work with the wine industry to consider nationally coordinated policies that encourage and reward positive environmental contributions, including in biodiversity, carbon abatement and using market based instruments.</b>
<b>Policy Recommendation 21:</b>	<b>Address Australia’s water crisis by investing in projects to secure supply of water, and those that promote reduction, reuse and recycling of domestic water. The Government should also seek to address delivery risks along the Murray Darling Basin.</b>
<b>Policy Recommendation 22:</b>	<b>Improve the functioning of the water market in the Murray Darling Basin by improving market transparency, improving market information, and reducing complexity and inconsistencies between state jurisdictions.</b>
<b>Policy Recommendation 23:</b>	<b>Work with industry to ensure a reformed electricity market delivering improved affordability, reliability, and management of the electricity market.</b>
<b>Policy recommendation 24:</b>	<b>Retain the existing fuel tax credit scheme for agricultural businesses.</b>

# The Australian grape and wine industry

## At a glance

In August 2019 AgEconPlus Consulting released a report detailing the significant contribution of the Australian wine sector to the Australian economy in 2019.<sup>1</sup> The report found that the sector (including grape growing, winemaking and wine related tourism) **contributes \$45.5 billion** in gross output to the Australian economy. This output includes:

- \$22.5 billion in value (value-added); and
- \$12 billion in wages and salaries from full and part-time employment.

## Production

- Grapes<sup>2</sup> and wine are produced in every state in Australia, across 65 specific wine regions.
- There are more than 6,000 grape growers tending to 145,000 hectares of vines.
- In 2019, the Australian grape crush was estimated at 1.73 million tonnes, a decrease of 3 per cent from the 2018 harvest, and just under the long-term average of 1.75 million tonnes.<sup>3</sup>
- The 2019 vintage saw a 9 per cent increase in grape prices across Australia, from \$611 per tonne in 2018 to \$664 per tonne in 2019. This figure is the highest since 2008 and is the fifth consecutive vintage where the average price for grapes has increased.
- In 2019 the gross value of grape sales was \$1.7 billion.
- Nearly 2,500 winemakers produced 1.29 billion litres of wine in 2018, at a value of \$6.3 billion.

## Employment

- The sector supports almost 165,000 jobs, the majority of which are located in rural and regional Australia.
- More than 6,000 grape growers
- Nearly 2,500 winemakers.

## Exports

- Australia's fifth largest agricultural export industry, with more than 60 per cent of production exported to 125 markets.
- In 2018-19, Australian wine exports grew by 4 per cent to a value of \$2.86 billion (see Table 1 for top export markets).
- The average price per litre exported increased by 10 per cent in 2018-19 to a value of \$3.58, the highest level since 2009.




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<sup>1</sup> "Economic Contribution of the Australian Wine Sector 2019", *AgEconPlus Consulting*, 19 August 2019.

<sup>2</sup> The term "grapes" refers to winegrapes for the purpose of this document.

<sup>3</sup> [https://www.wineaustralia.com/getmedia/807bf053-3692-448a-9ed5-c0084a47e1bb/Vintage-report-2019\\_full-version.pdf](https://www.wineaustralia.com/getmedia/807bf053-3692-448a-9ed5-c0084a47e1bb/Vintage-report-2019_full-version.pdf)

**Table 1: Australia's top export markets by value and volume, 2018-19.**

Value of exports to the top 10 markets				Volume of exports to the top 10 markets (9L cases)			
	China inc. HK and Macau	\$1.2b	▲ 7%		United Kingdom	26.2m	▼ -4%
	United States	\$432m	▲ 2%		China inc. HK and Macau	17.1m	▼ -16%
	United Kingdom	\$373m	▼ -3%		United States	16.9m	▼ -4%
	Canada	\$198m	▼ -0.4%		Canada	7.3m	▼ -4%
	New Zealand	\$96m	▲ 9%		Germany	3.7m	▼ -16%
	Singapore	\$87m	▲ 0.1%		New Zealand	3.7m	▲ 5%
	Japan	\$51m	▼ -4%		Netherlands	2.1m	▼ -1%
	Germany	\$49m	▼ -16%		Japan	1.9m	▲ 12%
	Netherlands	\$44m	▲ 25%		Denmark	1.4m	▲ 20%
	Malaysia	\$38m	▼ -11%		Belgium	1.2m	▲ 18%

Source: Extract from Wine Australia, Export Report, 2018 - 2019

## Domestic operating environment

**2020 has all the hallmarks of a tough vintage.** Drought, water shortages and smoke have the potential to severely impact on grape grower profitability. Climate change is already impacting the grape and wine community, as evidenced by changes in grape phenology and harvest dates, which has led to compressed harvests and greater pressure on vineyard and winery infrastructure.

Management strategies to deal with the challenges of short-term climate cycles and long-term climate change in the vineyard are essential for grape growers and winemakers, as the effects of climate change can impact on competitiveness at an individual business level and on the broader sector. The ability to manage the impact of heatwaves, drought, increased fire risk and salinity to mitigate their effect on grapevine physiology, and grape and wine quality has become an integral part of vineyard management in the Australian grape and wine community. We can and will respond to the impact of climate change by following a strong and climate-adaptive business strategy; monitoring carbon emissions; investing in research, development and extension; and fostering cross-sector partnerships and engagement.

However, in the short term, the sector will face pressure this year from the environmental factors impacting on all Australia's agriculture. Therefore, we need to ensure that the government adopts policies that build resilience, insure a sustainable future and support rural and regional Australia.

**Australian grape growers and winemakers wear many hats.** They are agricultural producers, manufacturers, retailers, distributors and exporters. They are also often restaurateurs, event managers, tourism operators, wedding planners and live music promoters. No other agricultural industry has such an integrated approach to market, or deals with such diverse regulatory requirements relating to production, food safety, label-integrity, liquor sales, on premise consumption, export certification or international sales (distributors, marketers and consumers).

The vast majority of these businesses are small and family-owned, and like so many other agricultural industries, entirely depend on seasonal and climatic conditions, with only one opportunity to harvest grapes and make wine each year.

While **grape growers in Australia** have seen improved grape prices in recent years, a range of potential production constraints including access to water at a competitive price, the availability of chemicals, and climate change are presenting real challenges to the long-term viability in some areas.

Pleasingly, the 2019 vintage saw a 9 per cent increase in grape prices across Australia, from \$611 per tonne in 2018 to \$664 per tonne in 2019. This figure is the highest since 2008 and is the fifth consecutive vintage where the average price for grapes has increased. As noted by Wine Australia in its 2019 National Vintage Report<sup>4</sup>, “Since hitting a low in 2011, the national average grape price has increased by a compound average annual rate of 6 per cent”.

Undoubtedly, much of this improvement is due to the growth of Australia’s wine exports to China, with these sales generating increased demand from Australian winemaking businesses for Australian grapes. However, it is important to note that grape prices are closely linked to broader international market dynamics<sup>5</sup>. There is a strong correlation between international supply and grape purchase prices in the inland regions:

*The global wine supply and demand situation is a major determinant of wine grape pricing in the warmer inland regions. At 790 million litres, Australia is a relatively small producer in comparison to the major producers of France, Italy, Spain, and, to a lesser degree, the United States. The supply situation in these countries has a significant impact on Australia’s trade, particularly at the price-driven commodity end of the market.*

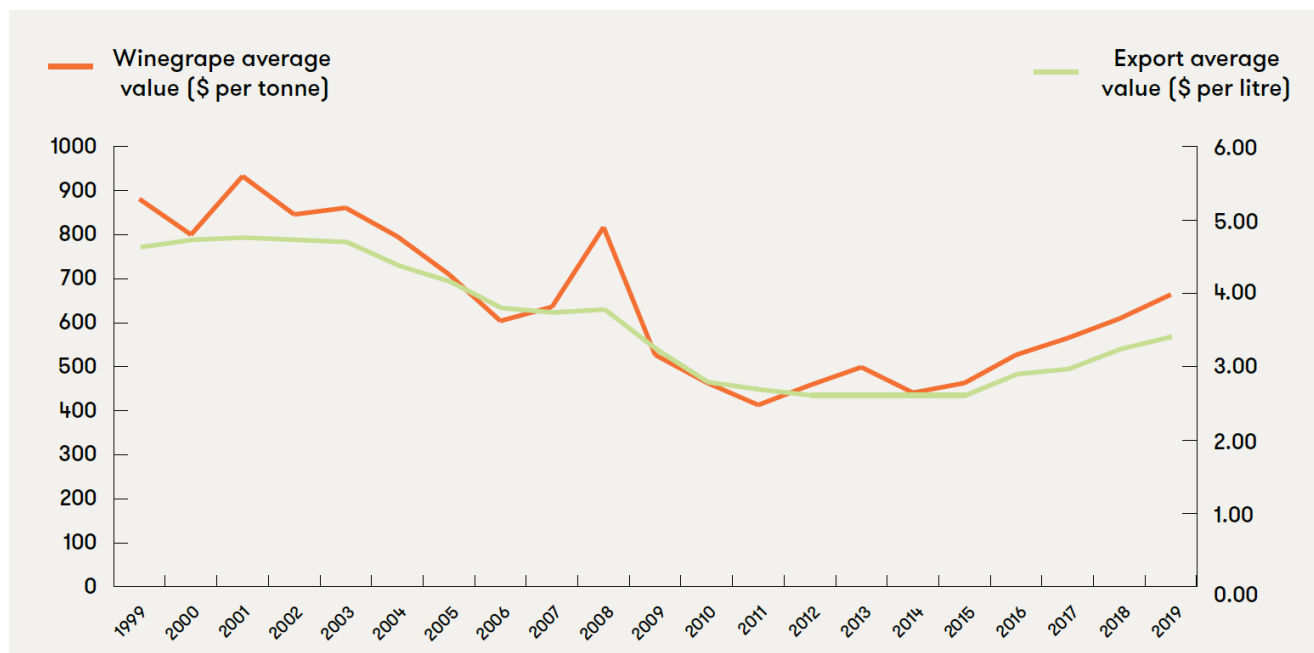
*The biggest influence on bulk wine prices over the last few years was the huge crop Spain produced in 2013. According to the OIV, Spanish wine production increased by 44 per cent to 4.6 billion litres in 2013. Such a large volume of wine had a deflationary effect on prices for commodity wine, not just for Spain but for other producers such as Australia. In 2015-16, Spain exported 1.3 billion litres of bulk wine at US\$0.41 per litre – this is more than Australia’s total wine production and it was exported at around half the average bulk wine price of Australian wine.*

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<sup>4</sup> <https://www.wineaustralia.com/market-insights/national-vintage-report>

<sup>5</sup> <https://www.wineaustralia.com/news/market-bulletin/issue-88>

**Table 2: Export prices vs grape prices over time**



Source: Wine Australia, 2019.

The ongoing drought and constraints in the availability of irrigation water at a commercially viable price across much of south-eastern Australia, is putting enormous pressure on many growers. In this context, **Australian Grape & Wine supports the Australian Government’s decision to request an ACCC Inquiry into water markets in the Murray Darling Basin.**

Growing public concerns about the use of Glyphosate and its removal from key markets presents another potential risk for Australian grape growers. Australian Grape & Wine supports the Australian Pesticide and Veterinary Medicines Authority (APVMA)’s science-based approach to assessing and regulating which chemicals are safe for use by Australian farmers. However, many growers are concerned about the lack of alternative products available to them if glyphosate is banned in Australia, or if international customers demand it is not used in vineyards producing wine for sale in their stores.

Treating our people appropriately, respectfully and legally along the supply chain is a critical principle for Australian Grape & Wine. Australian wine businesses frequently rely on temporary labour for pruning, picking and other vineyard work. Often, the people doing these jobs are hired through labour hire companies, which frequently source workers from overseas and assist with their visa arrangements and move to Australia. A number of reports, including the Fair Work Ombudsman’s [Harvest Trail](#) report, have identified a range of concerning issues associated with sourcing of and treatment of labour, including alleged instances in which vulnerable migrant workers have been treated extremely poorly. Clearly, this is an issue that demands our attention and needs to be solved.

With this in mind, we fully support the **Australian Government’s Modern Slavery Act 2018** and the efforts of state and territory governments to ensure people are properly treated when they work in Australia. We are working with our members and the major retailers to ensure those companies captured by legislative reporting requirements understand their obligations and are able to report appropriately, and that systems put in place along the supply-chain are fair, reasonable, and do not impose unnecessary requirements on Australian grape growers and winemakers. More broadly, we are working to educate grape and wine producers of all sizes of the need to ensure that their suppliers are also compliant with fair labour laws and practices.

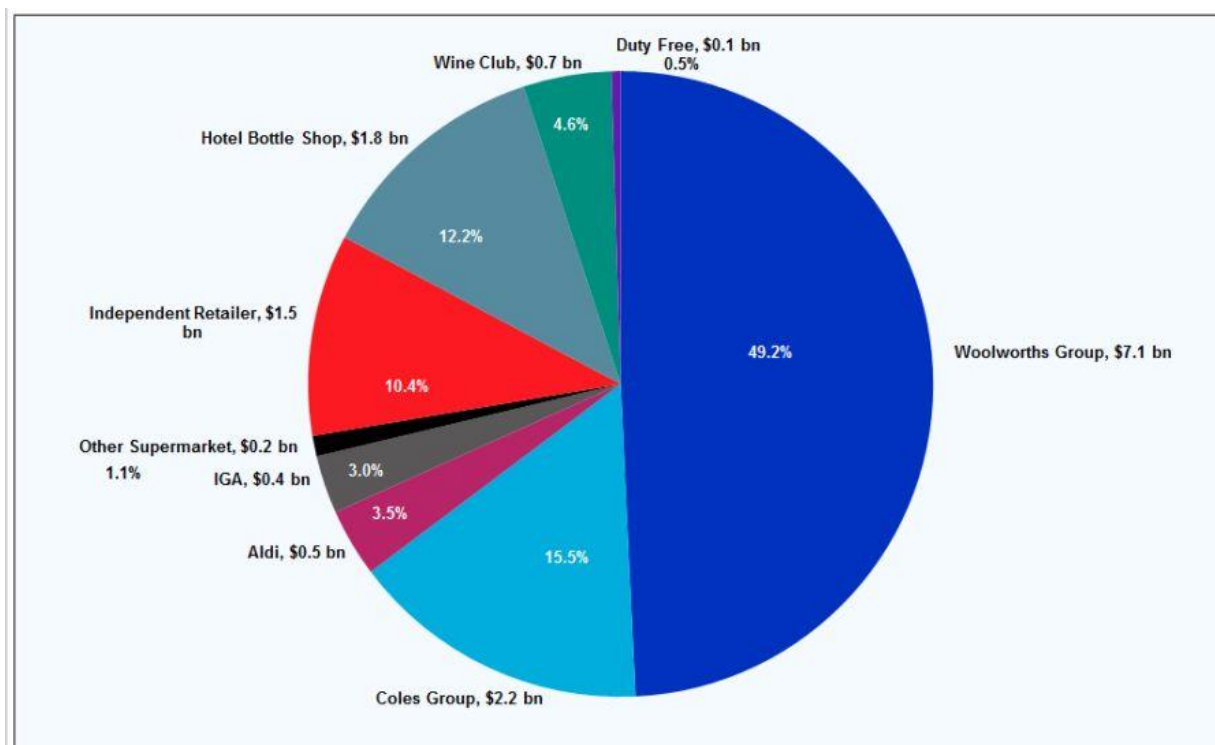
**Australia's domestic market** remains the single largest market for Australian wine, with Australians purchasing approximately forty per cent of domestic production each year. While this is likely to remain the case for the foreseeable future, like most established wine markets (with the exception of China – which continues to grow strongly, albeit at a slightly lower rate - and the United States - which has significant growth potential), forecast growth rates are relatively flat.

