

Australian Grape and Wine Incorporated

Board Communique – 4 & 5 February 2020

The Board of Australian Grape and Wine Incorporated (Australian Grape & Wine) held a joint strategy session with the Board of Wine Australia on 4 February 2020. This was followed by a stand-alone Australian Grape & Wine Board meeting on 5 February.

Strategy Session

2020 is looking like a challenging year for the Australian wine sector. Particular challenges for the year ahead include:

- The \$50 million Export and Regional Wine Support Package (the \$50m Package) ends in June 2020.
- Likely lower vintage due to water shortages, bushfire damage and smoke affected grapes.
- Coronavirus and bushfire impact on tourism, demand and the Australian economy more broadly.
- Government instability around ministerial portfolios of key interest to the wine sector.
- Continued geopolitical instability.
- Economic slowdown in China, with negative implications for trading partners and global commodity prices.
- Oversupplied United States market.
- State government/s becoming increasingly interventionist, with potential for regulatory incoherence; and
- Growth in power of anti-alcohol lobby.

Drought and water shortages have already placed pressures on the vintage and bushfires have added to the supply concerns. However, only 1,500 hectares, or approximately 1% of Australian vineyards are estimated to be in the bushfire affected areas, though the impacts of smoke on grapes may result in lower production levels in some regions. As the adverse impacts of smoke appear after ripening, it is still too early to tell the impact on production this vintage. Bushfires and smoke will have serious effects on some producers of grapes and wine and place them under extreme profitability pressure.

The coronavirus was also discussed as a potential threat to profitability. The potential impacts of the coronavirus pandemic are significant. Countries around the world, including Australia, have closed their borders to arrivals from China, as officials work to control the rapid spread of the coronavirus. The global macroeconomic impact of the 2003 SARS outbreak was estimated at USD \$30–100 billion, causing losses of USD 12.3–28.4 billion and an estimated decrease of 1% in GDP in China and 0.5% in Southeast Asia. This may put increased pressure on winery businesses, with tourism already suffering. Australian Grape & Wine is preparing an industry brief on the issue, to inform the sector, which will be updated as the situation unfolds.

International trade tensions also remain high, despite some relief due to China and the United States entering into an uneasy truce with the signing of the first stage trade agreement. Downside risks remain prominent, including rising geopolitical tensions, notably between the United States and Iran, intensifying social unrest, further worsening of relations between the United States and its trading partners, and deepening economic frictions between other countries. A materialization of these risks could lead to rapidly deteriorating sentiment, causing global growth to fall below the projected baseline. We will also prepare a position paper around these issues and the potential impacts on the Australian economy.

Against this backdrop, the two Boards discussed ways to work together and ensure that our messaging to Government was strong and targeted, with the aim of creating an environment in which we can help grapegrowers and winemakers through these challenging times.

The joint strategy session was very valuable, ensuring the Boards of Australian Grape & Wine and Wine Australia are closely aligned in how to drive the sector forward. A number of initiatives were discussed and adopted to enhance collaboration, communication and transparency.

A key outcome adopted was for Australian Grape & Wine to develop a proposal which explores the merits of creating a single body that delivers the joint services provided by Australian Grape & Wine and Wine Australia. This would provide a single national organisation responsible for providing all industry services, including policy, advocacy, Research, Development and Adoption (RD&A), marketing and export regulation. It would be created under an act as an R&D corporation for the grape and wine sector and provide a single point of contact for all grape and wine businesses, government/s, the media and the public.

We'll soon be releasing a common sector vision to 2050, which will guide our investment resourcing decisions. This vision will also help guide the development of options to move towards a single industry services body.

We have the opportunity to identify key priorities and how each organisation can contribute to their delivery. We know the industry will demand efficiencies, collaboration and focus in a time where profitability is under pressure.

Board meeting

The Board meeting was held on 5 February 2020 in Adelaide. Key issues discussed included:

Bushfire crisis

There is concern that negative and inaccurate international media reports could have a detrimental impact on the export and consumption of Australian wine in overseas markets. The key message to convey is that although Australia and its wine industry are facing an unprecedented bushfire season, significant damage has only occurred to a small number of wine regions and wine producers. The majority of the wine sector, and particularly those export-focused regions, have been relatively unaffected. Australia's wine continues to be of exceptional quality, which is supported by our strong export controls, and quantity is not expected to be significantly affected by the bushfires. Further to this, wine regions continue to offer a premium wine tourism experience.

However, it is clear that many producers are suffering. Australian Grape & Wine has been in close contact with the Australian Government over the past few weeks seeking support for those growers and winemakers affected by fires, and to gain support from those suffering from smoke damage. While some measures have been announced, we have been seeking medium and long-term support for further research and tourism initiatives to, on the one hand, build resilience for future events, and on the other, to boost demand.

