

Winemakers' