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**Winemakers' Federation of Australia**

**Proposed Industry Actions  
for Sustained Profitability –  
Your Views?**

**August 2013**

**wfa**

**Winemakers'  
Federation of  
Australia**

## What's This Paper About?

The Winemakers' Federation of Australia (WFA) has undertaken a strategic expert review of industry dynamics and profitability, the results of which are available here for you. This fact base will assist WFA members to make better decisions for their businesses and help policy makers when dealing with the industry.

Importantly WFA, in consultation with other key industry participants, has developed a series of Actions which are also detailed in this paper.

WFA proposes to implement these Actions from November 2013. However, before it does so, it is asking you for assistance to review the analysis and Actions and provide input. Not only will this assist WFA to finalise the Actions, but it will promote a wider and we think healthy industry discussion on the issues we confront. It will enable WFA to move forward with implementing these Actions knowing they are being widely considered and we hope supported.

*Please note that all footnote references in this paper refer to the Expert Review report unless otherwise stated.*

### **How do you provide input?**

Your written submissions can be sent by email to: [wfa@wfa.org.au](mailto:wfa@wfa.org.au) with "Expert Review" in the subject heading.

Alternatively, the email contact details for members of the WFA Board can be found at Attachment 4 should you wish to contact or discuss these Actions with any of them.

Dates for regional visits by the President, CEO and staff of WFA in support of the Review can be found at [www.wfa.org.au](http://www.wfa.org.au).

Submissions are due by Friday 18 October 2013.

## **Notes when considering WFA Actions and the Expert Review**

The Expert Review on the dynamics and profitability of the Australian winemaking industry, which can be read at Attachment 1, was commissioned by the WFA Board to help build a fact base for members and to inform our decision making.

We believe it is important that the Review be made available to our members, industry and our stakeholders. It is a valuable source of data, analysis and insight on the key issues. The Review is provided to you in full and as presented to the WFA Board.

The Expert Review has been an important input to the Board's consideration of these issues. However it has not been the only input. The Board has also brought to bear its accumulated experience and other discussions and consultations with industry bodies and leaders.

As with the WFA Actions, we welcome your views on the Expert Review's analysis and findings. Our objective is to continue to build a sound fact base to support decision making for years to come.

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## Attachments

1	Expert Review, <i>“Expert Report on the Profitability and Dynamics of the Australian Wine Industry”</i>
2	Summary of Actions
3	The on-going work of the WFA
4	The WFA Board members and their contact email details, should you wish to contact them as part of this process
5	Acknowledgements
6	Acronyms and Wine Sector Organisations

## Introduction

Our wine industry has earned the reputation of being one of Australia's most significant globally competitive industries. This achievement reflects decades of investment, hard work and collaboration by winemakers and growers and many others across Australia. This international reputation will be an advantage when competing in new markets well into the future.

In recent years however, we have been hit by a "perfect storm" which has impacted industry profitability and reduced asset values.

Unless we restore industry profitability and lift asset values to acceptable levels, the industry will not make the most of the opportunities it has and there could be continued adverse impacts on jobs and growth in regional Australia.

WFA, as the peak industry body, believes that we can and should take a series of steps detailed in this paper which we have called "WFA Actions".

These Actions are our response to the findings of the Expert Review (attached for your consideration) and from the experience of the WFA Board and our consultation with industry bodies such as Wine Australia Corporation, the Grape and Wine Research and Development Corporation and Wine Grape Growers Australia. These Actions have the support of the WFA Board which, as you know, represents the large, medium and small winemakers.

The Actions cover the issues you are well aware of – demand, supply, retail power, tax, and health and alcohol. The difference is that we are now building a "fact base" for better decision making and a growing consensus that we need to get behind the Actions.

You will see as you read this report that the Actions are aimed at improving industry settings so that you as members and participants can make better decisions on when and how you will compete.

These Actions will require funding, as we have detailed in the paper, and WFA will need to pursue funding options with Government and others as part of its work.

In terms of priorities, we believe that all these Actions need to be pursued now and quickly.

We look forward to meeting with and hearing from you during the industry consultation to follow in the next six weeks on what you think of the Actions and how we can continue to build a solid "fact base" for future decision making.

Yours sincerely,



**Tony D'Aloisio AM**  
President



**Paul Evans**  
Chief Executive

## WFA Actions – Your Views?

Over the past few years, as the Expert Review notes, there have been considerable industry efforts and a number of individual company success stories dealing with the challenges faced by the industry. Some examples of actions taken are:

- Improving mix
- Opening new export markets
- Cost cutting
- Improving efficiencies
- Demergers and some consolidation

These efforts need to continue and individual companies are best placed to make these changes as they best know their markets and their margins.

The WFA Actions detailed in this paper are designed to improve industry settings so that individual companies can take such action.

In summary, the Actions, which go to improving industry settings, are as follows. They will enable our members and industry participants to make their decisions.

1. Growing demand for our wine, both domestically and internationally. The outcome we seek is to increase our relative market share in all major wine markets while performing as well as or better than the whole market in each segment.
2. Hastening the correction to the supply base and improving margins throughout the value chain. The outcome will be to help reduce the oversupply of commercial grade grapes and the pricing distortion it creates throughout the industry.
3. Working with the national wine retailers and competition regulator on fairness, transparency and equity in the domestic wine market. The outcome will be a more sustainable domestic marketplace for industry, where companies can grow share through quality, innovation and investment.
4. Reforming the Wine Equalisation Tax rebate to support regional communities. The outcome is to return eligibility for the rebate back to its original policy intent.
5. Monitoring the future of wine tax policy in response to changing market conditions. The outcome is to continue our examination of optimal taxation arrangements for industry to support growth and our licence to operate with the community.
6. Proactively engaging the Wine and Health debate to promote responsible consumption and ensure an appropriate regulatory framework for our industry. The outcome is to minimise harm to the community, promote the benefits of moderation and shape the policy debate.
7. Securing the funding to support the recommended Actions in partnership with industry and Government. The outcome we seek is to fund the Action agenda.

Each of these is detailed below, with specific actions and questions for you to consider.

## Action 1: Grow the Demand Opportunity

Grow demand for our wine, both domestically and internationally.

Outcome: Increase our relative market share in all major markets while performing as well as or better in each segment.

WFA supports the Expert Review's finding that increasing the local and export demand opportunity for Australian wine is critical for the future profit growth of the industry.<sup>1</sup> While individual companies will continue to lead these efforts, ongoing and adequately funded support from Wine Australia Corporation (WAC) will also be crucial. A drop in the value of the Australian dollar will not be enough on its own to achieve our demand ambitions.

Despite the domestic market offering producers higher average margins than exports, the industry has lacked a coordinated response to the increasing penetration of foreign wine and a plan for domestic category growth<sup>2</sup>. We believe a concerted industry-level response, backed by the major retailers, could make a difference and reinforce the campaigns of individual companies and brands.

Australian wine has shown resilience in volume terms, trading since 2007 in a highly competitive environment that has been exacerbated by global oversupply and margin erosion. This has severely impacted the ability of individual companies to maintain investment levels in their brands and in-country marketing. In many cases, investment has shifted to price discounting.

Over the same time, levies paid to WAC for the execution of collaborative marketing initiatives have declined from \$17m to \$11m per annum.

Together, these developments have seen the Australian wine category trade down, with many brands reduced to competing on price and convenience alone. In the crowded international marketplace, the Australian category has lost support among some distributors and importers.

For example, the trading performance of Australian wine was trending down in the key U.S. and U.K. markets *before* the sharp appreciation of the Australian dollar from 2008<sup>3</sup>. In addition, there has been a downward shift in the demand curve for Australian wine in local currency terms in key markets across all price points<sup>4</sup>, suggesting that our challenges will not be resolved by price alone – including a sustained depreciation of the Australian dollar.

As such, a broad range of tailored activities will be needed to rebuild support for Australian wine among consumers, distributors, commentators and other “gatekeepers” in key domestic and international markets. This will include stronger investment in market opportunities, and long-term fully funded collaborative initiatives lead by WAC aimed at rebuilding the Australian category. Strategies to educate the supply chain, surround the Australian category with excitement and “tell the story” of the quality and diversity of our wine offer will be important. A particular challenge will be finding profitable markets for the oversupply of C and D grade wine currently competing for limited domestic retail shelf space.