The concentrated retail market environment in Australia has brought a high level of competition to the market-place, resulting in lower prices for consumers. However, it has also left winemakers with fewer options in terms of sales channels, and provides downward pressure on their profit margins. Australian Grape & Wine understands that an average retail store carries around 2,000 SKUs from about 355 wine brands, while the largest stores can carry considerably higher numbers of individual wines. The major retailers are now also significant wine producing competitors in their own right, allowing them to allocate prime shelf-space to retailer brands. Further to this, there are very few wine brands that are considered “must-have” by the major retailers, and at the commercial end of the market (where people often buy on the basis of price), Australian retailers also have the option of quickly sourcing cheaper imported products and replacing Australian made wines. All of this puts significant pressure on profit margins for Australian wine businesses.

In the international market place, Australian retailers have the flexibility to quickly source product from a great variety of different countries, let alone suppliers. This creates, a highly competitive market place in which retailers are in a position to place considerable price pressure on domestic suppliers.

Furthermore, as noted above, winemakers face considerable issues relating to a very competitive retailer landscape, both in Australia and overseas, in which profit margins are thin, currencies fluctuate and consumer preferences can change quickly. In 2013, an industry report<sup>6</sup> estimated that the combined groups of Coles and Woolworths distributed and sold up to 77% of all wine sold off-premise. Further to this, it noted the emergence of the major retailers as winemakers and grape growers in their own right, leading to a scenario in which many winemakers noted that Coles and Woolworths were both their largest customer, and a significant competitor.

**Table 3: Alcohol retail dollars by store type – 2016.**



Source: Roy Morgan Research (<http://www.roymorgan.com/findings/7181-liquor-retail-australia-201703201051>)

NB: Woolworths Group = Woolworths Liquor, BWS and Dan Murphy's; Coles Group = Liquorland, First Choice and Vintage Cellars.

For many wine businesses, **"Direct to Consumer" (DTC) sales** are proving to be a more profitable sales channel than more traditional retailer channels. Wine Australia's [report](#) on the value of DTC (October 2019) states that "Smaller winery sizes have a stronger reliance on DTC as a share of their total sales, with wineries under 5,000 cases deriving more than half their income from DTC sales". Further to this, the Wine Australia report also notes that DTC sales tend to be relatively high-value in nature, with cellar door sales accounting for 53% of DTC revenue in 2018-19 and wine club and database sales accounting for 31% of DTC sales.

DTC sales in the form of wine club and database sales often naturally flow from tourism experiences, where people travel to cellar doors, join a wine club and then purchase wine to be sent back to their home. The tourism experience at cellar doors is a key driver of sales, creating loyalty to particular regions, winemakers and brands. The ease with which customers can purchase wines online and have it delivered helps to retain this consumer loyalty and subsequent visits to these regions. Fostering tourism in regional Australia helps drive jobs in the wine sector, hospitality and transport sectors, with positive flow-on effects across the broader community.

### Prospects for export growth

**Australia's wine exporters** are experiencing a period of renewed export growth underpinned largely by ongoing demand from Chinese consumers, Australia's suite of Free Trade Agreements (FTAs), and the \$50 million package. However, the global market is highly competitive and not all wine businesses enjoy the same level of export success. Indeed, many small wine businesses choose not to explore growth opportunities in export markets because they feel they lack the expertise and knowledge to do so. Enabling small wine businesses to explore these opportunities and take advantage of FTAs is a potential growth opportunity for the sector.

The forecast for export growth over the next five years is relatively strong for China, but much flatter in other markets – including in Australia. While volumes may be contracting in traditional wine markets, the data relating to sales of higher-value Australian wine is more positive. In 2018-19, Australian wine exports grew by 4 per cent to a value of \$2.86 billion.<sup>6</sup>

While value growth is forecast to continue in the coming years, a number of factors could present risks for Australian exporters.

Firstly, Australia competes against a number of much larger and often heavily subsidised wine producing nations which have the potential to produce enormous volumes, particularly at the commercial end of the market. While the International Organisation of Vine and Wine (OIV)<sup>7</sup> notes that global production has returned to average levels in 2019, this reduction is largely due to climatic conditions as opposed to any reduction in productive capacity in these countries. Despite this, the smaller vintages in some major European competitor countries, including France (-4% to 43.4 million hectoliters<sup>8</sup>), Spain (potentially -15-20%) and Italy (-16% to 46 million hectoliters)<sup>9</sup> may present some opportunities for Australian wine exporters to capture market share. However, given the lag time between harvest and production, the large volumes produced in 2018 may be yet to hit the market, and the downturn in European production was not matched by other major producer nations like New Zealand, the USA, Chile and Argentina. Given the subsidies provided to many producers in these countries, and the availability of cheaper inputs (including labour and water), it is becoming more difficult for Australian wine businesses to compete at lower price-points.

Secondly, trade and strategic tensions between the United States and China, Brexit and the increasing levels of global geopolitical instability all present a level of uncertainty for global exporters. Given the importance of the China, United States and United Kingdom wine markets, this is potentially a very significant risk. Further to this, trust in key international institutions like the World Trade Organization (WTO) is decreasing, and in some instances, world leaders are actively seeking to diminish the WTO's importance. This has the potential to erode the rules of the global trading system which has enabled the more level playing field from which we have all benefited.

This trade uncertainty is centered upon Australia's key export markets, highlighting the need to not only capture the export opportunities that exist today, but to plan for and manage the potential for shocks to export markets in the future. Diversifying Australia's export footprint in a strategic and considered way will be a critical part of this future planning. India, Mexico, Russia, South-East Asian and African markets all show significant potential for future growth, but sustained effort and investment, and an improved trading environment (E.g. FTAs and improved regulatory arrangements) are required before this potential is realised.

Thirdly, the global economic outlook remains sluggish. The International Monetary Fund (IMF) World Economic Outlook of October 2019<sup>10</sup> reported that growth for 2019 has been downgraded again—to 3 percent—its slowest pace since the global financial crisis. This is a serious reduction from 3.8 percent in 2017, when the world was in a synchronized upswing. This subdued growth is a consequence of rising trade barriers; elevated uncertainty surrounding trade and geopolitics; idiosyncratic factors causing macroeconomic strain in several emerging market economies; and structural factors. Global growth in 2020 is projected to improve modestly to 3.4 percent, a downward revision of 0.2 percent from the April projections. Importantly, for advanced economies, which it could

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<sup>6</sup> Wine Australian Export Report 2018-2019

<sup>7</sup> <http://www.oiv.int/en/oiv-life/2019-wine-productionfirst-estimations>

<sup>8</sup> A hectolitre is 100 litres.

<sup>9</sup> [Ciatti Global Market Report October 2019](#)

<sup>10</sup> <https://www.imf.org/~media/Files/Publications/WEO/2019/October/English/text.ashx?la=en>

be argued are more likely to be traditional wine importing markets, growth is projected at just 1.9 per cent in 2019, and 1.7 per cent in 2020. Reduced economic growth rates have the potential to dampen demand for Australian wine overseas, and could constrain the ability of Australian wine producers to attract investment.

## **Diversity and equality**

It is universally acknowledged that modern society is experiencing issues with gender equality in the workplace. The Australian grape and wine sector is not immune to these societal issues - only 10% of leadership roles within the Australian wine sector are held by women.

Australian Grape & Wine is leading the work on behalf of the Australian wine sector in the area of Diversity & Gender Equality, to create a fair and equal sector for all participants. We believe this will empower participants to fulfil their potential, delivering benefits to individuals, companies and across society more broadly. We will continue to lead the sector regarding gender equality, by driving uptake on the Diversity & Equality Charter (DEW), and delivering on the areas identified in the Action Plan to create an environment for all participants of the Australian wine sector to flourish.

Australian Grape & Wine recognises that for the Australian wine sector to reach its full potential, it must draw upon the best and brightest people available to it. To us, this is not only the right thing to do. There is a clear economic imperative as well.

## **We're helping wine businesses to navigate the current environment**

A key focus of Australian Grape & Wine is to provide grape and wine businesses with practical tools that can help them to comply with regulation, and build their capacity to take advantage of commercial opportunities. Australian Grape & Wine has responded to demand for wine sector specific skills based training, with the WineSkills program.

The topics covered under WineSkills are tailored specifically to grape and wine businesses and have included Wine Equalisation Tax (WET) seminars, One-Page Marketing Plan workshops, and webinars to update producers on topics like the Australian Government's Cellar Door Grants, and mandatory pregnancy labelling.

It is critical that Australian wine businesses understand existing and emerging policy and regulatory issues that impact on the sector, and the same goes for those people at the beginning of their career in grape growing and winemaking. With this in mind, Australian Grape & Wine has developed a student membership category for all students in tertiary or vocational education courses related to the Australian wine sector.

Student Membership provides student members with access to industry information and networking opportunities that they may otherwise be unable to achieve, and in turn Australian Grape & Wine increases its reach to inform and educate and identify future leaders of the sector.

## **Future proofing the Australian Wine Sector**

Australian wine businesses are expressing a renewed sense of optimism following a challenging period. The Australian Government's \$50 million package is helping to drive growth in the sector. We are beginning to see improved market sentiment and sales in key export markets, particularly China and the United States, along with increased wine-related tourism in Australia. While these early signals are positive, we are conscious that current funding arrangements will end on 30 June 2020.

Australian Grape & Wine is working to make sure these early gains are protected and built upon, but we cannot do it alone. The Australian wine sector is on the cusp of transformational change and we are uniquely placed to partner with the Australian Government to future-proof our sector.

We are seeking a government investment of \$103 million over the next four years to grow our exports, boost the economies of wine regions across rural and regional Australia, increase wine-tourism numbers, and harness innovation to ensure we maintain our competitive edge over the long-term.

An investment of this kind, at this moment, would deliver real and measurable benefits to Australian wine businesses over the long term, removing the need for further assistance in the future, forging a sustainable and profitable sector for future generations.

**Table 4: Summary of proposed Future Proofing Investment Activities.**

Year	Investment activity	Amount
2019-2020	Bulld demand	\$17 million
	Increase wine tourism	\$3 million
	Harness Innovation	\$20 million
	Supply-side optimization	\$3 million
2020-2021	Bulld demand	\$17 million
	Increase wine tourism	\$3 million
2021-2022	Bulld demand	\$17 million
	Increase wine tourism	\$3 million
2022-2023	Bulld demand	\$17 million
	Increase wine tourism	\$3 million
Total		\$103 million

### Priority 1: Building demand

The future profitability of the Australian wine sector depends on exports. Growth in the domestic market is slow, and the biggest gains for Australian producers in 2018 came from the exports to high-growth markets overseas. In total, 63 per cent of Australia's wine production was exported to 125 markets in 2018-19.

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

The \$50 million package has helped build demand in the key markets of China and the United States. However, without additional investment, we risk falling short of capitalizing on this growth and capturing the immense opportunity before us.

We can do this in two ways.

First, investment in marketing and brand building activities in new and emerging markets. The \$50 million package has shown us how this can be achieved, and a further investment within these markets would build on this, providing the opportunity for the sector to gain a permanent foothold in the key economic-growth regions

of Asia and Africa. A further investment will enable the sector to replicate our China growth in these new markets, diversifying risk.

The second element to grow demand is to lower trade barriers and improve market access for exports through a network of international trade negotiations and sustained efforts to reduce non-tariff barriers. At a time when farmers around the country are in a crippling drought, free trade agreements give hope for a long-term sustainable future and recognise the importance of agriculture, and more importantly, exports of agricultural produce as vital to Australia's economic well-being and rural and regional Australia's prosperity. We will address these issues later in the document, but these are critical to market diversification risk mitigation and export growth.

### **Demand growth through enhanced marketing**

A continued annual investment of \$25 million in global marketing funding (i.e. an additional \$17 million per annum, over and above the recurrent industry funding of \$8 million from existing levies and user-pays funding) would conservatively see wine exports reach around \$3.2 billion by 2024–25. When combined with the other planks of the future-proofing strategy, a more realistic estimate is \$4–5 billion. There are three key elements to growing demand.

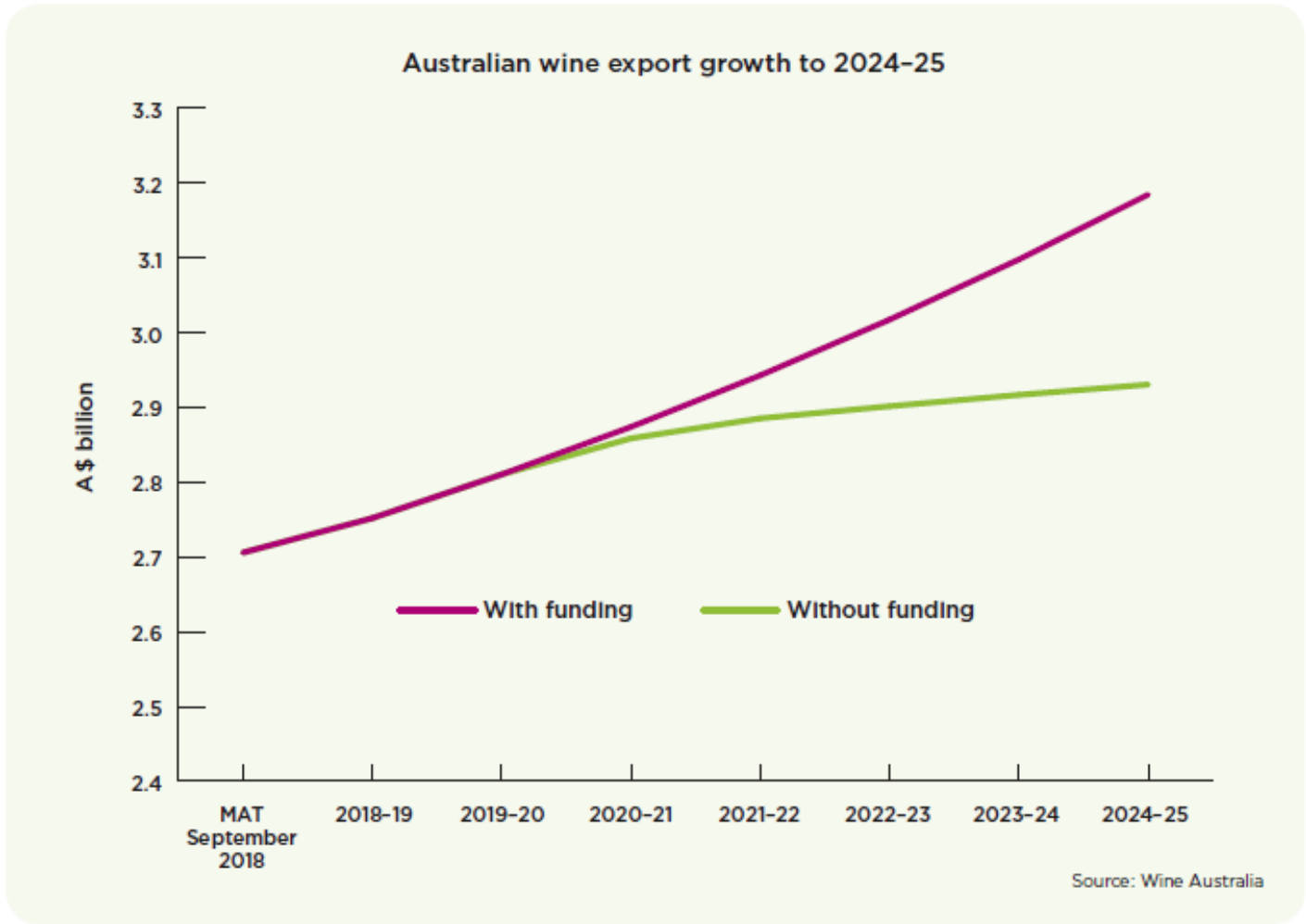
First, this additional investment would focus on cementing and building our recent extraordinary growth in China, by strategically targeting the anticipated 750 million people who will make up China's middle-class by 2022. Ongoing investment will allow us to educate these consumers about Australian wine by improving Australia's social media presence in current and new channels, and driving our engagement in e-commerce channels. It will also enable the continued and expanded delivery of our ambitious education program to Chinese consumers. We must recognise that as growth inevitably slows in China, we must take every opportunity to cement our position as the top exporter of premium wine into the market.

Second, we continue to see tremendous opportunity to re-capture market share in the United States. Australian wine has underperformed since the Global Financial Crisis, when Australia lost significant ground in the premium wine segment to competitors based on factors including the exchange rate, consumer perceptions and falling demand. Additional investment in the United States would unlock our potential in this market, returning sales growth to \$1 billion per annum. The United States market is one of the few traditional wine markets which is still growing, with the expectation that by 2023, an extra 23 million cases of premium wine will be required to meet demand. Australia is well placed to capture this opportunity, but we need to overcome current consumer-perception barriers. Our proposed investment would focus on re-capturing shelf-space with major retailers and continuing to engage with influential wine figures in the United States, including critics and leading sommeliers, to ensure Australia's talented winemakers get the recognition they deserve. Doubling current sales of Australian premium wines in the United States only requires an extra million cases worth US\$100+ million in retail value. We can do so much more. We expect additional investment would unlock growth of half a billion dollars over the next five years.

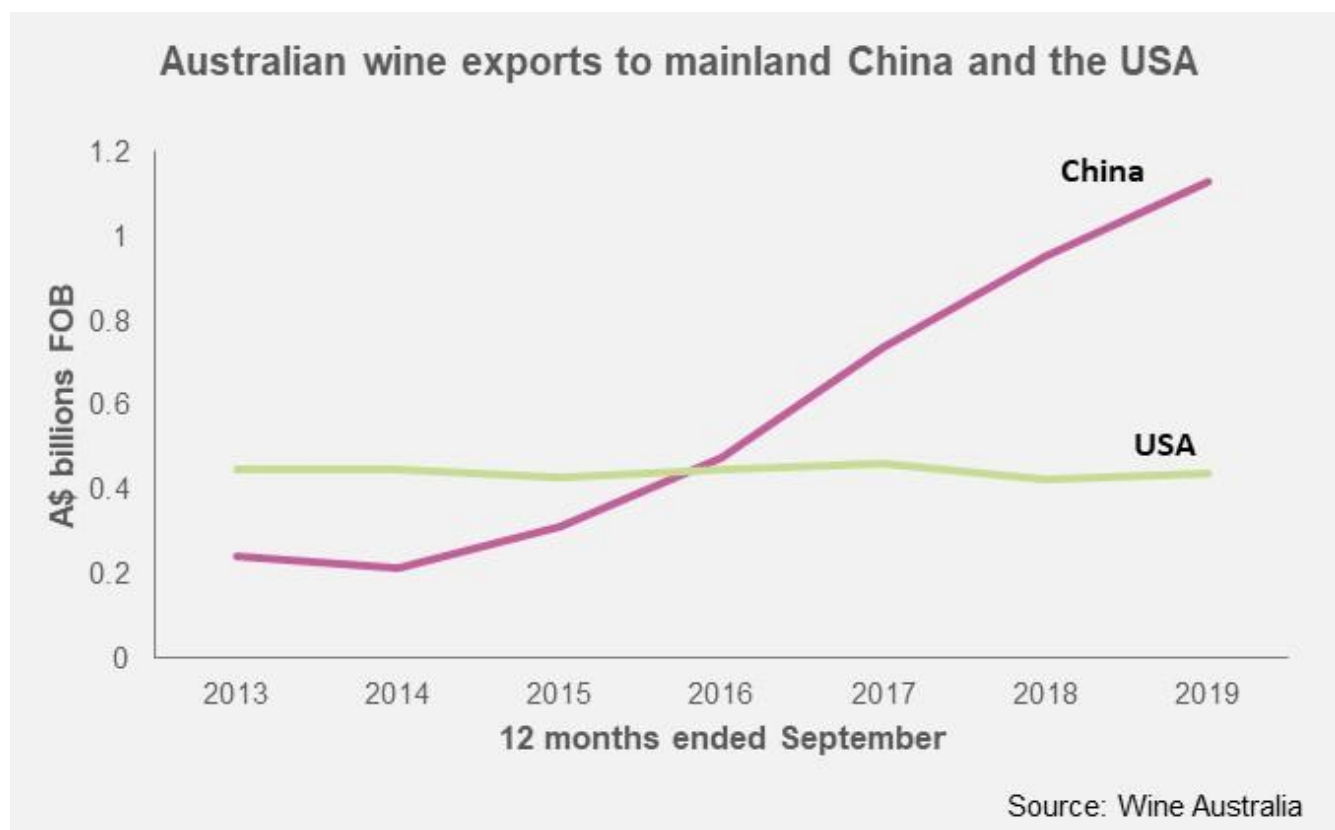
Third, the increasing dependence on the three key markets of China, United States and the United Kingdom mean we need to diversify our markets. South-East Asia will continue to be a major source of growth, but the forthcoming Free Trade Agreement with the European Union may also provide a stimulus in this important market. More long-term prospects include East Africa and India. We must start to invest in all these markets to provide a platform for growth.

Industry will play its part in funding these programs, but it will require the development of partnership arrangements between industry and State and Federal governments to capture the opportunities before us. Innovative and collaborative export programs will involve co-investment from all stakeholders.

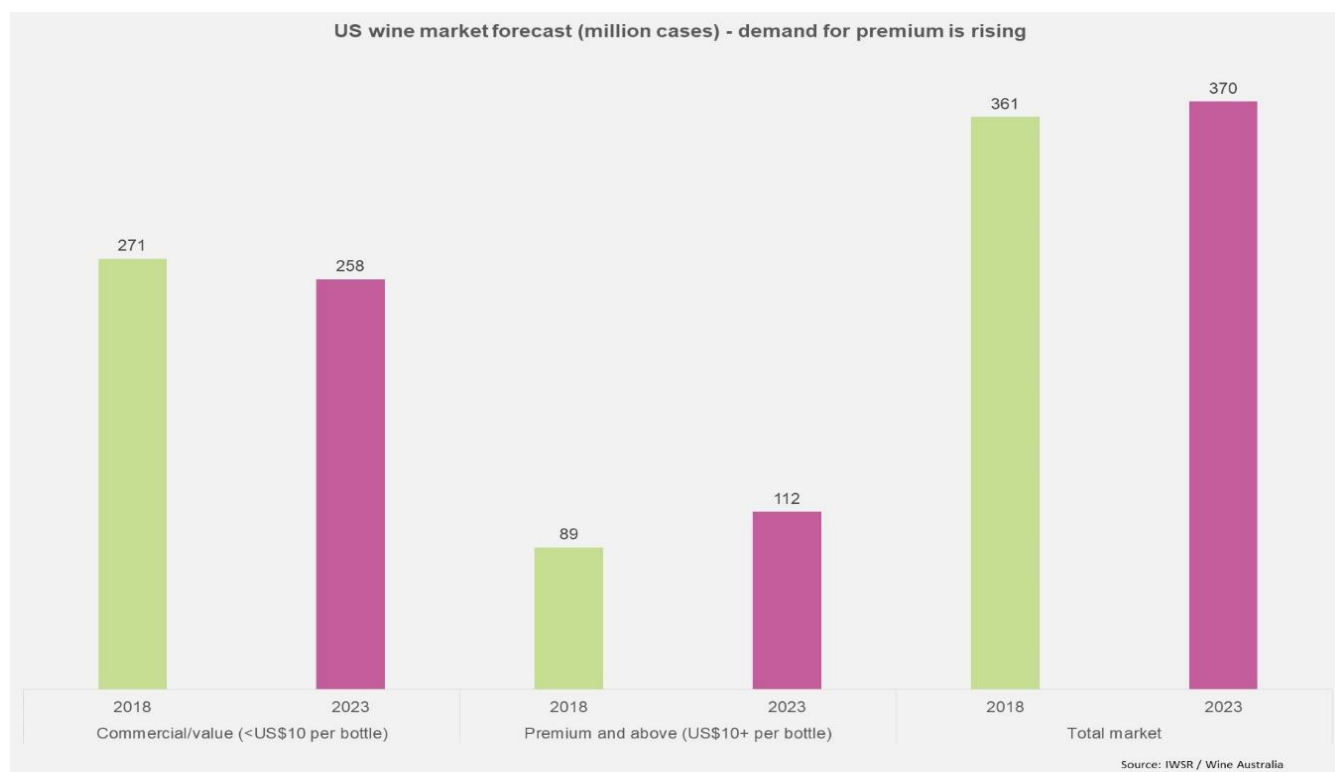
Table 5: Projected Australian wine export growth – with and without additional investment.



**Table 6: Australian wine exports to China and the USA.**



**Table 7: US demand for premium wine.**



As noted on page 12 the average export price and average grape price are closely linked. The export growth generated by the \$50 million package is underpinning higher prices for grapes in Australia, delivering growth along the value chain. During the 2019 vintage, the average purchase price of grapes in Australia was \$664 per tonne, a 9 per cent increase compared to 2018 and the highest average price since 2008. An investment in building demand will pay dividends along the supply chain.

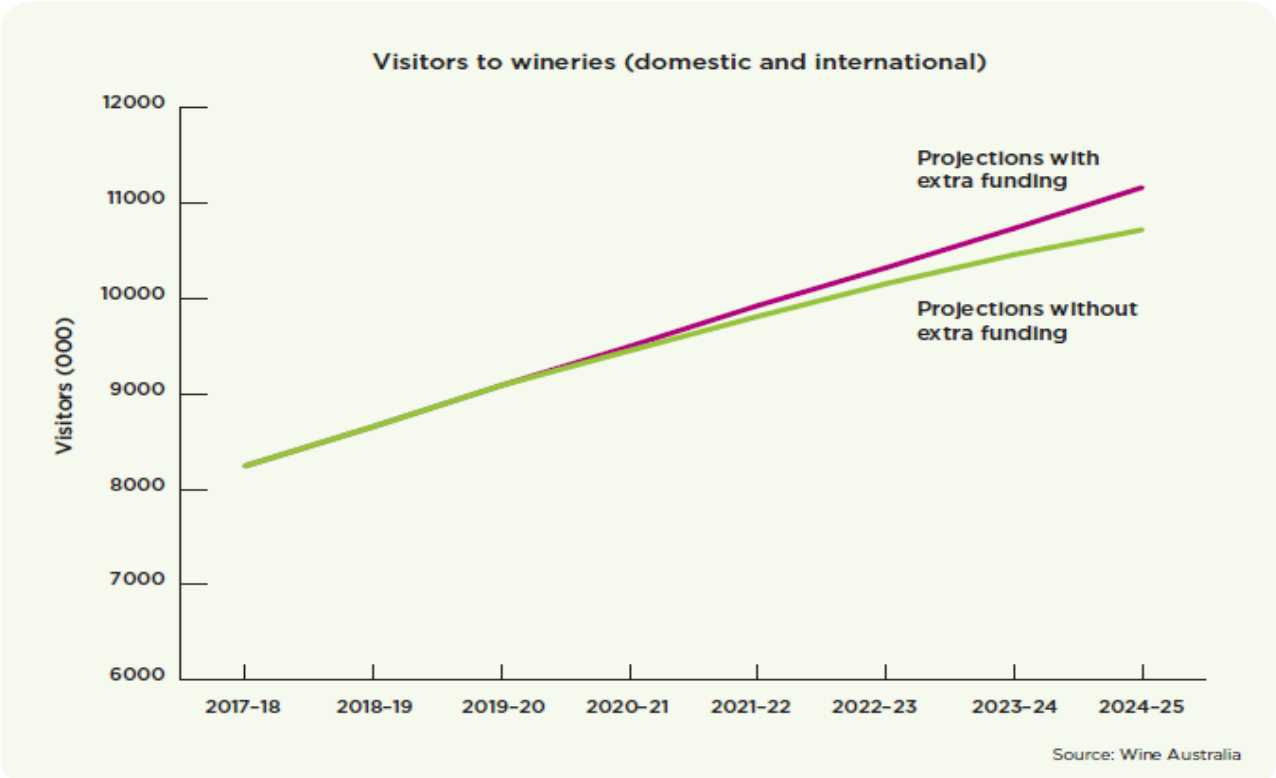
**Priority 2: Increasing Wine Tourism**

Tourism remains an important vehicle for driving growth in rural and regional economies and enhancing understanding of Australia’s wine offering. The \$50 million package has been designed to complement and contribute to the objectives of the Australian Government’s Tourism 2020 strategy, which is focused on building the resilience and competitiveness of Australia’s tourism industry and growing its contribution to the Australian economy. The more than \$8 million investment in international wine tourism grants and ‘Growing Wine Tourism’ training has stimulated development of wine tourism products and services and built the capability and capacity of wine businesses to leverage the increased marketing activity funded by the \$50 million package. Additional investment will maintain this momentum over the long-term, enabling continuing accruing benefits in rural and regional economies.

We project that an additional annual spend of \$3 million would see 400,000 to 450,000 more domestic and international tourists visit wineries over five years, on top of Tourism Research Australia’s National Forecast, firmly placing Australia as a source of outstanding wine-based tourism experiences over the long-term, and building demand for high-quality Australian wines when tourists return home.

We are seeking a Government investment to increase the cap of the Wine Tourism and Cellar Door Grant scheme from \$10 million to \$20 million per annum to enable winemakers to further invest in the tourism infrastructure required to increase visitations to wine regions across rural and regional Australia.

**Table 8: Visitors to Australian wineries.**



### Priority 3: Harnessing innovation

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

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

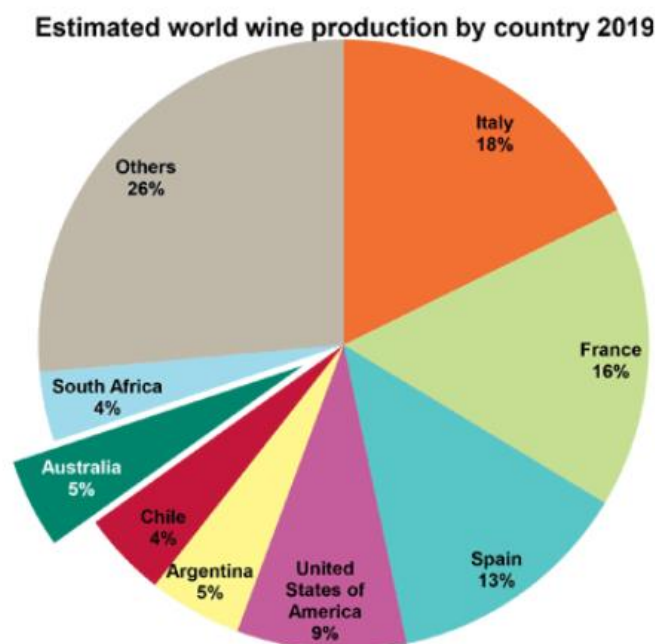
These research facilities are critical to the entire sector, but are particularly important to the future productivity of small and medium-sized wine businesses that do not have the capacity to engage in their own large-scale R&D activities. In addition, the winery acts as a major piece of infrastructure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

#### Supply side efficiency-optimisation

Australia's grape and wine sector does not operate in isolation from the rest of the world. The global wine supply and demand situation is a major determinant of grape pricing in the warmer inland regions. Australia is a relatively small producer in comparison to the major producers of France, Italy, Spain, and, to a lesser degree, the United States. The supply situation in these countries has a significant impact on Australia's trade, particularly at the price-driven commodity end of the market.

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

**Table 9: Estimated wine production by country 2019**



Source OIV

More recently, there has been an awakening realisation amongst some industry leaders that horticulture R&D would benefit greatly from collaboration, particularly through a cross-disciplinary approach to research. This approach, when utilised well, has provided some significant benefits to industry. An excellent example of the success of approach is the work transforming Australia's almond industry into the most profitable in the world.

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

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

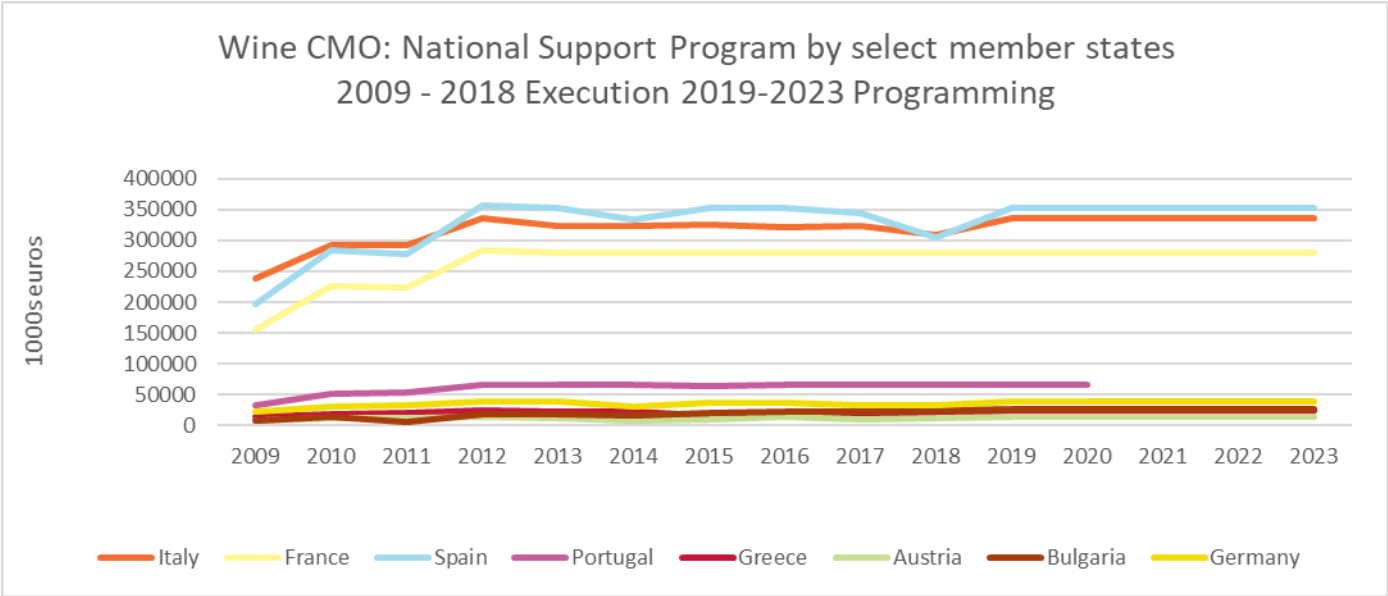
There is a fully formed research proposal, with substantial industry investment locked away, that only requires an additional one-off \$3 million investment from government to return sustained profitability to growers.

The opportunity before us over the next five years is as immense as it is rare. Australian wine businesses are well placed to capture this opportunity, but without government assistance in the form outlined in this document, it is likely they will fall short of their potential.

Australian Grape & Wine has taken a prudent and strategic approach in developing this submission. We firmly believe the investments we seek are reasonable and fiscally responsible and would ensure the Australian wine

sector is profitable and sustainable over the long term. Our claim is clearly supported by a comparison of our request with the levels of ongoing support our European competitors receive from their governments.

**Table 10: EU promotional subsidies by country.**



Source: European Commission  
[https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/wine-2009-2023-overview\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/wine-2009-2023-overview_en.pdf)

Conclusion

The benefits that would accrue from this investment would extend beyond the wine sector. Rural and regional communities across Australia’s 65 wine growing regions would benefit from a lift in economic activity by way of increased job opportunities and tourist numbers, lifting the prosperity of rural businesses and those who rely upon them. Such a lift would be particularly timely for those who manage the vagaries of Australia’s weather patterns as a part of their normal business every day.

Now is the right time to make this investment in the future of Australia’s wine sector, and in the rural and regional communities they support.

**Investment Recommendation 1: The Australian Government should invest \$103 million over the next four years to cement the gains made from the \$50 million package.**

Market Access

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

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

- resist protectionism and advocate for an open global economy
- work bilaterally and multilaterally to protect and shape rules that promote economic growth, trade liberalisation and free markets

- ensure the lowest possible barriers to our trade and investment, including through modern free trade agreements; and
- work with Australian businesses to advance our commercial interests in overseas markets

We are also very supportive of maintaining a consultative approach before, during and after trade negotiations, in which stakeholder input to negotiations and policy development is sought. We hope to see continued efforts in the coming years to liberalise trade and create economic growth through expanding trade of wine. Harmonising technical barriers to trade and focusing on reducing Non-Tariff Barriers (NTBs) are a core driver towards expanding our trading opportunities.

### **Technical Barriers to Trade (TBTs) & Non-Tariff Barriers (NTBs)**

Non-tariff barriers remain the key impediment to expanding trade into new markets. These can include regulatory barriers, standards-related measures, or labelling and customs measures. Australian Grape & Wine will continue to seek to reduce such barriers in partnership with Government. These efforts will complement Government negotiations in the WTO and FTAs to open markets and facilitate trade. Australian Grape & Wine supports the Government's proposal to continue to implement a non-tariff measures strategy during 2019 and 2020 to respond to business concerns.

Australian Grape & Wine monitors, activates, prepares and maintains a trade barriers report to identify the main non-tariff measures affecting the wine sector. This report is used to inform Australian Government officials and other governments.

Key areas for addressing technical barriers to trade in the following year will include:

- Canada - Australia WTO action
- China - technical, regulatory and political challenges
- The practical implications for wine trade post-Brexit.
- Australia – EU FTA and other negotiations.
- GIs, IP, Prosecco and other grape varieties
- Anti-alcohol related trade barriers including labelling and taxation, and
- Authenticity, traceability and counterfeit issues.

Australian Grape & Wine acknowledge the support and engagement of the Australian Government with the sector on these issues and seek its continued commitment to addressing trade barriers, including NTBs.

### **Collaboration and addressing technical barriers to trade.**

Australian Grape & Wine is a strong supporter of working collaboratively with international colleagues to improve the global trading environment. We engage in a number of forums, typically in partnership with government, to promote collaboration, exchange of technical knowledge and manage technical barriers to trade. These include the WTO Agreements, Codex Alimentarius Commission, APEC and wine-specific initiatives including the World Wine Trade Group, and the International Organisation of Vine and Wine (OIV).

### **World Trade Organization (WTO)**

The Australian wine sector is a strong supporter of the multilateral rules-based trading system under the auspices of the WTO. The WTO provides the framework, which facilitates free trade throughout the world. The trade dispute mechanism provides a deterrent to countries that wish to implement trade restrictive policies and permits on trading nations like Australia to take action against systemic trade issues, to level the playing field for our exports.

The Australia-Canada WTO dispute on wine which was launched in 2018 is a prime example of its value. The dispute mechanism has allowed Australia greater opportunity to ensure equal trading conditions in Canada that we would not have had as great a chance of influencing without the WTO rules-based system. In November 2019, this value was realised in the form of a resolution of the trade barriers which were imposed in the Canadian province of British Columbia (BC). Through the pressure applied over the Australia-Canada WTO dispute, BC agreed to alter their provisions to remove discriminatory measures regarding imported wine and access to supermarket shelves. We are hopeful that the WTO case will work to level the playing field by removing discriminatory measures in the remaining provinces through 2020.

Despite the value of the WTO to the trading environment, the institution is under considerable pressure. Negotiations on a comprehensive development agenda have floundered on disagreements over agricultural subsidies and intellectual property rights, while members have increasingly turned to separate bilateral and regional free trade agreements to advance their trade interests. Unfortunately, there is much uncertainty about what will happen to the WTO after December 2019 as the WTO's highest dispute-resolution appears destined to stall after the Trump Administration's decision to block reappointments to the panel. Without a resolution this will leave the WTO dispute resolution system in tatters (without a functioning appeals process) meaning disputes will likely go unresolved throughout the system.

### **World Wine Trade Group (WWTG)**

The WWTG is an industry-government cooperative initiative and an important mechanism for addressing wine trade barriers, including through finding ways to harmonize trade. It also enables like-minded wine-exporting countries with a forum for sharing concerns and coordinating approaches to dealing with trade difficulties in other markets.

In late 2018, the Australian Government initiated a strategic review of the group, which has been under implementation during 2019. Australian Grape & Wine is supportive of this review and is expecting its outcomes being delivered throughout 2020 to deliver on key objectives of ensuring ongoing relevance of the work-plan and maintaining a relevant focus for the group.

The WWTG provides a mechanism for sharing information, addressing trade barriers and harmonising trade for its membership and is a vitally important priority for the Australian wine sector. Continued Australian Government support and engagement in this forum is vital for its success.

### **International Organization of Vine and Wine (OIV)**

The OIV forms a key strategic pillar of Australia's global trade interests in wine. It provides a mechanism to influence the development of internationally recognised technical wine guidance.

In the OIV, the Australian Government and Australian Grape & Wine have committed to providing an increased presence in the technical forum which has resulted in attendance at the Paris Expert Group meetings in April and October, and the General Assembly in June 2019. This requires considerable consultation within Australia to ensure a coordinated industry and government position.

Key medium-term issues include the:

- European Commission's increasingly active influencing of European member states and how this relates to transparency and the EU's position as a member of special status
- Role of the OIV standards adoption within the European Union and more broadly internationally
- Ongoing consideration of OIV technical water addition technical guidance
- De-alcoholisation discussion to establish the European rules for trading and labelling of reduced alcohol wine and wine products

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

There has never been a more important time to maintain our influential role in the OIV, as we go through a period of change with a new Director-General, Mr Pau Rocco of Spain, commencing his term on 1 January 2019. The Chinese government is now exhibiting a real interest in membership, which give us the opportunity to engage strategically at the technical level. Australian Grape & Wine, with the support of Wine Australia and the Australian Wine Research Institute continues to play an influential role with the OIV and seeks the continued engagement with the Australian Government to maximise the benefits from our position. This could include government support for Australian presidency for the next term commencing 2021.

### **Wine Industry Market Access Group**

The Wine Industry Market Access Group (MAG) is a key strategic partnership between industry and the Australian Government to facilitate trade and market access activities. The group is attended by a number of business representatives and senior leaders from government departments, and provides a forum for discussion, partnership and addressing the sectors market access issues. The group meets biannually and is co-chaired by Australian Grape & Wine and The Department of Agriculture, and the Department of Foreign Affairs and Trade.

### **Australian Government Non-Tariff-Measures (NTM) Working Group**

Australian Grape & Wine also participates in the in the Government's NTM working group, a collaborative pan-industry and Government group which is typically run in alignment with the Government's agricultural councillor recalls. Prioritised NTM themes which have been identified by the group include:

1. Residues (MRLs)/Additives
2. Equivalence/Systems Recognition
3. Establishment Approval/Listing (including Audit)
4. Testing Requirements (Pre-departure and Import Inspection)
5. Biosecurity and Food Safety Protocol Negotiation (Pest, Disease, etc.)
6. Product Registration (including Composition and Labelling)
7. Product Age/Shelf Life

**Policy Recommendation 1: The Australian Government maintains its strong presence in international collaborative forums.**

**Policy Recommendation 2: The Australian Government continues to work collaboratively with Australian Grape & Wine to share information and address trade impediments.**

### **Free Trade Agreements and Geographical Indications (GIs)**

Australian Grape & Wine is a committed supporter of free trade. We stand firmly behind the objective of ensuring our bilateral and regional Free Trade Agreements (FTAs) are comprehensive and liberalising, as compatible with

one-another as possible, and promote regional economic integration. However, it is essential that in our efforts to secure agreements we do not undermine long-standing principles and systems that serve our economy well.

The European Union (EU) and some of its member States are extending their protection of Geographical Indications (GI) through trademark applications, applications for GI protection and FTAs, which is of great concern to the Australian wine sector. Australian Grape & Wine has been actively objecting to the extension of protection of such GIs in Australia and internationally for some time.

In the context of the upcoming Australia – EU FTA, Australian Grape & Wine strongly urges the Australian Government to protect the rights of Australian wine producers to continue to use grape variety names, including inter alia, Prosecco, and other common-English descriptive terms, on their products. Australian Grape & Wine is committed to holding the line and will pursue all possible opportunities to maintain Australian producers' international right to describe Australian wine using grape variety names.

The diversity of grape varieties and their availability provides a significant growth opportunity for Australian wine producers in domestic and international markets as producers seek new product innovations to meet changing consumer tastes, respond to a warmer climate, and reach a broader consumer market.

In negotiating the Australia-EU FTA, the EU is also seeking to broaden GI protection beyond wines, to food and spirit products. In addition, the EU is seeking to change the well-established rules for GI protection by seeking a "higher level" of protection for its GIs in Australia and other international markets. The detail of what this "higher level" of protection means in practice is unclear, and producers are justifiably concerned that, if not handled appropriately, this could lead to an infringement on long-standing commercial rights and practices in Australia, including in relation to common food names and grape variety names.

As part of this higher level of protection, the EU has introduced the concept of evocation. Evocation is a significant extension of the general understanding of, and international trading rules around, GI protection and will create uncertainty around food and beverage product rights. This poses risks of protracted and costly legal battles, and much higher costs in relation to mitigation and enforcement. The FTA must not increase the level of protection for wine GIs that has been established in the Agreement Between Australia and the European Community on Trade in Wine (the Australia-EU Wine Agreement) and must provide a system that is clear and unambiguous as to the level and form of protection provided, and prevent the *ad hoc* shifting of the goal posts that has characterized the EU's approach on GIs across its suite of trade agreements.

The Australian Government needs to include in all future FTA negotiations and FTA reviews the objective of protecting Australian winemakers' rights to use grape variety names. While we believe that TRIPS<sup>11</sup> forms a vital basis for international IP rights, sole reliance on the existence of TRIPS without our own domestic assurances is not sufficient. Australia should not accept the EU's efforts to impose expanded TRIPS or "TRIPS Plus" provisions within our FTA, and instead must establish its own TRIPS consistent provisions which meet the needs of broader Australian food and wine producers, protecting their rights. Given our extensive experience with GIs, both within Australia and internationally, Australian Grape & Wine is willing to work with the Australian Government in the development of any GI system and to strengthen our future FTA negotiations in this area.