There will be three aspects to the responses to the bushfire crisis in Australia. The first relates to immediate relief for those businesses and people directly impacted. The second concerns the recovery aspect of those businesses impacted directly by fire or smoke damage. The third relates to our strategic response to the crisis, to build in how to deal with future bushfire events.

The package we are seeking includes;

- Support with sampling, logistics and the testing of grapes and wine, to assess damage and provide information and technical support.
- Establishment of regional sensory panels to help assess potentially affected wines, and ensure minimally impacted wines reach the market and protect the image and Australia reputation as a high quality wine producer.
- In case where fires have damaged vineyard infrastructure, we seek short-term assistance to access replacement trellis (posts and wire) and irrigation infrastructure (drip lines etc).
- Germplasm security and availability of high health planting material.
- Financial support for those growers and producers affected by fire and smoke damage.
- Access to rural financial counsellors and Beyond Blue type counselling services.
- A targeted assistance package to help growers who are likely to suffer significant cashflow issues if grapes are severely impacted by smoke taint.
- Tourism initiatives – Bringing tourists back into the regions is critical to the rebuilding phase for the sector and the regional communities in which they are situated.
- 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.
- Longer term R&D in relation to smoke taint on-vineyard mitigation management and in-winery remediation options.
- Investment in R&D around effective fire preventative and remediation treatments in vineyards and wineries - We think that the industry will face increasing pressure from actual fire damaged vineyards in future and we need more work on effective preventative and remediation options for industry.
- Insurance of vineyards and grapes is an issue, which will require the development of international standards and testing protocols to assess damage.

We also understand that the assistance packages on offer are confusing and eligibility criteria are unclear or complex. We are seeking to simplify these arrangements as we become aware of the issues.

2050 Grape & Wine Sector Vision

Wine Australia and Australian Grape & Wine agreed to develop a Wine Sector Strategic Plan in 2019. A Joint Strategy Committee was established, to provide advice to Australian Grape & Wine and Wine Australia on the development of a whole-of-sector Strategic Vision for the Australian grape and wine community, and Wine Australia's Strategic Plan 2020–25. Facilitated workshops were held in every capital city and in Griffith, NSW.

Vision 2050 is a living document, and many of the issues raised will require action within the next five years if we are to achieve our longer term goals. These issues will help provide a framework for both Wine Australia's Strategic Plan, 2020-25 and the Australian Grape & Wine 5 Year Plan.

Our proposal is to launch Vision 2050 in the first quarter of this year. We are preparing a short 4-6-page summary document, to provide the main messages and become a key advocacy document.

Wine Australia 2020-2025 Strategic Plan

The consultation process for the five-year plan has undertaken a similar path to that of *Vision 2050*. The draft five-year plan will be provided to the Wine Australia Board on 4 March 2020 and is due to the Minister on 1 April 2020. It was agreed in the joint strategy meeting to share the plan with the Australian Grape & Wine Board to provide input into the priorities, directions and activities around marketing, RD&A and regulation.

ACCC and the Wine Industry Code of Conduct

The Code Management Committee continues to explore options to reinvigorate the Wine Industry Code of Conduct in line with as many of the ACCC's Market Study recommendations as possible. There are some positive developments, particularly in relation to market information and quality assessments. This includes work on progressing Recommendation 1 of the ACCC's Market Study, which relates to working towards uniform national standards for testing and measuring grape sugar levels and colour. We have now reached the drafting stage for the revised Code and our Committee, consisting equally of grower and winery representatives, will meet to consider the draft in April 2020.

Wine and Health

The growth in reach and power of the anti-alcohol lobby continues to raise concerns for Australian Grape & Wine. It was decided that we need to take a more proactive approach in this area. We should be proud of wine and unashamedly promote its responsible consumption, the conviviality provided by its enjoyment, and the artisanal nature of its production. We also need to continue our strong efforts in the field of promoting responsible consumption of alcohol and our partnership with DrinkWise Australia and the Australian Alcohol Beverages Advertising code (ABAC), which are both critical to our efforts in this field.

Pregnancy Warning Labels

The Board of Food Standards Australia New Zealand (FSANZ) considered the mandatory prototype labelling standard on 31 January 2020. We have not yet seen what was put to the Board, or been informed of the outcomes of its deliberations. We understand if the FSANZ Board approved the draft labelling standard, the next steps would be to notify the Ministerial Forum on Food Regulation, which would have 60 days to make a decision to approve the proposal or send it back to FSANZ for review. If the Board and Ministerial Forum both choose to approve what is put to them, it is expected the variation to the Food Standards Code would happen in April 2020.

National Drinking Guidelines

The release of the draft revised National Health and Medical Research Council (NHMRC) Drinking Guidelines for Australia was, in Australian Grape & Wine's Assessment, reasonably welcome news. While the guidelines are not without their faults, we believe the headline messages below to be reasonable and practical.