By taking the Actions outlined below, we believe we can increase the market share of Australian wine in all major markets in each segment.

<sup>1</sup> See Attachment 1: Expert Review, “*Expert Report on the Profitability and Dynamics of the Australian Wine Industry*” recommendation 1, page 7

<sup>2</sup> See exhibits 16 & 19 and discussion on page 30

<sup>3</sup> See exhibits 11 & 12 and supporting analysis in section 3.1, pages 20-22

<sup>4</sup> Ibid.

## Understand Consumer Preferences

### ➤ Action 1.1

**WFA will support research led by WAC on the Australian category's "brand health" among distributors and gatekeepers in key markets and ensure insights are leveraged in policy and programme development. The U.S. market will be the first focus.**

An important step towards capturing the opportunity created by the decline in the Australian dollar is to better understand what has changed in consumer and "gatekeeper" preferences in the key U.S. market<sup>5</sup>. This work will include analysis to identify key distributors and what support they might require to put resources behind our wine and build compelling Australian portfolios.

## Strengthen WAC

### ➤ Action 1.2

**Wine Australia should be adequately funded to rebuild its core operational capability.**

Facing declining levy-based budgets and increasing fixed costs, WAC has significantly reduced operating costs, restructured its operations and made difficult decisions about where to focus limited resources. Further changes will be required if alternate revenue sources cannot be found. These may include further reductions to in-market representation and the withdrawal from some markets altogether. It is estimated that to reach the desired level of activity, WAC will require an additional \$2m per annum.

### ➤ Action 1.3

**Wine Australia should be adequately funded to increase investment levels in core marketing programmes including:**

1. A stronger presence in trade shows
2. Partnerships with Tourism Australia
3. Educating key markets
4. Visitors programme
5. Savour Australia
6. Domestic marketplace initiatives

WFA believes there are a number of existing and potential WAC programmes that could help re-engage international and domestic consumers with the Australian category beyond price and convenience. The key will be to change perceptions and raise awareness of the value presented by the category across all price points, bringing into the consumer conversation the breadth of styles, the characters and the places that give our wines their distinctive personalities and make them uniquely Australian.

The programmes outlined below position Australia's best wines as being second to none, and also promote the quality, diversity and value of the wider Australian branded category. This investment is particularly relevant for the large C grade segment which is confronting declining export and domestic demand<sup>6</sup>. The findings of the Expert Review confirm that considerable commercial volume may be being exported at poor margins, and below what may be achieved domestically<sup>7</sup>.

<sup>5</sup> See exhibit 11 and discussion on page 21

<sup>6</sup> See exhibit 4 and 5

<sup>7</sup> See discussion on pages 15 and 16

The overall aim is to restore “excitement” in the Australian category, and provide a strong basis for a more concerted industry effort to compete for sales against our competitors, return better margin to producers and anticipate and shape emerging consumer trends.

WAC has adopted the ‘user pays’ principle for participation in many of its programmes and this approach is supported by WFA and should continue for appropriate programmes. However, additional funding should also be made available to WAC to invest in developing market opportunities. Additional activity (supported by user pays and/or additional funding) is as follows:

1. Establishing a much stronger presence at key trade shows. Developing appropriate branding of larger scale pavilions and making a greater statement at these key shows is important, particularly in Asia, where face and image are vital considerations. Australia’s presence at these shows is currently fragmented and understated in comparison to competitors, and this needs to be addressed. Target shows would include ProWein (Germany and China), the Hong Kong International Wine and Spirits Fair, London International Wine Fair, and Vinexpo.

Additional funding required is approximately \$1m p.a.

2. Under its MOU with Wine Australia, Tourism Australia will invest dollar for dollar in activities developed from a jointly created food and wine strategy. The underlying consumer facing campaign (currently in development) seeks to establish a more premium perception of Australian wine and make our food and wine offering more compelling for travellers to and within Australia. Additional market development investment needs to be channelled to this campaign in order to effectively target consumers in China, the U.S. and the U.K.

Additional funding required is approximately \$2.5m p.a.

3. Greater investment in education in key markets. The education of trade, key influencers and other gatekeepers is crucial in building a stronger perception of the quality and diversity of our wine offer. We believe WAC’s education programs, delivered under the name of A+ Australian Wine, are achieving cut through. However, extending this to reach more supply chain participants and facilitate consumer facing education programs would accelerate the development of our premium offer in key markets. Partnerships could be further developed between WAC and key global wine education providers such as the Court of Master Sommeliers and Wine and Spirit Education Trust to improve Australian wine-related content and delivery in their syllabi.

Additional funding required is approximately \$0.5m p.a.

4. The Visitors Program is important for changing the attitudes of international trade and media, and establishing a greater understanding of the diversity of Australian wine regions, the quality of our wines and the people who make them. Greater investment in this program would allow us to reach more key influencers and provide a deeper immersion into our wine regions and better overall experiences. In addition, funds could be invested to support regions in up-skilling, and improving visitor experiences.

Additional funding required is approximately \$0.5m p.a.

5. Savour Australia 2013 is the biggest and most comprehensive Australian wine forum ever undertaken. It will challenge outdated perceptions of Australian wine and highlight the domestic and global business case for wines from Australia. The forum will showcase the quality and diversity of Australian wine and wine regions to the global and domestic wine trade, importers, distributors and wine/lifestyle media. The event has been made possible by a federal government grant made available in 2013/14. Should further funds be available for market development, this event would be held every two years to keep the category front of mind with the supply chain and key influencers and to engage the next generation of influencers.

Additional start-up funding required is approximately \$2m.

6. Increased investment in domestic marketplace initiatives to work more closely with the trade on consumer events and activities in capital cities and regional centres. Building the Australian wine category in the domestic market and raising the awareness of wines available from our own backyard must remain a priority if we are to recover share from imports.

Additional funding required is approximately \$0.5m p.a.

#### ➤ Action 1.4

**Wine Australia should be adequately funded to develop and execute new initiatives including:**

1. **A social media-based platform to promote Australian wine**
2. **An Australian Food and Wine Centre in Shanghai**
3. **Regional promotions**

1. While many individual cellar door operators already have successful web-based sales formats, research on the potential of social media and web-based sales platforms can provide WAC with a better understanding of the opportunity for the sector and how best to leverage the category offering on-line. We believe a three step solution is required:

- i) GWRDC to fund a project into how the Australian wine sector can use social media to build a platform to engage and communicate with consumers and build category support.
- ii) Utilising the outcomes of this project, develop on-line initiatives to promote Australian wine to the world
- iii) Use Tourism Australia and WAC's existing social media networks to foster a broad based on-line interest in Australian wine.

2. An opportunity exists to establish a presence in China that raises awareness of and provides access to our premium food and wine offer. WAC should invest with strategic partners in an Australian Food and Wine Centre in Shanghai to provide tastings of our premium food and wine, education materials and courses and a venue for visiting winemakers and chefs to highlight our produce. Such a venue would help fast-track adoption of our premium offer in this market, and provide an aspirational function venue and in-market cellar for key stakeholders.

Additional start-up funding required is approximately \$1.5m p.a.

3. In partnership with progressive regions, undertake highly visible regional promotions in key markets and with key channel customers. This would include getting wine into the hands of consumers with in-store tastings, by the glass promotions, strong branding and in-store/on-premise collateral.

Additional funding required is approximately \$0.5m p.a.

## Extend Export Market Development Grants

### ➤ Action 1.5

#### **The Australian Government to double the level of funding to Export Market Development Grants and reform the eligibility criteria.**

The Australian Government can play an important supporting role in strategies to increase the demand opportunity. The multiplier effect of Export Market Development Grants is well known, and the wine industry has had a major presence in the programme, averaging around 250 recipients each year. These grants have enabled many small and medium producers to develop and promote their products effectively, and should be expanded.

Doubling the EMDG across the entire manufacturing sector would need to be progressed in consultation with a number of other industry sectors. In addition, eligibility criteria should be reviewed. Present arrangements exclude many of the most innovative wine industry leaders from receiving further grants, which creates an artificial ceiling on the potential impact of the program.

If the Government cannot support such an increase in support for the EMDG programme, WFA should pursue an industry specific grant programme aimed at fostering export innovation and growth.