**Policy Recommendation 3:**      **The Australia - EU FTA must not increase the level of protection for wine GIs above that that has been established in the Australia – EU Wine Agreement and must provide a system that is clear and unambiguous on the level and form of GI protection.**

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<sup>11</sup> The WTO Agreement on Trade Related Aspects of Intellectual Property Rights.

## Importance of the Prosecco Grape Variety

On 13 August 2019, the Australian Government published a list of GIs proposed by the EU for protection under a process seeking public objections. Wine GIs were excluded from this process due to Australia's pre-established wine GI system which already protects the EU's wine GIs in Australia. Prosecco was an exception which was included for further comment by the Australian Government, despite having already undergone an extensive legal process that determined it was ineligible to be protected as an EU GI in Australia, on the grounds it is the common name of a grape variety used in Australia. The response from the Australian community on Prosecco was clear. During the course of the GI consultations, ending in November 2019, there were many Australian wine companies, regional and state representative bodies, legal firms and academics all contributing submissions, urging the Australian Government to protect our right to use the grape variety Prosecco. It is clear that not protecting these rights would have a devastating and long lasting impact on the Australian wine sector's viability. Not only this, it sets a precedent for future attempts to restrict common grape variety names and broader common food names.

Australian Grape & Wine has offered to work with the Australian Government to find a reasonable solution which maintains the rights of Australian grape and wine producers. We will continue to engage on the issue and seek to protect the rights of the Australian grape and wine sector here in Australia and internationally.

**Policy Recommendation 4:                      Australian Government protects the Australian Wine sector's right to produce Prosecco.**

### **Italy's creation of the Prosecco GI lie is cynical protectionism**

Prosecco has always been an internationally recognised grape variety, traditionally grown in the hillside vineyards of the Valdobbiadene-Conegliano region of north-eastern Italy, but also grown elsewhere in the world.

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

The intention of this move was to restrict global Prosecco production to within the newly created Italian GI. The region of "Prosecco" had never existed previously, and nor had the grape variety "Glera". There used to be a small village in Trieste named Prosecco, however, this no longer exists and is now instead a small suburb. The Prosecco suburb falls on the very edge of the current GI, over 150km away from the Valdobbiadene-Conegliano region. Further to this, the Prosecco village/suburb has no history of producing Prosecco grapes.

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

### **Prosecco is a different story to Champagne**

The Prosecco variety and the attempts to create new regions for its production is a completely different story to the protection of the Champagne GI, which occurred in Australia some years ago. The key difference is that Prosecco is, and always has been, a grape variety, whereas Champagne is a region in which the winemakers produce a style of wine that can be made from several different varieties (typically it is made from Chardonnay, Pinot Noir and Pinot Meunier grape varieties, or a combination of the three).

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

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

## Other Australian Free trade negotiation priorities.

Australian Grape & Wine is supportive of the Australian Government's proactive bilateral and multilateral trade negotiators. Much of the sector's success in export markets can be attributed at least in part to Australia's comprehensive trade agreements.

Australian Grape & Wine believe that there are a number of key priority areas of focus for future trade arrangements which will greatly assist in maintaining and expanding this export success. These priorities broadly include:

- Incorporating sector specific technical annexes or similar agreements to ensure harmonisation of technical barriers to trade.
- Ensuring future Australia FTA negotiations consider Australian wine sector rights to grape varieties and protect its producers' interests
- Reducing or removing tariffs.

Technical barriers to trade can often be much more costly to the Australian wine sector than imposed tariffs alone. Australian Grape & Wine is a strong advocate for harmonisation of wine technical requirements in support of trade facilitation. This is of particular importance in emerging markets and countries where wine is not traditionally produced. Wine is a highly complex and technical product throughout the supply chain and lack of agreement or mutual acceptance can result in unnecessary barriers to trade. For this reason, Australian Grape & Wine has, and will continue to advocate for sector specific technical wine annexes within all relevant Australian trade agreements.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Peru-Australia Free Trade Agreement (PAFTA) and Australia-Hong Kong Free Trade Agreement (A-HKFTA) agreements are recent examples of successful Australian FTAs which include a sector specific wine technical annex.

**Policy Recommendation 5:**                      **The Australian Government continues to progress its ambitious free trade agenda in collaboration with the grape and wine sector.**

## Export Market Development Grants (EMDGs)

Australian Grape & Wine welcomes the Australian Government's review of financial assistance to SME exporters including the current EMDG scheme. Given the Government's focus on helping businesses to develop export opportunities, we believe there are a number of changes the Government can make to further support export market development. The program could incorporate a designated funding-pool contributed to by Government each year, which would be distributed to SMEs across multiple streams based on their needs.

We would also recommend that a revised EMDG consider rules that limit the availability of certain funding streams to only SMEs with "skin in the game", such as cellar doors and wine facilities in order to prevent the grants being dominated by those whose only investment is in stock. This would help to provide a greater incentive to invested wine businesses, which currently represent less than half of the exporting wine businesses. This means that the economic benefits of export sales growth will be captured in the regions with the associated economic multiplier effect, due to increased direct and indirect employment as well as increased use of service operations to supply the increased winemaker production.

We look forward to continuing to work with the Australian Government ensure the EMDG program is as effective as possible and delivers outcomes for the sector.

## **Policy Recommendation 6:**

**The Australian Government to Work with the Australian grape and wine sector to develop the next iteration of the EMDG scheme that acknowledges market practicalities and new opportunities for Australian wine exporters.**

## **Trade with China**

The value of the Australian grape and wine sector's trading relationship with China, and the potential for a boom in Chinese wine tourism in Australia, is self-evident. China is our largest wine export destination by value (\$1.2 billion, 2018 - 2019), with potential for further projected growth. During 2019, Australia overtook France to become the number one imported wine category in mainland China by value.

However, we also recognize that the Chinese market can be challenging. It is changing rapidly and barriers to trade can arise quickly as a result. Further to this, Australia faces stiff competition from other wine producing countries, along with a rapidly growing and improving domestic Chinese wine industry.

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

In more practical terms, it is important to ensure government continues to support the efforts of Australian wine businesses, to make the most of the China opportunity over the long term. In 2019, Australian Grape & Wine will be focusing on building greater industry/government relations with China. Our [submission](#) to the process of developing the National Foundation for Australia-China Relations, provides further information on where we can work to leverage the wine sector to the benefit of the relationship.

In June 2019, Australian Grape & Wine engaged with the AFL and other agriculture and food industry bodies to showcase Australian food and wine around the AFL Fixture's Round 11 match, between St Kilda and Port Adelaide at Shanghai's Jiangwan Stadium. We believe this event provides a major opportunity to expand on the soft diplomacy efforts through the expansion of the "Festival of Australia" concept, which was initiated with support from the Australian Government and Australian Grape & Wine at the Round 11 match in Shanghai 2019.

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

## **Australian Wine Sector Fraudulent & Infringing Wine Strategy**

During 2019, Australian Grape & Wine, with support from the Australian Government's Agricultural Trade and Market Access Cooperation (ATMAC) programme, undertook a project to develop a wine sector strategy to reduce the risks associated with fraudulent and infringing wines.

The initial project has clearly shown that wine fraud and infringement is a very common issue in China, and has the potential to dramatically increase if appropriate measures are not put in place. The nature of the fraudulent and infringing activities include:

1. Counterfeit of product is widespread particularly at higher values;

2. Copycat brands have recently increased substantially as the Chinese Government attempts to curb sales of fraudulent goods. While it is apparent that the more high profile brands, are at greatest risk of copycatting, many small Australian wine brands are also falling victim;
3. Re-labelling in China also appears to be a common avenue for fraud, which in many cases is assisted by subsidiaries exporting the products with easily removable (legally compliant) labels applied at source in Australia, which are then removed and replaced with copycat or counterfeit labels in China;
4. Re-filling of original bottles is more of an issue for spirits and is less commonplace for wine as the bottles are typically all of the same (or similar appearance). It is easier and cheaper to produce their own products or switch the labels on an original;
5. Trademark and Geographical Indications (GI) piracy is a common issue – particularly given that China is a ‘first to file’ market.

There are many different avenues for wine fraud and related infringements, and likewise, strategies for addressing the issue must be multi-faceted with ongoing collaboration and engagement across governments and industry. The activities and outcomes of this project will assist to protect the reputation and integrity of Australian wine and Australian wine brand owners in China, and other export markets. Central to success in this area, will be enhanced engagement from industry and government stakeholders, including Wine Australia. It will also require increased cooperation between Australian and Chinese regulatory authorities, and recognition that this is a shared problem and the solutions are shared solutions.

The Australian Wine Sector Fraudulent & Infringing Wine Strategy is expected to be completed by early 2020 and aims to drive the implementation of actions for the sector, governments and others, which minimise the risks to the Australian wine sector’s future viability, related to fraudulent and infringing wine activity.

Key recommended actions from the strategy will include:

1. Industry education for operating in China
2. Brand owner and industry enforcement against copycats and counterfeits’
3. Regulatory engagement and cooperation, including renegotiation of the MOU between Australian and Chinese government departments on cooperation for the import and export of wine
4. Increased efforts for soft diplomacy and collaboration
5. Protection of Australian GIs and grape varieties
6. Verification technology and collaborative technical knowledge exchange.

Our preparedness, the strength of our regulatory systems, and our ability to work collaboratively across countries and industries, will determine our sector’s future success in combatting issues relating to wine fraud, and in turn, protecting our reputation abroad.

**Policy Recommendation 7:**                      **The Australian Government seeks to strengthen the bilateral relationship with China, utilising opportunities associated with the Australian Wine Sector Fraudulent and Infringing Wine Strategy, events associated with the AFL’s annual China game, and through technical cooperation with Chinese regulators.**

**Policy Recommendation 8:**                      **Australian Grape & Wine encourages the Australian Government to review its wine trade MOU with China, in collaboration with industry.**

## Domestic regulatory settings

### Overview

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

Australian Grape & Wine strongly supports the Australian Government's deregulation agenda.

### ACCC

However, **in the current environment there is a high-risk that Australian wine businesses will experience a significantly higher regulatory burden than they currently carry as a result of the ACCC's market study into the sector, mandatory pregnancy warning labels and a renewed push to include wine bottles in Container Deposit Schemes (CDS).**

We are deeply concerned by this regulatory creep – not on the grounds that we are anti-regulation (we are not) – but because elements of the regulation being considered by the Government are ineffective, costly and lacking an evidentiary basis.

Australian Grape & Wine understands and respects the ACCC's role as Australia's competition and consumer law regulator, but we are concerned by a number of recommendations made in the context of the ACCC's Market Study into the sector. While we are strongly supportive of a number of recommendations relating to quality assessments, strengthening the voluntary Wine Industry Code of Conduct and some of the suggestions relating to improving market information, we are deeply concerned that some recommendations – particularly those relating to payment-terms – miss the mark, will dampen competition and push down grape prices.

The ACCC's recommendation relating to locking in thirty-day payment terms with total processing capacity of over 10,000 tonnes would reduce competition. Growers will choose to sell to larger winemakers which would be required to pay for grapes in fewer days, while small and medium sized winemakers would face restrictions in both their ability to secure fruit and access finance. Further to this, the Report also seeks to artificially divide the market by setting different rules for different geographic zones. For example, grapes purchased from Victoria would be subject to much shorter payment terms than those from South Australia, where legislation dictates a minimum standard of three staggered payments ending in September each year. We fear that if the ACCC's recommendation to treat different states in different ways eventuated, it could lead to serious market distortions and artificial incentives to invest in South Australia over other states, harming the growers in the Riverina and Murray Valley who have been the strongest in backing the ACCC's study. This is clearly anti-competitive and must be avoided.

Australian Grape & Wine is also concerned about the ACCC's recommendation to publicly identify companies and the prices they paid for grapes after each vintage. While we understand and support the need for greater market information and transparency, this suggestion will do more harm than good, and serve little purpose to growers who will not be able to renegotiate prices months after contracts have been signed, sealed and delivered upon. Publicly identifying the prices paid for grapes and the companies that paid for them also raises concerns about the confidentiality of contracts, and could give the major retailers a free kick, enabling them to more accurately identify input costs (grapes and water being the two major inputs) and squeezing margins even further.

Australian Grape & Wine is now focusing on modernising the voluntary Wine Industry Code of Conduct (the voluntary code) as a means for addressing the majority of the ACCC's concerns. Our objective is two-fold:

- 1) To modernise the code so that it is practical and effective for both grape growers and winemakers, and
- 2) To significantly increase the number of signatories to the voluntary code.

Australian Grape & Wine commenced a comprehensive review of the existing code this year and we expect a new code to be developed in time for the 2021 vintage. We have established a Code Management Committee made up of equal numbers of winemakers and grape growers, and we are confident strong progress can be made in the coming months.

Finally, we understand the clear threat that if the sector cannot strengthen the voluntary code and substantially increase the number of signatories to it, the ACCC will recommend introducing a mandatory code of conduct. Australian Grape & Wine and the vast majority of participants in the Australian wine sector steadfastly oppose a mandatory code, which we fear would impose unnecessary costs and administrative requirements on grape growing and winemaking businesses, with no foreseeable benefit.

Australian Grape & Wine's submission in response to the ACCC's Interim Report into the sector can be found [here](#).

### **Wine Equalisation Tax (WET)**

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

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

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

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

The Government's reforms to the WET rebate of 2017 are already achieving their objectives. The WET rebate is now working in a more efficient and fair way, with many of the problems of recent years having been addressed. Furthermore, the Government's Mid-Year Economic and Fiscal Outlook for 2019-20 shows tax receipts from the WET increasing over the forward estimates. Actual WET receipts in 2018-19 were \$982 million, are forecast to be \$1090 million in 2019-20 and increasing by around 4% per annum over the forward estimates.

Australian Grape & Wine calls on the Government to recognise the benefits provided to the Australian community from wine taxes and the burden it places on the sector.

### **Wine Tourism and Cellar Door Grant**

In recognition of the value of wine tourism to rural and regional Australia, the Australian Government instituted the Wine Tourism Cellar Door Grant (the Cellar Door Grant), funded by the savings accrued following the Wine Equalisation Tax (WET) Rebate reforms legislated in 2017. Under the guidelines of the Cellar Door Grant, Wine producers who met the eligibility criteria in the preceding financial year could access an annual grant of up to \$100,000 (GST exclusive) for their eligible rebateable domestic cellar door sales. Total funding under the program was capped at \$10 million each financial year.

The Cellar Door Grant closed on 30 September 2019. The grants were significantly oversubscribed and the \$10 million pool was exceeded by around \$5 million. This meant that each applicant only received around 66% of the requested grant amount, creating significant cash-flow and revenue issues for producers. In some regions, there are a number of small producers who have been affected by the proportional payments because they operate significant wine tourism facilities. Consequently, the real and measurable benefits from this very good program have not been fully met. In order to maximise the economic benefits, maximise the flow-on effects to regional economies and create more jobs in the regions, we believe that the pool needs to be increased.

A further issue identified from some grant recipients was that as currently structured in the Cellar Door Grant guidelines, payment to recipients will occur up to 18 months after the sale on which WET has been paid for calculation of the grant. This imposes a significant cash flow impost on businesses. Given this, we believe that future grant allocations should be payable on an interim basis, where possible.

Two further issues were raised following on from the Wine Equalisation Tax (WET) Rebate reforms legislated in 2017. The prime issue identified was the requirement to demonstrate that at the conclusion of the wine-making process, 85 per cent of the wine that is in its final form as packaged branded product, fit for retail sale, was produced from the source product (or a product made from the source product), owned by the producer before the wine-making process commenced (excluding crushing).