- "We recommend that healthy men and women reduce the risk of harm by drinking no more than 10 standard drinks per week and no more than 4 standard drinks on any one day".
- "However, we are not saying that this is a level that completely eliminates risk. The less you choose to drink, the lower your risk of alcohol-related harm. For some people not drinking at all is the safest option.
- "We recommend that adolescents under the age of 18 do not drink. There is no known 'safe' or 'no-risk' level of drinking alcohol for children and young people aged under 18 years".

The draft guidelines are out for public consultation until 24 February 2020, and Australian Grape & Wine will be lodging a submission in consultation with Alcohol Beverages Australia (ABA) and DrinkWise Australia.

International Health developments

The World Health Organisation (WHO) is reviewing its Global Strategy to Reduce Harmful use of Alcohol. While the strategy is unlikely to lead to binding requirements of member states like Australia, its recommendations will present a moral impetus for governments to align their alcohol policies, further encourage anti-alcohol lobbyists, and influence the work-plans of other international organisations like the OECD.

We have met with Australia's head of delegation to the WHO World Health Assembly, to discuss this issue and ensure industry views are heard. However, the spread of the coronavirus means it is unlikely that alcohol issues will get much airtime at the Assembly.

Trade and Market Access

Market access continues to be a major plank in our strategy. The case the Australian Government has taken against Canada in the World Trade Organisation is moving towards a conclusion and some of the provinces have already made changes in their regulations. Of course, our battle to retain the right to use the grape variety name 'Prosecco' continues, along with an ever increasing number of trade barriers which we monitor and seek to mitigate.

While tensions between United States (US) and China appear to have lessened in recent months, with agreement being reached towards a trade agreement, the European Union (EU) and US have ramped up their own trade tensions. Both countries' wine sectors are being impacted as a result. In October 2019, the US imposed a 25% tariff on a number of EU agriculture products, including wine, in response to the EU Airbus subsidies dispute at the World Trade Organization (WTO). The US has since threatened to expand and raise these further to 100% with Europe threatening retaliatory action of its own.

During 2019, Australian Grape & Wine worked with Monash University to prepare a project application for an Australian Research Council grant. The recently announced \$100,000 Government funding for research into legal basis for protecting Geographical Indications (GI) for wine in trade agreements is the outcome of this work. Approval of this grant is great news for Australian Prosecco as not only does it provide some very useful research supporting our efforts to protect the variety, it also shows further Australian Government support and investment in protecting the future of the variety. The announcement provided more media attention for Australian Grape & Wine to publicly bolster the Australian Prosecco position.

The Chinese Ministry of Agriculture has expressed an interest in China becoming a member of the International Organisation of Wine and the Vine (OIV). As part of the response they have invited the OIV to present to them on 9-10 March 2020 (now deferred to June 2020) Tony Battaglene has been invited to take part as part of the OIV delegation. Strategically this would be a a very positive move towards enabling a greater influence over standard setting in China.

National Heavy Vehicle Regulator (NHVR)

Prior to Christmas, the NHVR held a Roundtable in South Australia to discuss the October 2018 amendments to the [Heavy Vehicle National Law \(HVNL\)](#). These amendments provide that every party in the heavy vehicle transport supply chain has a duty to ensure the safety of their transport activities. In practical terms, this primary duty represents an obligation to eliminate or minimise potential harm or loss (risk) by doing all that is reasonably practicable to ensure safety.

The immediate issue is around Grape spillages and load restraint.

The NHVR indicated that there was funding available and that they would support the development of an Industry Code for the Grape and Wine Industry. Australian Grape & Wine is working with the NHVR, the South Australian Wine Industry Association, and the Wine Grape Council of South Australia in the first instance to develop a National Code.

Biosecurity

At the November meeting, the Board supported the development of a strong business case for further investment to support the biosecurity strategy. The business case is designed to investigate what level of funding is needed and potential funding streams. There was opposition to the introduction of another levy or to increase total levy funding. The development of the business case is funded by existing resources held by Plant Health Australia from the Plant Health Levy.



The Wine Tourism and Cellar Door Grant

The Wine Tourism and Cellar Door Grant opened on 1 July 2019 and closed on 30 September 2019. The grants were significantly over-subscribed and the \$10 million pool was exceeded by around \$5m. This means that each applicant received around 66% of the requested grant amount. The importance of this grant to regional wine tourism was emphasised by the Board and Australian Grape & Wine is actively seeking a continuation of the grant and an extension of the pool in the Federal budget 2020.

Cybersecurity

Cyber security is becoming an increasing threat to small businesses. It is critical that businesses protect themselves from being hacked or scammed, as we are aware of a number of businesses that have suffered significant financial losses in recent months. Australian Grape & Wine will seek to provide more information to our members on what they can do to protect themselves.

Tony Battaglione

Chief Executive

6 February 2020