## Improve Market Access

### ➤ Action 1.6

#### **The Australian Government to provide adequate resourcing to improve market access including:**

- **APEC initiatives in the Standards and Conformance Sub Committee and Wine Regulatory Forum aimed at standardising import requirements**
- **The reduction in trade barriers caused by differing maximum residue limits for agri-chemicals across key markets**
- **DAFF and FSANZ's pursuit of bipartisan and regional agreements**
- **DFAT and DAFF's capabilities to properly incorporate technical and regulatory issues into the development and maintenance of FTAs and regional trade agreements**

Targeted resourcing to government agencies to accelerate market access opportunities would generate significant returns. This would include increased funding to pursue Free Trade Agreements and regional and bipartisan agreements with concrete opportunities for wine. Completing the Australia-China FTA is a key priority if the full export potential of the fine wine segment identified in the Review is to be captured.<sup>8</sup>

The funding required to support these measures is estimated to be an additional \$2m per annum across a number of government agencies.

<sup>8</sup> See exhibit 27 and discussion on page 40

**Execute a “Buy  
Australian First”  
campaign with the major  
liquor retailers**

➤ **Action 1.7**

**WFA will support the national retailers in the development of a “Buy Australian First” consumer facing campaign. This will promote regionality, blends and leading varieties with the aim of capturing share from imports and re-engaging Australian consumers.**

Industry has generally lacked a concerted and collaborative approach to recapturing share of the domestic market. We believe that a partnership approach with the national retailers could make a difference, with sustained promotion of Australian wine rebuilding excitement around the category. This initiative will be developed with the retailers by the Industry Working Group proposed at Action 3.1 below and integrated with existing WAC initiatives for the domestic market.

**Key Questions**

- *Do you agree that these Actions will make a difference to the demand opportunity in domestic and key international markets?*
- *How do you think these proposals could be funded?*
- *What other demand-side initiatives would you support?*

## Action 2: Hasten the Supply Correction

Hasten the correction to the supply base and improve margins throughout the value chain.

**Outcome: Help reduce the oversupply of commercial grade grapes and the pricing distortion it creates throughout the industry**

The analysis of the Expert Review estimates that up to 70% of total current production is uneconomic. This is spread across all regions and concentrated in C, D, E & F grade grapes<sup>9</sup>. This low profitability is being driven by a “*significant oversupply and under-demand in C and D grapes/wine*” which has a distorting impact on the pricing of other grades<sup>10</sup>. This oversupply is likely to continue even under the most optimistic projections of demand growth<sup>11</sup>.

There is, however, some evidence that market forces are addressing this supply-demand imbalance. From a peak of 163,000 hectares in 2006-07, the national bearing area has since declined by approximately 8.7% or 14,140 hectares, with the early adjustment in warmer regions now being followed in cooler-temperate regions. Overall, however, the Review finds that without further action, the market correction will continue to be slow and restrict the profit potential of E and F grade production<sup>12</sup>.

The reasons for the slow correction to supply in the face of low profitability are winemakers processing and providing a market for uneconomic grapes, significant sunk costs and few alternate land uses, human and emotional factors, the WET rebate and current banking practices<sup>13</sup>.

WFA believes a number of steps can be taken to hasten the correction and bring supply into better balance with demand, reducing pricing distortions. Ultimately, however, economic forces will continue to be the primary driver to further adjustments in the market. Again, it will be up to individuals and companies to assess the situation and make proactive decisions in their best commercial interest.

### Vineyard Profitability

#### ➤ Action 2.1

**WFA and WGGA will produce a regular review of vineyard profitability supported by a National Vineyard Database and an update of demand projections in key markets.**

WFA urges all industry participants to consider the Review's analysis on vineyard profitability in their decision-making on cost structures, improving vineyard quality, consolidation, diversification or whether to exit the industry altogether. To maintain a focus on this issue, the analysis of vineyard profitability needs to be ongoing and complemented with a national register of vineyards, information on demand trends in key market segments and trend analysis of the industry's foundation data set.

WFA will also commit greater resources to communicating these critical facts across industry and among key stakeholders in the investment and banking community.

<sup>9</sup> Please note that the definition of grades used in the report (all in Australian dollars)

- In terms of grape prices per tonne, A (above \$2,000/tonne), B (\$1,500.01 to \$2,000), C (\$600.01 to \$1,500), D(\$300.01 to \$600), E/F- less than \$300
- In terms of domestic retail prices, A (>\$30 per bottle), B (\$15-30), C (\$10-15), D (\$7-10) and E/F (<\$7)
- In terms of export FOB prices, A (>\$10/litre), B (\$7.50-9.99), C (\$5-7.49), D (\$2.50-4.99) and E/F (<\$2.50)

See also exhibits 20 to 25 and discussion on pages 31 to 35

<sup>10</sup> See exhibit 2 & 26 and discussion on page 36

<sup>11</sup> Ibid.

<sup>12</sup> See discussion on pages 36 to 37

<sup>13</sup> Ibid.

## Vineyard Flexibility and Profit Improvement

### ➤ Action 2.2

The Joint Policy Forum (WFA and WGGA)<sup>14</sup> will review the need to commission research into lowering the cost of vineyard turnover and removal to facilitate greater responsiveness of vineyards to structural imbalances, economic cycles and changes in consumer preferences.

### ➤ Action 2.3

The Joint Policy Forum (WFA and WGGA) will review the need to commission research to ascertain vineyard flexibility where there is excess supply and the technical priorities to support improvements in vineyard quality.

The Expert Review has also shone a light on the particular challenges of C and D grade production against projected demand<sup>15</sup>. While addressing the oversupply in these segments relies heavily on developing domestic and international demand (as discussed at Action 1 above), more can also be done to support those growers who want to exit the industry through research and innovation to reduce adjustment costs.

Assessing the need for further research on vineyard improvement will provide insight as to whether more options are required for growers who believe their future lies in increasing their vineyard and grape quality. Improving quality, particularly for C grade vineyards, has the potential to help address the oversupply of commercial grade grapes and meet the projected undersupply of fine wine grapes in the key domestic, U.S. and China markets identified by the Review<sup>16</sup>.

## Code of Conduct

### ➤ Action 2.4

**WFA and WGGA will continue to support the Code of Conduct between winemakers and growers.**

Just as the Code of Conduct between retailers and winemakers is important (refer to Action 3.2), so too is a strong Code between winemakers and grape growers. The two national member organisations via the Joint Policy Forum will continue to review the Code in a manner consistent with the recommended principles for retailers, while acknowledging that the Code continues to raise a number of issues that may inhibit closer working relationships. These matters are already under review by the Forum and outcomes and potential changes to the Code will be the subject of further consultation with WFA and WGGA. With the finalisation of the Code the Forum will also consider ways and means to encourage industry participation from both growers and winemakers in the Code.

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<sup>14</sup> The Joint Policy Forum is an initiative of WFA and WGGA to provide a forum for the leadership of both organisations to discuss and progress a range of shared issues. The membership of the Forum includes the President of WFA, the Chair of WGGA, two Directors from both WFA and WGGA and both CEOs.

<sup>15</sup> See exhibit 26

<sup>16</sup> See exhibit 27

**➤ Action 2.5****WFA does not support a vine buyback**

The Review has concluded that further re-adjustment to the supply base is likely to remain slow given processing overcapacity and significant sunk costs throughout the industry<sup>17</sup>. A reduction in oversupply in some segments may result from the WET rebate reforms outlined at Action 5 below. However, the analysis of market projections suggests that even under the most optimistic scenarios, demand for C and D grade grapes is unlikely to address oversupply and the distorting impact this has on grape prices<sup>18</sup>.

In considering the oversupply issue and the need to support the ongoing market correction, WFA has also assessed proposals for a targeted vine buyback scheme. After weighing up the case for and against, including the results from past state-based schemes and the challenges of avoiding unintended consequences, WFA has determined that such an initiative should not be supported.

While there are no easy solutions to hasten the correction to oversupply, WFA will continue to undertake and communicate the analysis that will encourage wine enterprises to take well informed and proactive decisions. WFA will continue to emphasise the structural drivers behind poor profitability at lower grape grades and reiterate that a sustained recovery is some time away. It will also monitor the impact of WET rebate reforms on uneconomic production and update its advice to industry as the reform measures are implemented. These reform measures are discussed at Action 4.

**Key Questions**

- *Do you agree with these Actions or should economic forces be left to bring the market back into balance over time?*
- *Will these Actions be enough?*
- *What other steps could the industry take?*
- *Do you have a view on a vine buyback scheme?*

<sup>17</sup> See pages 36 to 37

<sup>18</sup> See exhibit 26 and discussion on page 36

## **Action 3: Maximise Open and Fair Domestic Competition**

**Work with the national wine retailers and competition regulator on fairness, transparency and equity in the domestic wine market.**

**Outcome: A more sustainable domestic marketplace for industry where companies can grow share through quality, innovation and investment.**

**Collaborate on shared issues and build relationships**

### **Code of Conduct**

WFA acknowledges and appreciates the work of retailers, particularly the national chains, in bringing Australian wine to Australian consumers. It believes, however, that there is scope for improving relationships to support a diverse industry and provide long term benefits to consumers.

The Expert Review has provided an analysis of the challenging Australian retail environment and the increases in margin losses to the national chains in recent years<sup>19</sup>. The Review also concludes, from an initial analysis of the available data, that between 2007 and 2012 retailers captured a significant portion of winemakers profit margin. The analysis also suggests the majority of this margin may not have been transferred to consumers.<sup>20</sup>

More broadly, there are widespread industry concerns over the increasing market power of the major retailers, perceived unacceptable buyer behaviours and on-going horizontal and vertical integration. Some 77% of all domestic retail wine sales are now controlled by the national chains<sup>21</sup>. WFA believes it is important to participate in national debates on competition, and work with the retailers on addressing anti-competitive behaviour. More broadly, WFA aims to work with the retail sector, government and regulators on a more open and fair domestic marketplace for all participants.

#### **➤ Action 3.1**

**Collaborate with the retail sector on shared issues through a standing Industry Working Group.**

WFA acknowledges a number of shared issues with the retail wine sector, particularly the need to collaborate on promoting moderate consumption and responsible alcohol regulation. A standing Industry Working Group including the leadership of WFA and the national retailers will provide a forum to progress wine industry-related issues and an opportunity to collaborate on whole-of-supply-chain solutions. Initial indications are that national retailers are likely to join such a group.

#### **➤ Action 3.2**

**WFA will work with the national chains to adopt an Industry Code of Conduct based on agreed Principles and Practices.**

WFA believes that a Code of Conduct based on agreed principles and practices with the retailers has the potential to drive more fairness and consistency across the supply chain. The principles of such a Code would provide a basis for developing longer-term partnerships between industry participants. The principles will include:

<sup>19</sup> See pages 26 to 29

<sup>20</sup> See page 28

<sup>21</sup> See exhibit 17

- A Fair Go: Industry participants will act and deal fairly with each other.
- Transparency: Each industry participant will be transparent in its processes and decision making, while preserving the confidentiality of commercially sensitive information.
- Contracts are paramount: Industry participants will at all times honour the terms of agreements, whether or not reduced to writing.
- Clarity in contracts and invoicing: As contracts are paramount, industry participants will make reasonable efforts to make contracts as comprehensive as possible, easy to understand and in plain English. A single invoice approach should be adopted to increase the certainty and transparency in the commercial understanding.
- Clarity of procedure: Procedures for sales and supply and all other trading terms will be clearly explained. Any changes to procedures will be clearly explained, and notified well in advance of the changes coming into effect. Compensation should be paid to parties affected by changes in procedures.
- Fairness in discounting and rebate practices: No industry participant should be required or pressured into providing a discount or rebate that was not previously agreed in writing, or that operates retrospectively.
- Fairness in marketing and promotions: All marketing and promotional practices will be fair and equitable, and respect the value of each participant's brand, a participant's right to decline to participate in a promotion, and equitable contributions to the costs of marketing and promotions.
- Equitable treatment of marketing participants: All industry participants will be treated in a fair, equitable and commercial manner.
- No unreasonable or unjustified penalties or payments: Industry participants will not be penalized or delisted unreasonably or without justification. Any penalty or delisting procedure must be clearly explained and set out in the supply agreement. Any procedure for delisting should include a review mechanism.
- Open dialogue and dispute resolution: Industry participants will strive to keep open lines of communications with each other, and use efficient mechanisms to resolve disputes that arise between them.
- Industry participants will work towards pricing and promotional activity that is sustainable, supports future investment in brands and reinforces our licence to operate with the community.

WFA will work with the retailers on these Principles and a Code through the Industry Working Group proposed at Action 3.1. WFA will also continue to work with other supplier groups on a generic Code for the grocery sector with the retailers where appropriate.

**Assist retailers and members with concerns over unfair treatment**

➤ **Action 3.3**

**WFA will establish a process with retailers and producers to confidentially highlight concerns regarding retailer conduct that they believe could be an abuse of market power.**

There is an immediate role for WFA to help monitor and record claims of unfair or unjust treatment and to highlight to retailers issues that arise. This could include a reporting system put in place by WFA to enable individuals to confidentially report their concerns so that any systemic behaviours can be identified, raised with the retailer and addressed within the context of the Code and, if necessary, with the ACCC.

## Deal with Horizontal and Vertical Integration

### ➤ Action 3.4

**WFA will continue to work with the ACCC and the Government on the structure of wine markets, potential vertical and horizontal acquisitions by the chains, and the likely impact these acquisitions may have on competition and market structure.**

Ongoing engagement with the ACCC and government to ensure they have a full understanding of the market and the issues raised by further vertical or horizontal integration by retailers is also an important priority for WFA. The ACCC's agreement to the acquisition of Cellarmasters by Woolworths in 2010 highlights an urgent need to assist them in developing a more robust and realistic market definition.

## Public Benefit Review

### ➤ Action 3.5

**WFA will continue to consider options to reform Competition Law and the ACCC in a manner consistent with the objectives of the recommended Principles and Practices and with greater scrutiny and control over vertical and horizontal integration.**

WFA should cooperate fully with any Government and Parliamentary inquiries into potential policy reform to competition legislation, regulation and enforcement. This will require ongoing consideration by WFA of specific proposals to reform the Competition and Consumer Act and the mandate/powers of the ACCC.

## Further analysis on the wine market and competitiveness

### ➤ Action 3.6

**WFA to work with the Productivity Commission to extend the analysis of the domestic wine market and competition issues.**

The Expert Review has provided initial analysis of the domestic market and the impact of retail consolidation on margins and profitability. This work needs to continue, to help build the fact base, inform future policy discussions and assess the findings of the Review. WFA believes the Productivity Commission has the appropriate resourcing and expertise to conduct such research.

## Key Questions

- *Should there be a Code of Conduct or should market forces be left to decide?*
- *Are there other principles or issues that should be covered by a Code?*
- *How can the industry work with retailers to increase sales of Australian wine?*

## Action 4: Reform the WET Rebate

**Reform the Wine Equalisation Tax rebate to support regional communities.**

**Outcome: To return eligibility for the rebate back to its original policy intent and to consider further reforms as industry conditions improve.**

The WET rebate was originally intended to assist smaller producers to remain in business so that diversity in wine styles is maintained and to secure the positive economic impact of wine enterprises in regional communities. As summarised by the Australian National Audit Office, the rebate was introduced *“in recognition of the substantial financial hardship being faced by small rural and regional wineries and aimed to support their viability and consequent capacity to generate employment and wealth in local communities.”*

Evidence suggests it is achieving this goal, with some \$282m of rebate being shared among up to 1,912 claimants (excluding New Zealand rebates)<sup>22</sup>. The rebate remains an important revenue source for small winemakers in both the fine wine and commercial segments who are struggling with a decline in export sales and intense competition in the domestic market.

However, the consultation that has accompanied the Expert Review has revealed a significant level of concern within the industry that the rebate has evolved well beyond its original intent and is being compromised by the ability of brokers, intermediaries and foreign-based entities to access the entitlement. There are also widespread reports of “rotting”, the flouting of associate rules and a proliferation of non-commercial multi-party schemes and ventures. The Review has highlighted that assuming the top 38 winemaking companies only claim one full rebate, some 176 entities may also be claiming close to the full rebate<sup>23</sup>.

Addressing this growing list of unintended recipients and consequences has widespread support among winemakers. We believe there is a case to immediately close loopholes and restrict the rebate to genuine producers who operate in and contribute to regional communities and to exclude “virtual” wineries.

WFA proposes a two-stage approach to reforming the WET rebate:

1. Immediate legislative change to give effect to the package of recommendations listed below at Actions 4.1 to 4.6 to return the scheme to its original policy intent as soon as possible, and
2. A review of further reform options in 3 years. This is discussed at Action 4.7 below.

### **Return to Original Intent**

#### ➤ **Action 4.1**

**In the short term, while legislative change takes place, WFA will work with the ATO to identify changes that can be made to tighten the interpretation of the existing provisions to bring them into line with the original intent.**

#### ➤ **Action 4.2**

**Disallow the rebate for uncommercial arrangements (for example when the ATO forms the view that the growers/winemakers have split their activities with the substantial purpose of claiming multiple rebates).**

<sup>22</sup> See exhibit 28, discussion on pages 42 to 44 and ATO correspondence

<sup>23</sup> See exhibit 29 and discussion on page 42

➤ **Action 4.3**

**Seek legislative change consistent with the original policy intent and limit WET rebate eligibility to producers which:**

- a) **have Production Assets and,**
- b) **manufacture and sell wine in a form that is packaged ready for sale to a consumer and where the finished product is identifiably that of the producer, or**
- c) **grow grapes and sell the wine from those grapes in a form that is packaged ready for sale to a consumer and where the finished product is identifiably that of the producer.**

**Production Asset means a producer having a Substantial Investment in physical grape growing and wine production and making infrastructure and may include a cellar door open to the public and other regional tourism infrastructure.**

**Substantial Investment means:**

- a) **a real investment in the producer's own facilities so that at least 70% of wine subject to rebate is processed in those facilities, or**
- b) **investment in a real business of grape growing and wine making with investment in a cellar door open to the public or with investment in other wine tourism infrastructure or with substantial participation in the routine operations of the grape growing and winemaking business for at least 250 days per financial year.**

This is what we believe the policy intent of the rebate to be and should be - to encourage substantial investment and reinvestment particularly in regional Australia and, for example, to deny virtual wineries from claiming the rebate. That is, to support businesses with legitimate investments in our wine regions.

During our consultation we will place examples on the WFA website of what would be included and what would not be included.

➤ **Action 4.4**

**Remove eligibility for the WET rebate from bulk, unpackaged and unbranded wine and from wine that is not a finished product fit for retail sale.**

We believe "cleanskins" should be excluded from rebate eligibility as they play no role in encouraging regional development and, in fact, only increase competition for genuine branded producers. For the same reason, unpackaged (bulk) wine, unbranded wine, wholesale and retail private label, and wine that is not fit for retail sale also should not be rebatable.

Actions 4.1 to 4.4 may give rise to a number of potential unintended consequences and definitions and the application of the Actions to certain practices will require further detailed work. The consultation process will provide an opportunity for these issues to be highlighted and for further detail and insights to be brought forward as tax reform is notoriously difficult.

## New Policy for New Zealand

### ➤ Action 4.5

#### **Remove the New Zealand WET rebate scheme.**

The extension of the rebate to eligible NZ producers in 2005 was also inconsistent with the intent of the rebate. We believe this extension should be abolished and that such a step would not breach any international trade agreement as the rebate does not specifically discriminate in favour of local producers.

It is a widely held and incorrect assumption that the rebate is only available to Australian-based producers. There is nothing in the legislation which prevents the rebate from applying to sales by any producer as long as the producer is registered for GST and making sales from stock held in Australia. In these circumstances it is arguable that the rebate scheme it is not discriminatory in the event of the New Zealand scheme being abolished.

## New Policy Change - Mergers

### ➤ Action 4.6

**Introduce transitional rebate measures to allow the second rebate on a merger to remain with the new entity but be phased out at 25% per year over 4 years. These transitional arrangements will be made available to the industry for up to 5 years from the date of implementation.**

WFA believes that current rebate arrangements may be inhibiting industry consolidation at a time when there is considerable pressure to rationalise and capture efficiencies and economies of scale. Wineries that believe their future lies in consolidation should not be stymied by the unintended consequence of a tax measure. Transitional rebate rules should be introduced to support merger activity.

## WET Rebate Review in 3 years

### ➤ Action 4.7

**WFA will continue to analyse the WET rebate, the impact of the reform measures outlined above and undertake a formal review of WET rebate arrangements 3 years from implementation of the rebate reform measures. The review will consider next steps including keeping the rebate, further restricting rebate eligibility, reducing the claimable amount or abolishing the rebate altogether.**

WFA believes that reform of eligibility arrangements for the WET rebate as outlined above is urgently required to maintain the integrity of the scheme. A proactive approach may also enable industry, in discussion with government, to negotiate the return of a proportion of revenue savings to the industry.

Arguments for and against broader reform or abolition of the rebate will continue across industry. The Expert Review, due to the non-existence of critical data, has been unable to provide clear direction to progress these debates or a conclusive interrogation of the link between the rebate and oversupply. We believe, therefore, that the case has not yet been made for more extensive reform measures than those outlined above, including the abolition of the rebate.

Analysis on the rebate should continue and include the development of further reform options aimed at returning rebate eligibility to its original policy intent. This work should consider specific proposals to:

1. keep the rebate
2. reduce the maximum rebate to a lower level
3. restrict eligibility to cellar door sales, other direct-to-consumer sales and sales to licensed venues where the wine is consumed on premise
4. abolish the rebate altogether over a set timetable, and
5. develop an industry assistance package to support any of the reform measures agreed above.

A date to formally consider this analysis and evolving market conditions should be set 3 years after implementation of the proposed reforms outlined at Action 4.1 to 4.7 above. This will give industry, the investment community and individual companies adequate certainty around tax arrangements without abandoning potential future reform.

## Standing Tax Task Force

### ➤ Action 4.8

**WFA will form a permanent industry taskforce in partnership with WGGA, the ATO and Federal Treasury on wine tax reform and implementation issues.**

### ➤ Action 4.9

**The ATO to reform rebate reporting requirements to capture an improved data set on the profile of claimants and rebateable wine.**

Building a better fact base on the impact of the rebate on the industry will be critical to assessing the merits of any further steps<sup>24</sup>. This will require a closer working relationship between WFA and the ATO and significant changes to BAS reporting obligations to enable the ATO to gather more insightful data.

## Key Questions

- *Do you agree with the proposed Actions to reform the WET rebate?*
- *Are there other reform measures you would support?*

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<sup>24</sup> See page 7

## Action 5: Monitor the Future of Wine Tax Policy

Monitor the future of wine tax arrangements in response to changing market conditions.

**Outcome: Continue the examination of optimal taxation arrangements for industry to support growth and our licence to operate with the community.**

### ➤ Action 5.1

**WFA will continue to analyse proposals for reform to wine tax arrangements.**

### ➤ Action 5.2

**WFA will develop an updated socio-economic footprint of the industry to help model the commercial and community impacts of proposed policy changes related to tax reform.**

After considering the arguments for and against, along with the findings of the Review, WFA does not believe that the industry should pursue a broader wine tax reform agenda at this time. Industry's immediate focus should remain on the measures outlined at Action 4 to reform the WET rebate.

During this time, WFA will maintain its current position on wine tax arrangements with governments, the public health lobby and within industry. This position does not preference the current wine tax base over a potential volume-based approach and is committed to no overall increases in wine tax revenue, no reforms to wine tax arrangements with a social policy objective, a differentiated tax rate for wine from other alcohol categories and, ongoing reform to the WET Rebate.

WFA analysis of wine tax issues will be updated as market conditions change. A shift in wine tax arrangements to a volume based approach could provide an opportunity for the premium wine segment to raise margins in the domestic market or to reduce retail price points to drive volume, although it is less clear how this profit opportunity would be ultimately divided between producer and retailer. Also, with few immediate avenues for the commercial segment to divert volume to international markets at profitable price points, it is likely that a shift to a volume-based tax on wine would see significant volume exiting the industry and a material industry restructure. The subsequent socio-economic impact on certain regional communities has not been modelled in this exercise.