It was identified that this could have an impact on winemakers' flexibility for blending where blends were being made to comply with WET rebate eligibility. This also created potential supply issues that could arise due to adverse weather conditions, such as drought, bushfires or frost affecting grape production.

The other issue involved the single quote system under the WET. This system has had significant impact on winemakers who use distributors and their ability to obtain the WET Rebate. We note that any solution would have to retain the integrity of the system and that the WET Rebate changes had limited the porting of the WET Rebate.

#### **Investment Recommendation 2:**

**That the pool for the Wine Tourism and Cellar Door Grant be extended to \$20 million per annum.**

#### **Policy Recommendation 9:**

**That the Australian Government work with Australian Grape & Wine to address unintended consequences arising from changes to the WET reforms of 2017.**

### **Alcohol and Health**

Dealing with alcohol related harms is a critical issue for the Australian Grape & Wine Sector. While we are proud producers of a product that provides pleasure to many consumers, and economic and social benefits to rural and regional Australia, we also acknowledge that the misuse alcohol can cause serious social and health problems. This needs to be addressed through targeted programs, and in a spirit of collaboration between governments, industry and health professionals.

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

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

The National Alcohol Strategy backs this up:

*Australia's overall consumption of alcohol (on a per capita basis) and the percentage of people reporting abstinence from alcohol has either declined or remained relatively stable between 2009 and 2018. In addition, significant improvements have been observed in abstinence over the same period among younger Australians.*

*Per capita data shows that in Australia 9.51 litres of pure alcohol were consumed for each person aged 15 years and over in 2017–18. This is equivalent to an average of 2.08 standard drinks per day per person. While Australia does not have the highest alcohol consumption per capita in the WHO regions, research has shown that a large proportion of Australians are concerned about alcohol.*

*Almost 80% of adults report having consumed alcohol at some point over their lifetime and 77% consumed at least some alcohol in the previous 12 months.*

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

A strength of Australia's approach to reducing alcohol-related harm, has been the strong and enduring partnerships developed between governments, non-government organisations, and industry and community groups. Australian Grape & Wine is committed to working to achieve a safe drinking culture in Australia, but we need to have a seat at the table when policies are being designed to achieve this. We are keen to work with the federal, state and territory governments, and other members of the alcohol beverage industry, to design targeted, evidence-based policies that help reduce the level of dangerous drinking.

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

### **Fetal Alcohol Syndrome Disorder (FASD)**

FASD is a serious issue that requires targeted action from governments and alcohol beverage producers. Australian Grape & Wine firmly believes that it is the obligation of governments to develop policies relating to alcohol and health that are targeted, evidence-based, and effective. Responding to issues relating to FASD, which are unequivocally associated with the consumption of alcohol, presents an opportunity for the Government to do just that. However, we also believe that governments should seek to meet health objectives at the lowest possible cost to Australian businesses and consumers, and to consider a range of best-practice alternatives before settling on a way forward. It is also clear that the alcohol beverage industry has a responsibility to work with our customers and governments, to develop solutions to issues related to the misuse of alcohol.

Australian Grape & Wine has encouraged all Australian wine businesses to incorporate voluntary pregnancy warning labels on their products since 2012, and we also support the Ministerial Forum on Food Regulation's decision of October 2018 to mandate pregnancy warning labels on all alcohol beverages. However, as we highlighted in our [submission](#) to the Food Standards Australia New Zealand managed consultation process, we have serious concerns about the potential for regulatory overreach, and the unnecessary imposition of costs on Australian wine businesses.

We are also working closely with DrinkWise Australia to promote messages relating to drinking during pregnancy, and broader messages of safe and responsible drinking, across the hundreds of cellar doors in Australia. These materials are designed to engage cellar door visitors so that they understand the risks associated with drinking during pregnancy, and to allow those who are not pregnant, breastfeeding, or planning a pregnancy to drink responsibly. Australian Grape & Wine is proud to be collaborating with DrinkWise Australia on this initiative, and we are confident the materials are gaining traction with those people making up the 8.4 million visits to Australian wineries in 2018-19<sup>12</sup>.

We also wish to highlight the industry's direct investments in combating FASD in Australia. The National Wine Foundation (NWF) was established in 2001 as a joint initiative of the then Winemakers' Federation of Australia (WFA) and the [National Wine Centre](#) of Australia, to commemorate the Centenary of Federation. It is funded by proceeds from the production and sale of a red wine blended from the 1999 vintage, comprised of grapes sourced from all of Australia's States and Territories. Australian Grape & Wine manages the fund and invests the interest in innovative and effective programs aimed at promoting moderation and responsible consumption.

Recognising that FASD is a critical problem in need of targeted action, in 2017-18, the National Wine Foundation Inc (NWF) committed to investing up to \$400,000 to DrinkWise Australia to undertake a Fetal Alcohol Spectrum Disorder (FASD) awareness program. In addition to DrinkWise Australia, other investors include Lion, CUB, Coca Cola Amatil, Coopers and the Australian Government. The DrinkWise Australia FASD Awareness Program is comprised of a suite of targeted awareness measures, and is supported by the Australian wine sector and the Australian Government through the Department of Health.

The program educates consumers about the risks of FASD from drinking while pregnant, including through pregnancy magazine advertising, information on parenting websites and FASD educational videos and resources in medical clinics across Australia. Through these initiatives, the national program is strengthening awareness amongst Australians of FASD and the importance of not drinking while pregnant, planning a pregnancy or breastfeeding. Extended versions of the educational videos can also be seeded into school curriculums, providing the valuable opportunity for early intervention awareness measures, and the opportunity for generational (attitudinal and behavioural) change.

While there is a long way to go until FASD is eradicated in Australia, we are pleased to support the kinds of targeted, evidence-based initiatives being rolled-out by DrinkWise Australia and encourage the Australian Government to invest in similar targeted approaches in the future as it grapples with this problem.

**Policy Recommendation 10:** **Ensure the wine industry has a seat at the table when designing policies relating to alcohol and health, and that health policies are evidence-based, targeted and address harmful drinking.**

### **Pregnancy Labelling**

Australian Grape & Wine supports the Ministerial Forum on Food Regulation's (the Ministerial Forum) decision of October 2018 to mandate a pregnancy warning label on all alcohol beverage products, but is deeply concerned

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<sup>12</sup> <https://www.wineaustralia.com/market-insights/australian-wine-tourism-snapshot>

by the approach Food Standards Australia New Zealand has taken to date in designing the prototype label. We understand the seriousness of Fetal Alcohol Spectrum Disorder (FASD) and commend the Australian Government's focus on combating (FASD) in this context, and through other measures.

We continue to encourage all Australian wine businesses to incorporate voluntary pregnancy warning labels on their products and have done so since 2012. We have also worked through the National Wine Foundation to provide \$400,000 to support the DrinkWise Australia FASD Awareness Program. Comprised of a suite of targeted awareness measures, and supported by the Australian Government through the Department of Health this program is demonstrating clear progress in combatting FASD in the community.

Australian Grape & Wine is firmly committed to assisting the Ministerial Forum to consider a warning label that meets its requirements and is in line with community expectations about the need to reduce, and ultimately eliminate, instances of FASD in Australia. As per our engagement on all issues relating to health and alcohol, Australian Grape & Wine firmly believes that it is the obligation of governments to develop policies that are targeted, evidence-based, and effective. Responding to issues relating to FASD, which are unequivocally associated with the consumption of alcohol, presents an opportunity for the government to do just that.

However, such policies should seek to meet these objectives at the lowest possible cost to Australian businesses and consumers. We also accept our responsibility to work with government to help develop solutions to issues related to the misuse of alcohol.

Australian Grape & Wine is also a strong supporter of Food Standards Australia and New Zealand (FSANZ) standards development, which contributes so strongly to providing a regulatory system that provides consumers with confidence about the safety of the food they consume. The independence and evidence based standard setting that FSANZ undertakes is vital to preserving confidence in the system and in meeting our national and international obligations.

We are deeply concerned about FSANZ's approach to developing its proposed pregnancy warning label. On-balance, we don't believe that the draft warning label proposed by FSANZ meets the principles and objectives outlined above and brings into question the evidence based standard setting system. For example, during the consultation phase it was clear that:

- FSANZ has exceeded the mandate provided to it by the Ministerial Forum, by producing a prototype label that issues a general "Health Warning", as opposed to the pregnancy warning requested by Ministers.
- There is insufficient evidence to support the argument that the benefits derived from mandating use of the colour red on labels will outweigh the significant costs to wine businesses
- The rationale for mandating a larger warning, compared to the size of the current voluntary scheme, is not supported by sound evidence, and
- That the design is at odds with the current requirements for warning statements found in the Food Standards Code.

We also argue that the consumer testing and literature review undertaken by FSANZ during this extremely rapid process is flawed. These flaws undermine the evidentiary underpinnings of the draft warning statement, and potentially discredit FSANZ's long-held strong reputation as an independent, science-based administrator of food standards in Australia and New Zealand.

There is a strong case for Ministers to consider a warning label that is as similar in size, colour and design to the existing voluntary labels. These are widely adopted by wine businesses, and have a strong level of recognition and comprehension by Australian consumers. A warning similar in nature to the current voluntary arrangements, and accompanied by a suite of targeted awareness raising materials and public campaigns, would achieve an outcome

the Ministerial Forum will consider to be effective and in-line with its request, but at far less cost to Australian wine businesses when compared to what has been proposed by FSANZ.

**Policy Recommendation 11:** **That the Ministerial Forum on Food Regulation agree to a mandatory pregnancy warning label that is as similar as possible in terms of size, colour and design, to the existing voluntary pregnancy warning labels on alcohol beverages.**

## Energy Labelling

In 2009, the Ministerial Forum on Food Regulation (the Forum) agreed to a comprehensive independent review of food labelling law and policy. An expert panel, chaired by Dr Neal Blewett AC, undertook the review and the panel's final report, Labelling Logic: Review of Food Labelling Law and Policy (Labelling Logic) was publically released in January 2011. Australian Grape & Wine along with Alcohol Beverages Australia members provided a joint submission to the review in September 2011.

The outcome of this process was the delivery of a report outlining over 60 recommendations across all food categories. Recommendation 26 of labelling logic states: *"That energy content be displayed on the labels of all alcoholic beverages, consistent with the requirements for other food products."*

The Forum supported this recommendation in principle, however noted that it would request FSANZ to undertake further research, including consultation with industry, and complete a cost-benefit analysis to assess the full impact of implementing this recommendation. The Forum would then consider the advice provided by FSANZ before a further decisions were made.

The Forum is supported by the Food Regulation Standing Committee (FRSC), a sub-committee that provides policy advice to the Forum. In June 2017, Winemakers' Federation of Australia (now Australian Grape & Wine) participated in a targeted industry consultation session run by FRSC on nutritional labelling for alcoholic beverages. FRSC also provided a consultation paper for comment by 11 August 2017. Australian Grape and Wines response to this paper can be viewed online [here](#).

We understand that a decision was made by government to place this process on hold while the forum, FSANZ and FRSC focuses attention on pregnancy warning review instead. With pregnancy warning work now almost complete and expected to be confirmed by the Forum in 2020, we are aware that there may be intentions for the government to revise this work on nutritional labelling for alcoholic beverages in 2020.

As is outlined in our original 2017 submission, Australian Grape & Wine does not support allocation of government resources to address a "problem" which is unclearly defined, lacking genuine drivers and implying solutions which are outdated or irrelevant to modern consumers.

There is a lack of evidence that nutritional labelling of alcohol would have any impact on changing behaviour (in regard to obesity/weight management issues) and although we support informing consumers and transparency there are currently more effective and dynamic technologies available to inform consumers, than were available in 2009.

We strongly caution the Australian Government on progressing this recommendation without greater consideration of the true driver for this requirement and the potential costs including complexity of implementing between sectors, trade implications, and the host of technical issues associated with acceptable calculation methods and consumer confusion.

**Policy Recommendation 12:** **The Australian Government considers alternative ways to provide information about energy content to consumers.**

## National Alcohol Strategy

Australian Grape & Wine welcomed the release of the National Alcohol Strategy 2019-2028 (NAS) on 2 December 2019. As the strategy makes clear, the Australian Government's statistics indicate that rates of harmful drinking have decreased in recent years, while rates of abstinence and moderate consumption have increased. However, there is more work to do.

Australian Grape & Wine looks forward to working with the Australian Government, and state and territory governments to implement aspects of the NAS. However, we believe that given the vast majority of people enjoy wine responsibly, governments across Australia should strive to work with industry, public health professionals and community groups to address harmful drinking behavior as a priority. Evidence-based, targeted and practical approaches to dealing with dangerous drinking can lead to meaningful change, but no single group can do it alone. A problem like this requires a holistic and collaborative response.

On balance, we believe the NAS is a fair and reasonable document, presenting ideas for jurisdictions to pursue as they design alcohol and health policies. However, we firmly oppose the introduction of Minimum Unit Pricing (MUP), as it is not a proven mechanism to address dangerous drinking in any meaningful way. Indeed early indications from Scotland's experience with MUP suggest perverse outcomes flowed from its introduction, including an increase the level of alcohol related deaths. We also note that the Northern Territory is measuring the impact of its MUP arrangements, and we look forward to analyzing this data in due course.

**Policy Recommendation 13: That governments do not introduce Minimum Unit Pricing Arrangements.**

## Biosecurity

Australia has some of the oldest grapevines in the world, with no other country possessing so many surviving 19th century vineyards. The absence of many serious pests and diseases is to thank for this. As a result of these historic vineyards, we possess highly-sought-after genetic diversity in our potential planting material. Genetic diversity offers opportunities for future clonal selection to target quality attributes or resilience to climate change. Low pest and disease pressure also decreases agrochemical spray requirements, which in-turn contributes to our clean and green image, and significantly reduces in input costs. These unique benefits provide Australian wine a significant advantage in a highly competitive global market. But pests and diseases pose a constant threat.

We are proud of Australia's biosecurity history and the fact that our tight quarantine measures have protected our sector thus far. However, we hold grave concerns that we will no longer be able to say this in another few years. Our Minister for Agriculture, Bridget McKenzie (2019) said herself that "Biosecurity risks will only increase with the volume of cargo entering Australia expected to double between 2015 and 2030"<sup>13</sup> and that "The biosecurity threats that our country is facing are real and could be devastating for all Australians".<sup>14</sup> Australia's vineyards and the regional communities they support are dangerously vulnerable. The arrival of a serious pest or disease could leave us in serious trouble. For example, the economic impact of a *Xylella* incursion on the Australian grape and winemaking industries could be over \$7.9 billion.<sup>15</sup>

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<sup>13</sup> <https://minister.agriculture.gov.au/mckenzie/media-releases/another-dimension-bio-system>

<sup>14</sup> <https://minister.agriculture.gov.au/mckenzie/media-releases/first-visa-cancellation>

<sup>15</sup> ABARES (2017) maximum cost calculated as net present value of lost gross margins and replanting costs over a 50 year time frame assuming all vineyard proved susceptible sourced from [http://data.daff.gov.au/data/warehouse/9aab/2017/EcolImpactsXylella/EcolImpactsXylellaFastidiosa\\_20171123\\_v1.0.0.pdf](http://data.daff.gov.au/data/warehouse/9aab/2017/EcolImpactsXylella/EcolImpactsXylellaFastidiosa_20171123_v1.0.0.pdf)

We note the Government's planned commitment to biosecurity, and to implementing measures to safeguard Australia from pests and diseases now and into the future. We would like to thank the Australian Government for their recent efforts including:

- the investment by Wine Australia and Hort Innovation in the National Xylella Co-ordinator position;
- investment in 3D x-ray unit at Melbourne Airport to protect and grow our industries from passengers bringing pests and diseases; and
- the intention to impose a biosecurity imports levy.

Notwithstanding these efforts, biosecurity remains dramatically underfunded and we ask that the Government consider increasing both their investment in national border protection, to improve transparency around biosecurity breaches and to provide greater support for onshore biosecurity in support of industry-led biosecurity programs.

Maintaining the status quo in terms of our biosecurity effort will not result in maintaining the status quo in terms of risk. Effective biosecurity relies on the engagement of all participants, as the scale of the problem will be driven by the weakest link in the chain. Industry-led schemes provide for the greatest level of industry engagement at the same time as providing effective mechanisms for peer to peer behavioral change. Through the work of various State agencies, Vinehealth Australia and Australian Grape & Wine, grape and wine producers are becoming more and more aware of the need to enhance biosecurity preparedness, surveillances and on-farm measures. However, factors such as increased use of contractors across multiple sites, lower levels of engagement due to aging workforce and increased international or off-farm ownership of land and increased wine tourism are adding to the challenge.

While we work hard to promote the need to improve our practices, we also face levy-fatigue amongst grape and wine producers. It calls for peer pressure amongst industry participants to see biosecurity as integral rather than optional, in the same way that we have seen a movement towards safer work places and a greater appreciation of our environment. Yet the recent charges imposed on a horticulturalist for aggravated illegal importation of plant material stand as testament to the lack of understanding of biosecurity risk. It is clear that across much of agriculture we lack the foundations and the capacity required to implement better biosecurity systems.

**Policy Recommendation 14:** **That the Australian Government recognises the need to improve biosecurity preparedness and practices within agricultural sectors through the provision of grants for industry groups to build capacity and raise awareness.**

### *Surveillance and data management*

The grape and wine sector has identified a critical gap in its current traceability, surveillance and early detection capability, impeded by the way we currently manage information. Vinehealth Australia has scoped out a Digital Biosecurity Platform that seeks to effectively safeguard Australia's grape and wine industries into the future. The modern database and interface tools will provide multiple ways for all stakeholders – Australian Grape & Wine, Vinehealth Australia, State Biosecurity agencies, growers, wineries, nurseries, suppliers, individuals, government and research partners – to produce and consume data, and share and generate knowledge. This proposed platform is an example of our sector showing preparedness to build capacity through shared responsibility.

Funds invested in areas of data management and surveillance would provide a lasting legacy to assist with early detection of incursions through trace-back capability, thereby optimising our chance to contain or eradicate an emergency pest. With the current systems being outdated, inflexible, not scalable nor fit for purpose, grape and wine producers would embrace the benefits and opportunities that the proposed platform could provide. The

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

The platform will harness the capability of modern technology to seamlessly integrate all elements of the plant biosecurity system – preparedness, prevention, response and recovery. Individual growers will also access significant added value through the ability to use, manage and exchange information in a secure way. The platform will make it easier for growers to store and manage their geospatial data, and share it with neighbours and contractors. It will also facilitate community engagement through researcher and citizen science tools, allowing the tagging of vines with important data, and the expedient identification of biosecurity risks.

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

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

**Investment Recommendation 3:**                      **That the Government allocate \$850,000 to support the development of a Digital Biosecurity Platform to safeguard Australia's wine sector and associated businesses.**

### ***At the border***

The Department of Agriculture has acknowledged the fact that even a tripling of investment in interventions at the border would not be sufficient to keep biosecurity risk at 2014-15 levels.<sup>16</sup> It is clear that we need to be smarter with our resources and to seek ways to more cost effectively reduce the risk through research and innovation and greater intelligence regarding emerging risks and pathways. We know that investing early on the continuum is where the greatest returns on investment are likely to be achieved. While we seek more cost – effective solutions to reducing risk, there is an immediate need for an increase in resourcing at the border, better training of Border Control staff and tighter controls. This should be addressed as a matter of urgency.

Funding mechanisms should take consideration of equity – we must seek to find market based solutions that internalise the negative externalities that biosecurity risk creators impose on agriculture and on the public. For example, the Government must hasten its efforts to resolve the current opposition to the imports levy from bulk cargo and shippers as the issue is becoming increasingly urgent. Revenue from the levy, should be hypothecated to enhancing national activities across Australia's biosecurity system. Hypothecating funds collected on container imports through the Biosecurity Imports Levy would ensure that there is ongoing resources available for protecting our significant agricultural economic assets, including grapevines.

Furthermore, grape and wine producers and agriculture sectors more broadly are calling for greater transparency in terms of interceptions at the border.

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<sup>16</sup> Craik *et al* (2017) Priorities for Australia's biosecurity system An Independent review of the capacity of the national biosecurity system and its underpinning Intergovernmental Agreement sourced from <http://www.agriculture.gov.au/SiteCollectionDocuments/biosecurity/partnerships/nbc/priorities-for-aus-bio-system.pdf> (p 18)

**Policy Recommendation 15:**

**The Australian Government tightens Australia's border controls to reduce pest and disease entry risk through increasing resourcing at the border, hypothecating funds collected through the Biosecurity Import Levy for biosecurity; and providing information to the agriculture sector regarding border breaches in order to improve understanding of the risk.**

***Wine Tourism Biosecurity Program***

A key aim of the Australian Government's \$50 million package is to showcase the nation's wine tourism offering. Increasing wine tourism to regional Australia brings significant opportunities for the wine sector, but also brings significant biosecurity risks. Movement of tourists between countries, states and regions, creates opportunities for the movement of phylloxera and other exotic pests and diseases which would devastate the health of our vines. Therefore, given activities funded by the \$50 million Package will inherently increase the biosecurity risk to vineyards across Australia, there is a natural expectation that a program be funded and delivered in conjunction, that mitigates this enhanced biosecurity risk posed by increased wine tourism.

We believe this creates an opportunity to deliver a *Wine Tourism Biosecurity Program* over 36 months consisting of the following key elements:

1. A national training program for cellar door and visitor centre staff to educate tourism staff about their role in keeping vineyards safe from significant pests and diseases. This program would leverage collateral and learnings from Vinehealth Australia's \$150,000 investment in the recent Responsible Visitation Campaign delivered in South Australia. This training program would also be extended to local councils, wine tourism operators and event organisers in wine regions. The development of an online training module in parallel, will ensure continuation of the program post-2020 and provide participating businesses the ability to upskill new staff in a timely manner. Opportunities to incorporate wine tourism biosecurity training as part of other current or proposed training for this target audience should be leveraged.
2. Develop consumer-facing biosecurity signage for cellar doors and visitor centres.
3. Establish a number of cellar door sites across the country showcasing lead biosecurity practice for wine tourism. These sites will act as models for their region as to how to successfully integrate biosecurity messaging and principles whilst enhancing the tourist experience.
4. A biosecurity awareness campaign to educate tourists on their role in protecting the health of vineyards. This would involve the development of a suite of key messages, content and a set of operating principles for integration into campaigns and activities funded by the \$50 million package, and will be made available for regional and state wine industry associations and other bodies to utilise as part of regional or event collateral. Integration into existing activities will yield greater impact at a lower cost than a standalone biosecurity awareness campaign, but is dependent on acceptance by recipients of funds from the \$50 million package. Additionally, adoption of the operating principles, biosecurity messaging and content by Tourism Australia and State tourism authorities is essential.

**The benefits**

- Protects our most important asset, our vines, and the brands built around these vines.
- Enhances Australia's enviable reputation for quality wines from a clean, green environment.
- Consistent messaging and actions used by tourism-facing operations will promote the Australian wine industry's strong and united commitment to biosecurity.
- Ensures protection against biosecurity risks thus enabling the wine sector to meet export demand (both in terms of quality and quantity) and capitalise on the momentum and enthusiasm for Australian wine and the window of opportunity that recent Free Trade Agreements and the \$50m Package have and will create for export growth.

**Investment Recommendation 4: That the Government allocate \$580,000 over three years to implement a wine tourism biosecurity program.**

***Preserving and protecting the sector's germplasm resources***

Maintaining the supply of genetically diverse and high health planting material is a critically important resource for the long-term sustainability of Australian viticulture. National vine improvement activities need to be centrally coordinated with responsibility for establishing and monitoring standards, protocols, compliance and the provision of policy and technical advice to industry and government. Grapevine germplasm collections are a critically important resource for the Australian grape industries. The CSIRO and SARDI collections are the largest and most important of the collections operated and controlled by government agencies in Australia. These collections should serve a dual purpose, namely a resource for (1) research and (2) for industry. A number of state and regional Vine Improvement Groups and Associations were formed during the second half of the 1990s, in many cases with links to the state agency grapevine germplasm collections. The Vine Improvement Groups and Associations were active in establishing mothervine plantings, especially of the higher demand varieties and clones, and thus became the main suppliers to industry of grapevine propagation material. A further step in the evolution of Australian grapevine variety collections occurred when the Australian Vine Improvement Association (AVIA) and South Australian Vine Improvement Incorporated (SAVI) established 'high health' collections of grapevine varieties that had been screened for viral diseases using biological indexation, including testing for specific viral agents using the Polymerase Chain Reaction (PCR) technique.

Significant change, not least the advent of objective procedures based on DNA profiling for variety identification, the issue of costs, risks, liabilities and responsibilities associated with managing such collections and increasingly, a tightened focus by government research agencies on core strengths and business, has led to a re-think on the future of dual purpose grapevine collections in Australia. Similarly, lack of industry plantings has led to pressure on Vine Improvement Associations to be able to maintain their collections.

There is merit in bringing the collections under a single management umbrella, as they currently exist with a view to considering a consolidated form in the long-term future in order to create an 'Australian' grapevine germplasm collection. This collection would be unique and distinguished from other collections in that it would move towards being a verified collection with respect to varietal identity. Advanced DNA typing methodology in the form of SNPs markers would be employed in the verification process. Such a collection would likely result in requests for inclusion of varieties currently not held in the CSIRO or SARDI collections to be verified and included in the 'Australian' collection, which would provide a foundation to support label integrity programs

An 'Australian' collection as described would be of mixed health status, with only those accessions testing 'free' of viral agents in the year of request being available. The high health collections of AVIA and SAVI meet a specific industry need for material that has tested 'free' of the major viral agents.

It is proposed that a curator, accountable to the industry, be appointed to manage the 'Australian' collection. In addition we would recommend the establishment of a steering committee of key stakeholders including Australian Grape & Wine, SARDI, CSIRO, and the relevant Vine improvement groups and associations be established to guide provide oversight over the curators management of the collection.

The initial short-term costs of establishment and running the 'Australian' collection under the curator, are estimated at around \$150k per annum and initial operational funds of \$500K for virus testing and varietal verification work. It is recommended that revenue received by provision of services through the curator would over time partially offset the costs of maintaining the collection once established. It is also recommended that the current AVIA collection of high health status material be maintained in conjunction with these two collections.

DNA typed high health status material released from the Australian germplasm collection would be automatically duplicated in the high health status node.

In order to establish such a system, we are seeking seed funding from the government of \$500k and ongoing annual running costs of \$150K. Future investment would also be required over the longer term if a physically consolidated Australian collection were to be developed. This will provide industry with validated varietal material of known health status and which could become a focal point for international research cooperation.

**Investment Recommendation 5: That the Australian Government allocate \$500,000 plus \$150,000 per annum to implement a national grapevine germplasm collection.**

## Waste

The Australian grape and wine sector should take advantage of all opportunities to utilise materials and resources in such a way that waste is minimised. It is vital that industry's waste management practices are continually improved across the sector, primarily to reduce the impact on landfills and the financial cost associated with creating waste and removing it from the property/facility.

The waste management hierarchy of - avoid, reduce, reuse, recycle and recover – is supported and should be applied in all businesses' approach to managing waste.

Australian Grape & Wine supports:

1. An enhanced wine industry understanding of the waste management hierarchy in wine businesses and the continuous improvement of waste management practices.
2. Government and industry investment in improved transport, facilities and services for waste, which reduce cost and improve its management.
3. Industry giving consideration to using materials, such as packaging, which lessen the impact on the environment such as those which are reusable, recyclable or biodegradable, and
4. Nationally consistent waste management policies which reduce impact on the environment but do not impose unnecessary regulatory burden and/or cost on wine businesses.

## Container Deposit Schemes

Container deposit schemes (CDS) are currently in place in South Australia, the Northern Territory, New South Wales, the ACT and Queensland, with Western Australia soon to introduce its own scheme in 2020 and Tasmania by 2022. South Australia is currently reviewing its CDS.

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

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

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<sup>17</sup> National Littler Index 2015-16: Keep Australia Beautiful National Association, November 2016.

In terms of costs, if a state or territory included wine bottles as part of their CDS, winemakers would bear the direct cost of the 10 cent refund on each unit sold. In the concentrated retail market where margins are already thin, it would be impossible to pass this cost onto consumers. In addition, the costs of changing labels and the administrative costs associated with complying with legislative requirements would be unreasonably burdensome, particularly given wine and spirits bottles make up a negligible fraction of the public litter stream. Conservative industry estimates put the additional cost at 5 cents per bottle meaning a conservative cost per bottle of 15 cents for the wine businesses.

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

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

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

If governments wish to change the scope of CDS's to focus on increasing the amount of recyclable glass, they should carefully consider the costs and benefits of a variety of approaches, rather than immediately jumping to a CDS as the solution. For example, the introduction of recycling bins purely for glass could encourage a higher level of recycling of wine bottles at home and in restaurants, where they are consumed. This would also facilitate less contamination of glass from other recyclable materials like cardboard. The South Australian Wine Industry Association is currently reviewing the effectiveness of a range of global packaging stewardship programs related to glass containers and these outcomes should be carefully considered. We support further work into understanding the material flows and establishing efficient and cost effective mechanism, which address the problem.

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

**Policy Recommendation 16:**

**That Australian Governments do not include wine bottles in existing or future CDS arrangements.**

**Policy Recommendation 17:**

**That the Australian Government works in collaboration with the grape and wine industry to establish effective, nationally consistent waste management policies that do not impose any unnecessary regulatory burden and/or cost on wine businesses.**

## Food Standards Code

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

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

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

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

**Policy Recommendation 18: Remove the cost to business of obtaining interpretations of the Food Standards Code.**

## FSANZ and Food Regulation Standing Committee

The Food Regulation Standing Committee (FRSC) is the sub-committee of the Australia and New Zealand Ministerial Forum on Food Regulation. The FRSC is responsible for coordinating policy advice to the Forum and ensuring a nationally consistent approach to the implementation and enforcement of food standards. FSANZ is the federal statutory authority that develops food standards for Australia and New Zealand.

Australia has seen a rise of development and implementation of populist based policy in recent years. It is vital that a federal authority like FSANZ and FRSC, which are tasked with development of food standards and food policy advice for Australia does not succumb to this and is grounded in science.

It is vital that development of standards and food regulation or policy is grounded in science and evidence based. Evidence should also be open to rigorous public and professional debate. As well as validating evidence, transparency is important to provide governments the ability to gauge public or sector reaction to ideas before they are fully formed and provide opportunity to better anticipate the politics of pursuing different courses of action.

Australian Grape & Wine will continue to work with FSANZ and FRSC to encourage work on standards or food regulation for wine which is effective, transparent, rigorous and evidence based.