### Key Question

- *Do you agree with the proposed Actions to monitor the future of wine tax policy?*

## Action 6: Continue to Engage the Wine and Health Debate

**Proactively engage the Wine and Health debate to promote responsible consumption and ensure an appropriate regulatory framework for our Industry.**

**Outcome: To minimise harm to the community, promote the benefits of moderation and to shape the policy debate.**

### Responsible Citizens

A key downside demand risk facing the industry is ad hoc intervention by government, for example in the form of an increase in wine tax, while wine remains the cheapest form of alcohol per standard drink<sup>25</sup>. WFA believes there are a number of steps industry bodies and individual companies can take to promote moderation and reduce this risk.

WFA also believes that it is important to note that, while some data on alcohol consumption and rates of misuse indicate positive or neutral trends, community values around the acceptability of alcohol-related harm and expectations for corporate behaviour continue to evolve and “raise the bar”. For the wine industry, this has manifested itself in increasing levels of scrutiny on the corporate social responsibility commitments of individual companies, pressure from some quarters for increased regulation including taxes and increased expectations from governments that the industry will pro-actively self-regulate and pursue voluntary activities aimed at reducing levels of harm.

#### ➤ Action 6.1

**All wine companies should join WFA and participate in its initiatives aimed at promoting a responsible industry and drinking culture.**

The wine industry is well placed to respond positively in this environment. The industry enjoys strong support in regional communities and its products continue to be consumed in moderation by the vast majority of wine drinkers. WFA has also put in place programmes such as membership and support of the Alcohol Beverages Advertising Code, the Voluntary Pregnancy Labelling Initiative and Responsible Winery Initiative to ensure producers have the necessary tools available to effectively self-regulate.

However, the resources available to WFA to develop and execute these industry-wide initiatives and to undertake critical research are extremely limited. It is important that all winemakers participate to both reduce misuse and the likelihood of arbitrary regulation. Being a member of WFA also provides funding to support these programmes and the development of future activities.

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<sup>25</sup> See page 37

## Fact-Based Analysis

### ➤ Action 6.2

**WFA will continue critical research into the link between price and at-risk consumption and incorporate the findings into its advocacy on alcohol tax issues.**

The Expert Review has highlighted the specific risk to the industry of an ad hoc increase in wine taxes aimed at lifting prices and lowering consumption. While there is no clear evidence that such a measure would reduce potential harm from excessive drinking, the hypothesis that a drop in overall consumption leads to a proportional reduction in alcohol-related harm has gone largely unchallenged. To enable industry to build its understanding on this critical issue, research commissioned by WFA is now underway to explore the price sensitivity of “at-risk” consumers. This analysis is central to mitigating the risk of a wine tax increase aimed at achieving social policy outcomes and, specifically, interrogating the claim that higher retail prices will reduce alcohol-related harm.

We believe that this specific analysis should be the start of a broader industry-wide commitment to establishing a strategic research capability that informs and reinforces our positioning on key wine and health issues. Securing the funding to build this capability will be challenging and, going forward, the statutory authorities will need to provide more direct support to WFA if we are to make a difference in the debates and subsequent policy development. The case for doing so is strong given the importance of these issues to the future of the industry and the wellbeing of wine consumers.

## Promote Moderation

### ➤ Action 6.3

**WFA will undertake analysis into the health and social benefits of moderate wine consumption and develop an appropriate communications campaign to older Australians to encourage moderation.**

Work is also underway to consolidate global research on the health and social benefits of moderate wine consumption. This work will ensure we have a solid evidence base to develop a consumer facing education campaign to older Australians that confirms moderate drinking can be a part of a healthy diet and lifestyle and can lead to a happier and longer life. We believe this is an important response to an upward trend in consumption levels in Australians over 50 years old for whom wine is the preferred alcohol beverage type. It also has the potential to facilitate a more proactive approach to the current community debate around Australia’s drinking culture and inform a credible “drink in moderation” message from the industry based on sound evidence.

## Key Questions

- *Do you consider the wine and health debate important to the future of the industry?*
- *What more could we do and how should these activities be funded?*

## Action 7: Secure the Funding for the Action Agenda

Secure the funding to support the recommended reform agenda in partnership with industry and Government.

Outcome: To fund the reform agenda.

### ➤ Action 7.1

#### WFA will secure funding to implement the Actions

Additional funding will be needed to implement the Actions proposed in this paper. While the existing resources of WFA, WAC, GWRDC and WGGA will be utilised there is not sufficient funds available among these organisations.

The consultation process that follows the release of this paper will provide the feedback necessary for WFA to finalise the Actions and promote a comprehensive, balanced and urgent industry plan to government and other stakeholders. This will include recommended next steps based on the Actions, our requests to government and how the funding requirements can be met. This could include discussions on how existing government support for the wine industry could be better targeted.

In summary, the initial estimates over the next three years in the six suggested action areas are as follows:

ACTION	Year 1	Year 2	Year 3	TOTAL
<b>1. Grow the Demand Opportunity</b>				
1.3 Rebuild WAC's operating budget	\$2m	\$2m	\$2m	\$6m
1.4 Marketing programmes				
1. Trade Shows	\$1m	\$1m	\$1m	\$3m
2. Tourism Australia initiatives	\$2.5m	\$2.5m	\$2.5m	\$7.5m
3. In-Market Education	\$0.5m	\$0.5m	\$0.5m	\$1.5m
4. Visitors Program	\$0.5m	\$0.5m	\$0.5m	\$1.5m
5. Savour Australia	\$2m	\$2m	\$2m	\$6m
6. Aussie Wine Month	\$0.5m	\$0.5m	\$0.5m	\$1.5m
1.5 New Initiatives				
1. Social Media Platform	n/a	n/a	n/a	
2. Food and Wine Centre Shanghai	\$1.5m	\$1.5m	\$1.5m	\$4.5m
3. Regional promotions	\$0.5m	\$0.5m	\$0.5m	\$1.5m
<b>2. Hasten the Supply Correction</b>				
2.1 National Vineyard database/ Foundation data collection	\$2m	\$1m	\$1m	\$4m
2.2/2.3 Vineyard research	\$1m	\$1m	\$1m	\$3m
<b>3. Maximise Open and Fair Competition</b>	n/a	n/a	n/a	
<b>4. Reform the WET Rebate</b>	Government savings measure			
<b>5. Managing Future Wine Tax Arrangements</b>	n/a	n/a	n/a	
<b>6. Continue to Engage the Wine &amp; Health Debate</b>	n/a	n/a	n/a	
<b>TOTAL</b>	<b>\$14m</b>	<b>\$11m</b>	<b>\$11m</b>	<b>\$36m</b>

## Key Questions

- *Do you believe WFA should engage the Government on retaining savings from WET rebate reform measures to support the proposed Actions?*
- *What other potential sources of funding are there?*

## Next Steps and Implementation

The next step in the review process is to invite your views and input.

Written comments are welcome. Please email WFA at [wfa@wfa.org.au](mailto:wfa@wfa.org.au) or contact individual WFA Board members by Friday 18 October 2013. Board members' email details can be found at Attachment 4.

You are also welcome to participate in our program of regional consultative meetings. Dates, locations and RSVP details can be found at [www.wfa.org.au](http://www.wfa.org.au).

Following the consultation period, including regional visits and written responses, the WFA Board will consider all the feedback before finalising these Actions and commencing implementation.

Refer to

**“Expert Report on the Profitability and Dynamics  
of the Australian Wine Industry”**

## **SUMMARY OF ACTIONS**

### **1. Grow the Demand Opportunity**

**Grow demand for our wine, both domestically and internationally.**

**Outcome: Increase our relative market share in all major markets while performing as well as or better in each segment.**

#### **Understand Consumer Preferences**

➤ **Action 1.1**

WFA will support research led by WAC on the Australian category's "brand health" among distributors and gatekeepers in key markets and ensure insights are leveraged in policy and programme development. The U.S. market will be the first focus.

#### **Strengthen WAC**

➤ **Action 1.2**

Wine Australia should be adequately funded to rebuild its core operational capability.

➤ **Action 1.3**

Wine Australia should be adequately funded to increase investment levels in core marketing programmes including:

1. A stronger presence in trade shows
2. Partnerships with Tourism Australia
3. Educating key markets
4. Visitors programme
5. Savour Australia
6. Domestic marketplace initiatives

➤ **Action 1.4**

Wine Australia should be adequately funded to develop and execute new initiatives including:

1. A social media-based platform to promote Australian wine
2. An Australian Food and Wine Centre in Shanghai
3. Regional promotions

#### **Extend Export Market Development Grants**

➤ **Action 1.5**

The Australian Government to double the level of funding to Export Market Development Grants and reform the eligibility criteria.

## **Improve Market Access**

### **➤ Action 1.6**

The Australian Government to provide adequate resourcing to improve market access including:

- APEC initiatives in the Standards and Conformance Sub Committee and Wine Regulatory Forum aimed at standardising import requirements
- The reduction in trade barriers caused by differing maximum residue limits for agri-chemicals across key markets
- DAFF and FSANZ's pursuit of bipartisan and regional agreements
- DFAT and DAFF's capabilities to properly incorporate technical and regulatory issues into the development and maintenance of FTAs and regional trade agreements.

## **Execute a “Buy Australian First” campaign with the major liquor retailers**

### **➤ Action 1.7**

WFA will support the national retailers in the development of a “Buy Australian First” consumer facing campaign. This will promote regionality, blends and leading varieties with the aim of capturing share from imports and re-engaging Australian consumers.

## 2. Hasten the Supply Correction

Hasten the correction to the supply base and improve margins throughout the value chain.

**Outcome: Help reduce the oversupply of commercial grade grapes and the pricing distortion it creates throughout the industry.**

### Vineyard Profitability

#### ➤ Action 2.1

WFA and WGGGA will produce a regular review of vineyard profitability supported by a National Vineyard Database and an update of demand projections in key markets.

### Vineyard Flexibility and Profit Improvement

#### ➤ Action 2.2

The Joint Policy Forum (WFA and WGGGA) will review the need to commission research into lowering the cost of vineyard turnover and removal to facilitate greater responsiveness of vineyards to structural imbalances, economic cycles and changes in consumer preferences.

#### ➤ Action 2.3

The Joint Policy Forum (WFA and WGGGA) will review the need to commission research to ascertain vineyard flexibility where there is excess supply and the technical priorities to support improvements in vineyard quality.

### Code of Conduct

#### ➤ Action 2.4

WFA and WGGGA will continue to support the Code of Conduct between winemakers and growers.

### Vine Buyback

#### ➤ Action 2.5

WFA does not support a vine buyback.

### **3. Maximise Open and Fair Domestic Competition**

**Work with the national wine retailers and competition regulator on fairness, transparency and equity in the domestic wine market.**

**Outcome: A more sustainable domestic marketplace for industry where companies can grow share through quality, innovation and investment.**

#### **Collaborate on shared issues and build relationships**

➤ **Action 3.1**

Collaborate with the retail sector on shared issues through a standing Industry Working Group.

#### **Code of Conduct**

➤ **Action 3.2**

WFA will work with the national chains to adopt an Industry Code of Conduct based on agreed Principles and Practices.

#### **Assist retailers and members with concerns over unfair treatment**

➤ **Action 3.3**

WFA will establish a process with retailers and producers to confidentially deal with concerns regarding retailer conduct that they believe could be an abuse of market power.

#### **Deal with Horizontal and Vertical Integration**

➤ **Action 3.4**

WFA will continue to work with the ACCC and the Government on the structure of wine markets, potential vertical and horizontal acquisitions by the chains, and the likely impact these acquisitions may have on competition and market structure.

#### **Public Benefit Review**

➤ **Action 3.5**

WFA will continue to consider options to reform Competition Law and the ACCC in a manner consistent with the objectives of the recommended Principles and Practices and with greater scrutiny and control over vertical and horizontal integration.

#### **Further analysis on the wine market and competitiveness**

➤ **Action 3.6**

WFA to work with the Productivity Commission to extend the analysis of the domestic wine market and competition issues.

## 4. Reforming the WET Rebate

**Reform the Wine Equalisation Tax rebate to support regional communities.**

**Outcome: To return eligibility for the rebate back to its original policy intent and to consider further reforms as industry conditions improve.**

### Return to Original Intent

#### ➤ Action 4.1

In the short term, while legislative change takes place, WFA will work with the ATO to identify changes that can be made to tighten the interpretation of the existing provisions to bring them into line with the original intent.

#### ➤ Action 4.2

Disallow the rebate for uncommercial arrangements (for example when the ATO forms the view that the growers/winemakers have split their activities with the substantial purpose of claiming multiple rebates).

#### ➤ Action 4.3

Seek legislative change consistent with the original policy intent and limit WET rebate eligibility to producers which:

- a) have Production Assets and,
- b) manufacture and sell wine in a form that is packaged ready for sale to a consumer and where the finished product is identifiably that of the producer, or
- c) grow grapes and sell the wine from those grapes in a form that is packaged ready for sale to a consumer and where the finished product is identifiably that of the producer.

Production Asset means a producer having a Substantial Investment in physical grape growing and wine production and making infrastructure and may include a cellar door open to the public and other regional tourism infrastructure.

Substantial Investment means:

- a) a real investment in the producer's own facilities so that at least 70% of wine subject to rebate is processed in those facilities, or
- b) investment in a real business of grape growing and wine making with investment in a cellar door open to the public or with investment in other wine tourism infrastructure or with substantial participation in the routine operations of the grape growing and winemaking business for at least 250 days per financial year.

#### ➤ Action 4.4

Remove eligibility for the WET rebate from bulk, unpackaged and unbranded wine and from wine that is not a finished product fit for retail sale.

### New Policy for New Zealand

#### ➤ Action 4.5

Remove the New Zealand WET rebate scheme.

## **New Policy Change – Mergers**

### **➤ Action 4.6**

Introduce transitional rebate measures to allow the second rebate on a merger to remain with the new entity but be phased out at 25% per year over 4 years. These transitional arrangements will be made available to the industry for up to 5 years from the date of implementation.

## **WET Rebate Review in 3 years**

### **➤ Action 4.7**

WFA will continue to analyse the WET rebate, the impact of the reform measures outlined above and undertake a formal review of WET rebate arrangements 3 years from implementation of the rebate reform measures. The review will consider next steps including keeping the rebate, further restricting rebate eligibility, reducing the claimable amount or abolishing the rebate altogether.

## **Standing Tax Task Force**

### **➤ Action 4.8**

WFA will form a permanent industry taskforce in partnership with WGGA, the ATO and Federal Treasury on wine tax reform and implementation issues.

### **➤ Action 4.9**

The ATO to reform rebate reporting requirements to capture an improved data set on the profile of claimants and rebateable wine.

## 5. Monitor the future of wine tax policy

**Monitor the future of wine tax arrangements in response to changing market conditions.**

**Outcome: Continue the examination of optimal taxation arrangements for industry to support growth and our licence to operate with the community.**

### ➤ **Action 5.1**

WFA will continue to analyse proposals for reform to wine tax arrangements.

### ➤ **Action 5.2**

WFA will develop an updated socio-economic footprint of the industry to help model the commercial and community impacts of proposed policy changes related to tax reform.

## 6. Continue to engage the Wine and Health debate

**Proactively engage the Wine and Health debate to promote responsible consumption and ensure an appropriate regulatory framework for industry.**

**Outcome: To minimize harm to the community, promote benefits of moderate wine consumption and to shape the policy debate.**

### Responsible Citizens

➤ **Action 6.1**

All wine companies should join WFA and participate in its initiatives aimed at promoting a responsible industry and drinking culture.

### Fact Based Analysis

➤ **Action 6.2**

WFA will continue critical research into the link between price and at-risk consumption and incorporate the findings into its advocacy on alcohol tax issues.

### Promote Moderation

➤ **Action 6.3**

WFA will undertake analysis into the health and social benefits of moderate wine consumption and develop an appropriate communications campaign to older Australians to encourage moderation.

## 7. Secure the funding for the Action Agenda

Secure the funding to support the recommended reform agenda in partnership with industry and Government.

**Outcome: To fund the reform agenda.**

### ➤ Action 7.1

WFA will secure funding to implement the Actions.

## The on-going work of the Winemakers' Federation

While the Review process has revealed seven priority areas for Action, there are also a number of related issues that will require the on-going attention and resourcing of WFA.