## Responsible Service of Alcohol (RSA)

States and Territories across Australia require employees associated with the selling of alcohol to hold Responsible Service of Alcohol (RSA) certification. Despite the widespread application of the national competency *Provide Responsible Service of Alcohol* in all jurisdictions, a certificate achieved in one jurisdiction is not easily or

fully recognised in all others. For example, New South Wales and Victorian Governments require additional study and/or costs before recognising interstate certifications. This has a significant impact on the wine industry, especially when small businesses regularly undertake tastings in other states and territories for a short period, and are required to fully comply with RSA state requirements.

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

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

Short-term, automatic recognition of RSA certificates limited to tasting events is critical to the wine industry in diversifying markets, and will not undermine any jurisdictional integrity. Given consistency in national competencies, and common policy agreement under the Tourism 2020 Strategy, this should be achievable immediately. We also note and welcome the recommendation in the National Alcohol Strategy 2019-2028 for the National standardisation of Responsible Service of Alcohol requirements. Australian Grape & Wine will continue to seek this practical solution to an unnecessary and costly red-tape restriction.

**Policy Recommendation 19:**                      **Work with State and Territory Governments to immediately recognise interstate RSA certifications for the purpose of carrying out tastings, with a view to quickly agreeing national RSA certification arrangements.**

## **Research and Development (R&D) Funding**

Innovation underpins the success of Australia's agricultural sector; improving the productivity, quality and sustainability of agricultural products. Australia's grape and wine sector has benefited enormously from research and innovation and strong industry leadership over recent decades, driving improvements in quality, consistency and efficiency and enabling Australian wine to be considered as truly world class. However, like other agricultural industries, it is clear that without further innovation, the sector will stagnate. It is critical that every dollar invested in innovation extracts the maximum possible value for Australian grape and wine businesses.

Efficiency in the funding and provision of research is essential to ensuring that scarce resources are not competed away in the scramble for funding. It is important to ensure that the structures in place to initiate, fund, undertake and provide extension of R&D, maintain capacity and capability by state and federal providers/funders, minimise duplication and maximise efficiency in research and delivery.

Innovation continues to be a major focus for the Australian grape and wine sector, with investments by both the industry in the form of levies, and the Australian Government, which matches these industry contributions up to a maximum of 0.5% Gross Value of Production, flowing to Wine Australia, the Rural Research and Development Corporation (RRDC) legislated to fund R&D investments across the sector. This commitment to the RRDC funding model recognises the significant market failure typical in rural industries. We continue to support investment in R&D through an industry levy matched by the government, with a cap on matching contributions for all statutory levies no less than 0.5 per cent, managed on behalf of industry by Wine Australia. The RDC model has been critical to the success of the Australian wine sector. We are delighted that we have strong government support for matching levies as this will underpin our ambitious growth targets. Without this, market failure will result in a poorly targeted and weaker innovation in the Agriculture sector.

In the grape and wine sector the relationship between the Representative Organisation and Wine Australia is effective. A case in point is the development of a national sector vision for the industry, which will focus the R&D, marketing and other activities to achieve a strong and sustainable sector. Australian Grape & Wine believes, that while the current RDC system is working, there are opportunities to improve it and better enable the system to help all agricultural industries deliver on their ambitious growth targets. Particular areas of improvement include strengthening the Representative Organisation/s; incorporating a direct governance model of the RRDC with government and the Representative Organisation/s; greater sector involvement in R&D priority setting; and improving collaborative research across sectors and internationally.

Each industry Representative Organisation and RRDC is different. It is important to note that one solution does not fit all industries. They have different structures, different cultures and different relationships. One of the benefits of commodity-based structures is that these differences can be acknowledged and integrated into the way an RDC operates. This creates a clear strength – the ability to focus R&D (and Marketing) on a particular industry.

However, this structural silo also creates an in-built weakness – focusing on the known R&D priorities of an industry to the exclusion of opportunities that come from looking outside this lens to other sectors, countries and fields of research. The Representative Organisations want the RRDC and the agri-innovation system to modernise but want to do so by maintaining consistency across the system with flexibility that enables each industry to operate in a way that is best for the industry and its levy payers.

Modernising the RRDCs will stop inertia, encourage agility, broaden their scope and improve focus across a range of issues of importance to Australian agriculture and not just on a commodity specific basis.

For the wine sector, the RRDC needs to deliver the services to the industry at the same time as meeting the regulatory needs of Government. Combined with a strong representative body this will:

- create a simplified national delivery agency for the Australian wine industry
- maintain the regulatory and government-to-government activity
- better align research and marketing strategies and maximise efficiency in delivery against these strategies with scarce resources
- provide the ability for a better-informed policy debate in areas such as health, education and environment
- realise economies through common management and financial reporting, corporate support, systems and procedures
- encourage collaborative R&D and extension, and
- enable better policy formulation and delivery.

For the grape and wine sector, we would like to gauge the government's appetite to develop a service delivery body with strong governance to both the government and a strong, well-funded Representative Organisation. It is time for a mature conversation. Such a model would allow the use of mandatory levy funds for at least some policy activities, stronger industry relationships and governance of marketing and R&D activities, and more efficient management and preserve an independent advocacy body.

## Environment and sustainability

Australian Grape & Wine places a high value on promoting the benefits of sustainability across the wine sector. Together with the Australian Wine Research Institute and Wine Australia, we supported the launch of the sector's national sustainability program *Sustainable Winegrowing Australia* earlier this year. The program will provide a platform for improving our social and environmental credentials, for raising awareness as to where the priorities

lie, for development of regional networks for benchmarking performance and for promoting the Australian wine sector as world leaders in sustainability.

Climate change is already impacting the grape and wine community, as evidenced by changes in grape phenology and harvest dates, which has led to compressed harvests and greater pressure on vineyard and winery infrastructure. Vulnerability to the impacts of climate change varies along the value chain, with the vineyard being the most vulnerable. Management strategies to deal with the challenges of short-term climate cycles and long-term climate change in the vineyard are essential for grape growers and winemakers, as the effects of climate change can impact on competitiveness at an individual business level and that of the broader sector. The ability to manage the impact of heatwaves, drought, increased fire risk and salinity to mitigate their effect on grapevine physiology, and grape and wine quality has become an integral part of vineyard management in the Australian grape and wine community. We can and will respond to the impact of climate change by following a strong and climate-adaptive business strategy; monitoring carbon emissions; investing in research, development and extension; and fostering cross-sector partnerships and engagement.

The increasing challenges to grape-growing reflect the vulnerabilities of the entire farming industry. Climate change is already having an impact, not just based on the amount of product that they can grow, but also on the quality of product. While it is encouraging to know solutions are being mapped out, there needs to be a clear national strategy, not just for the wine industry, but for the entire agricultural sector. We do have good solutions in terms of that comprehensive approach but they're not necessarily joined up well at the moment, nor do we have joined up actors, in the sense of connecting the national policy context through to individual action on farm. Adaptation strategies are essential, but we have a responsibility to engage in direct mitigation strategies. If everyone gets in and does their bit, rather than expecting governments to drive change, then change will happen. We need a carbon neutral industry by 2050. Nothing less will satisfy our sector and the planet.

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

The sector acknowledges the implications of climate change on the environment and recognises the need for greater understanding with regard to its management. The industry accepts it makes a relatively minor contribution to greenhouse gas emissions at the domestic and global level. However, despite this, we recognise the need to play a leadership role to adopt better emissions practices. The industry has taken a lead role in climate change management, via the early development of the Australian Wine Industry Carbon Calculator.

The risks of declining biodiversity in Australia are well-documented and the importance of conserving biodiversity has been acknowledged by the Government. With the wine sector being already highly engaged in the benefits of maintaining biodiversity on their land, Australian grape and wine producers are well positioned to participate in the development of pilot program for the commodification of biodiversity for and associated payments for ecosystem services.

**Policy Recommendation 20:**

**The Australian Government to work with the wine industry to consider nationally coordinated policies that encourage and reward positive environmental contributions, including in biodiversity, carbon abatement and using market based instruments.**

## Water

Water is essential to the viability of Australian grape and wine businesses. Despite an average annual rainfall in Australia of around 470mm a year being well below the global average, a relatively recent report stated that Australians are the greatest per capita consumers of water, using an average of 100kL of freshwater per person each year.<sup>18</sup> As the fragile demand supply balance places more and more pressure on water security, Australia's water crisis is likely to present a major problem for the wine sector. We believe that the burden should be shared equitably across all uses, including urban consumption. This will only be achieved through greater investment by Government in improved supply measures including water and wastewater infrastructure, desalination plants and well-designed science based management systems that are resilient against rorting.

A significant majority of Australia's grape and wine producers rely on the health of the River Murray to ensure sustainable water supply for irrigation. As well as the major wine regions along the river in NSW, Victoria and South Australia, other regional grape growing communities use water from the Murray Darling Basin through pipelined supply. The Murray Darling Basin accounts for about 80% of irrigated grape production in Australia with about 60% of grapevine area being in the basin itself.<sup>19</sup>

The wine sector is supportive of equitable and sustainable use of the Murray-Darling Basin and a Basin Plan that supports efficient use. While we support the concept of a 'cap and trade' and the reallocation of the resource to high value users, we are already starting to see the fall out in terms of regional social costs and these must also be considered. The risk that a shift to higher value use is likely to favour mining, manufacturing, and electricity production over agriculture<sup>20</sup> could have a considerable impact on regional communities.

Australian Grape & Wine takes a leadership role in promoting a wine sector committed to water stewardship. Indeed, water use efficiency has been of high priority of our members and to grape growers across Australia. The sector's innovative environmental sustainability program, Sustainable Winegrowing Australia, supports the sector's efforts for continual improvement in water use efficiency and Australia's grape and wine businesses are proud to be amongst the most efficient and effective managers of water in the world. Investment in research and development aimed at reducing irrigation without limiting yield has led to irrigation efficiency strategies such as Regulated Deficit Irrigation, Partial Rootzone Drying and Sub-surface Drip Irrigation. At a certain point, further limitation of water will lead to vine stress that will not only impact on yield and quality but can have a negative effect on subsequent season crops.

Warm inland regions in the basin typically use between 0.1 and 0.5ML per tonne of fruit grown so the impact of water pricing on profitability is profound. With water allocations trading at levels comparable millennium drought, a typical grape producer reliant on allocation trade in the inland regions will be unlikely to turn a profit at current allocation prices. For those owning permanent entitlements, the opportunity cost of irrigating grapes may also be a consideration when making ongoing production decisions. This is a major concern for the future viability of the sector. With 80% of wine being exported as packaged wine,<sup>21</sup> supply interruptions will impose the severe consequences of loss of markets to overseas competitors and erosion of brands built over many years. Any sudden or prolonged increase in water pricing would have the potential to destroy years of hard work in building these export markets.

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<sup>18</sup> <http://www.yourhome.gov.au/water>

<sup>19</sup> <http://www.agriculture.gov.au/abares/research-topics/surveys/irrigation/grapes>

<sup>20</sup> Kiem, A. S (2013) Drought and water policy in Australia: Challenges for the future illustrated by the issues associated with water trading and climate change adaptation in the Murray–Darling Basin Global environmental Change Volume 23, Issue 6, December 2013, Pages 1615-1626

<sup>21</sup> <https://www.wineaustralia.com/news/market-bulletin/issue-140>

Australian Grape & Wine recognises that access to water is subject, not just to water being available, but to the capacity of the system's rivers and channels to deliver. We have heard frequent concerns regarding delivery infrastructure being incapable of guaranteeing supply of water in the Southern basin, especially around the Barmah Choke. There is a need to better understand and address these delivery risks through engineering solutions for infrastructure improvement and through policy that provides a greater level of certainty for irrigators.

As management decisions that impact irrigation have the potential to significantly impact upon grape growers and regional communities, decisions should be subject to extensive irrigator and community consultation and include a socio-economic impact assessment. Like other agricultural sectors, grape growing is cyclical and the sector needs time to adjust to any changes in order to remain viable into the future.

Although drought may be unpredictable and is often seen as an isolated phenomenon, this cannot be used as an excuse for inaction. While the Murray Darling Basin is in the spotlight at the moment, this is not the only precious water resource and Australian Grape & Wine supports scientific evidence led policy. We also support that the sharing of costs of adaption should be equitable and cognisant to the viability of regional and rural communities. There are many opportunities to reduce, reuse and recycle especially within domestic consumption and amongst the urban population. Whilst we may be the biggest users of water, agricultural sectors are not necessarily where the most economic opportunities for water savings lie.

**Policy Recommendation 21:**      **Address Australia's water crisis by investing in projects to secure supply of water, and those that promote reduction, reuse and recycling of domestic water. The Government should also seek to address delivery risks along the Murray Darling Basin.**

**Policy Recommendation 22:**      **Improve the functioning of the water market in the Murray Darling Basin by improving market transparency, improving market information, and reducing complexity and inconsistencies between state jurisdictions.**

## Energy

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

## Electricity

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

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

**Policy Recommendation 23:**      **Work with industry to ensure a reformed electricity market delivering improved affordability, reliability, and management of the electricity market.**

### **Fuel Tax Credits**

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

**Policy recommendation 24:**      **Retain the existing fuel tax credit scheme for agricultural businesses.**

### **People development and leadership**

The grape and wine sector plays a critical role in regional development through employment opportunities. While profitability underpins the ability to attract skilled people to regional Australia to work in our sector, industries must relentlessly compete to attract and retain good people. Wine businesses are finding it difficult to recruit and retain workers from the vineyard, especially viticulturists, through to the cellar door operations. At a time where demand for higher skills in the wine sector is increasing, though, tertiary course offerings are in decline. The skill base required in the sector is also rapidly changing. In addition to wine makers, viticulturists and farm workers, those with skills in areas such as finance, marketing, export, data management, design and social media are also becoming more important.

Increased sector profitability will be a key enabler of this pillar as it will greatly impact the sector's capacity to offer attractive employment terms. However, growing regional employment in the sector requires adherence to the following principles

- Respect and fair, shared rewards for effort.
- Very clear career paths to attract and retain good people.
- Young people must be encouraged to enter the sector, starting from education in secondary schools.
- The Australian wine sector promotes and celebrates diversity and inclusion in all its forms.
- We must maintain a culture that supports entrepreneurship and a risk appetite favouring transformational innovation.

### **Diversity and equality**

The Diversity and Equality in Wine (DEW) Committee was formed in February 2018, when Australian Grape & Wine (formerly Winemakers' Federation of Australia) identified a gap in the sector around Diversity and Equality in the workplace. While we have engaged in a very successful awareness raising program, it is now the time to develop and introduce a program that could be rolled out and accessed by all interested participants in the Australian wine sector. The program we are looking at for the Australian wine sector is *The Leaders Lab*. The program content involves improving the confidence, resilience and wellbeing of female leaders by using the latest scientific insights and evidence-based tools, and creating safe spaces for women to actively experiment and take ownership of the approaches that work best for them. Our aim is to provide support to women in the Australian grape and wine sector who choose to change, to grow and unlock potential.

Further research into the statistics of gender participation in the undergraduate and post graduate courses in viticulture and oenology is also required. *A successful* program requires a significant proportion of quantitative, qualitative and diagnostic evaluation to ensure we are working with accurate information, and this program may provide a focus for this research to move towards.

We are seeking support of \$200,000 per annum over the next two years from the Australian Government through appropriate programs to fund this important initiative.

**Investment Recommendation 4:**     **The Australian Government provide \$200,000 per annum over the next two years to implement a program to support women in the Australian wine sector.**

## Contact

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