### **PROVIDE THE INDUSTRY WITH 'FACTS' TO ASSIST INDIVIDUAL COMPANY DECISION MAKING**

**WFA will continue to provide strategic industry analysis every 3 years on priority issues. The focus will not necessarily be general but in relation to specific industry issues that may then be current.**

**WFA will work with other bodies and government to secure the collection of "foundation data" and make it widely available at least every 2 to 3 years. This will include the collection of improved data on WET rebate recipients and "rebatable" wine subject to the co-operation of the ATO.**

The Review has demonstrated the importance of continuing the collection of critical industry data including: vineyard area, plantings and removals by region and variety; wine grape production; wine grape prices; wine production; wine inventories; domestic sales of Australian wine; and, exports of Australian wine. The analysis contained in the Review would not have been possible without this information and it will be critical to on-going decision-making in and for the industry.

Due to an increase in costs and efficiency measures within agencies such as WAC and the Australian Bureau of Statistics, the collection and procurement of these key industry data sets is now under threat.

An alternative approach would see WAC collect all foundation data on behalf of the sector. This centralised approach would provide flexibility to tailor data collection to emerging sector issues and strategies. It would also deliver potential cost savings through survey and infrastructure synergies. However, funding will be needed to design and build a centralised IT infrastructure to enable the collection of these foundation data sets. Changes to the Wine Australia Act would also be required.

With the pending merger of GWRDC and WAC, we believe there is a strong case to adopt this approach as the R&D arm of the merged entity will also be able to seamlessly use the data sets for setting priorities and planning purposes.

The Review has also highlighted the lack of data on WET rebate recipients and "rebatable" wine and the difficulties this situation raises for analysing its impact on the industry and on oversupply. Collecting this data will be critical for future policy development on the rebate and will require changes to WET reporting obligations. This information should also be periodically reviewed by WFA and released to industry to inform discussion and decision-making on future rebate arrangements.

### **ASSIST INDUSTRY AND BROADER BUSINESS COMMUNITY INITIATIVES TO REDUCE INPUT COSTS**

The Expert Review has highlighted ongoing cost pressures on the supply chain at a time when our competitiveness is being challenged at home and abroad.

On average it is estimated that cost of goods sold for domestic sales have increased 15% over the last five years.

This trend is likely to continue as grape supply potentially tightens and as producers continue to struggle with passing these costs through to international and domestic markets.

The Review has also shown that putting downward pressure on costs will be critical if a profitable commercial and bulk wine export segment capable of competing against low-cost commodity producers is to emerge. In response, we believe there is an opportunity for WFA to assist individual decision-making on costs and to support the broader efforts of the business community to reduce cost and compliance burdens.

**All winemaking companies should join WFA and the Entwine Australia programme to further develop an industry-wide response to improving key industry environment performance measures.**

In particular, we believe the flagship Entwine program delivers two valuable functions to the industry by providing 1) a continuous improvement system to track and manage energy and water usage, and 2) baseline data to assist members with benchmarking their performance and progress against similar industry activities. More broadly, WFA also supports members with opportunities to source funding and advice from government agencies on green technology and energy/water reduction initiatives.

**WFA will work more closely with the broader business community on shared issues including business taxation, input costs and cutting red tape.**

There is also significant scope for WFA to influence the broader public debate on issues relating to the cost of doing business through engagement with likeminded industry bodies. Potential opportunities exist with groups such as the National Farmers Federation, the Australian Chamber of Commerce and Industry, the Australian Industry Group, the Australian Food and Grocery Council and the Australian Industry Greenhouse Network.

Further scoping and discussion with such groups is required to ensure an appropriate fit for WFA and its members. Engagement may not be limited to membership of any of these associations, but could include appropriate partnerships and/or lobbying activities on an issue-specific basis.

**PROGRESS ORGANISATIONAL REFORM TO HELP BUILD THE INDUSTRY PROFILE, ALIGN INDUSTRY ADVOCACY EFFORTS AND IMPROVE SERVICE TO LEVY AND MEMBERSHIP PAYERS**

We believe that the Expert Review has strengthened the case for industry to rationalise its limited resources. It has specifically highlighted the importance of educating important industry stakeholders on the current state of the industry and its prospects to ensure a partnership approach with government evolves and that ad hoc regulation is avoided. The issues it has raised touch all levels and regions of the sector. Successful implementation of our recommendations will also depend on alignment and coordinated advocacy from the two national member organisations and the two statutory authorities across multiple national, state and local government jurisdictions.

**Legislation for the merger of GWRDC with WAC and its implementation should be supported by all industry participants and expedited through the Parliament.**

The case for the merger of the two industry statutory authorities, GWRDC and WAC, has also been strengthened by the Review's findings. In particular, growing the demand opportunity and improving vineyard flexibility in response to a changing marketplace have an inherent synergy which would be best captured by a single authority.

**WFA will work with state and regional bodies on an industry framework for representation with the aim of achieving better efficiencies across regional, state and national industry associations.**

In an environment where the wine industry is but one of several manufacturing industries vying for government support and attention, we believe it is important that the limited resources of the representative associations at national, state and regional level are maximised and all efficiencies captured. It is important that the current lack of an agreed framework for industry representation be addressed to ensure levy and membership payers throughout the industry are receiving a valuable return on their investment.

**WFA and WGGA will explore the potential benefits of further integration between the two organisations.**

Finally, the Review has highlighted the need for whole-of-supply-chain solutions and advocacy on the key issues of oversupply, retail power and wine tax reform and that the majority of challenges confronting the industry are shared by grape growers and winemakers. We believe that further integration between the two supplier groups will be necessary to deliver the Actions recommended in this paper.

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D'ALOSIO AM, Tony  
Director  
Oakridge Wines Pty Ltd  
Victoria  
tony.d'aloisio@oakridgewines.com.au

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McNAB, Stuart  
Chief Supply Officer and Vintreprenuer  
Treasury Wine Estates  
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stuart.mcnab@tweglobal.com

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Managing Director  
Yalumba Wine Company  
South Australia  
rhillsmith@yalumba.com

LOWE, David  
Winemaker  
Lowe Wines Pty Ltd  
New South Wales  
david@lowewine.com.au

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ALPEN, David  
Chief Financial Officer  
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david.alpen@casellawines.com

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Managing Director and Chairman  
Angove's Pty Ltd  
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john.angove@angove.com.au

BURT, Alexandra  
Managing Director  
Voyager Estate (WA) Pty Ltd  
Western Australia  
aburt@voyagerestate.com.au

CAMPBELL, Colin  
Chief Executive  
Campbells Wines  
Victoria  
colin@campbellswines.com.au

EAST, Michael  
General Manager, Australia & New Zealand  
Accolade Wines  
New South Wales  
michael.east@accolade-wines.com

KAY, Andrew  
Managing Director  
Wirra Wirra  
South Australia

[akay@wirra.com.au](mailto:akay@wirra.com.au)

OMOND, James  
Lawyer  
Omond & Co  
Victoria

[james@omond.com.au](mailto:james@omond.com.au)

TAYLOR, Mitchell  
Managing Director  
Taylors Wines Pty Ltd  
New South Wales

[mitchell.taylor@taylorswines.com.au](mailto:mitchell.taylor@taylorswines.com.au)

THOMPSON, Kate  
Legal and Corporate Affairs Director  
Premium Wine Brands – Pernod Ricard  
South Australia

[kate.thompson@premium-wine-brands.com](mailto:kate.thompson@premium-wine-brands.com)

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**ACRONYMS AND WINE SECTOR ORGANISATIONS**

<b>WFA</b>	<b>Winemakers' Federation of Australia</b> Peak industry body representing Australia's wineries across a broad range of national and international issues. Funded by voluntary levies.
<b>WGGA</b>	<b>Wine Grape Growers Australia</b> Established in 2006 to represent the interests of the national wine grape growers. Funded by voluntary levies.
<b>WAC</b>	<b>Wine Australia Corporation</b> Australian Government statutory authority primarily funded by wine sector levies, market program membership fees, sponsorship and charges for compliance services and information products. Principal roles include domestic and international marketing activities.
<b>GWRDC</b>	<b>Grape and Wine Research and Development Corporation</b> Australian Government statutory authority funded by wine sector levies and matching Government finance. Principal role is to fund and manage research and development initiatives to advance Australian viticulture and winemaking.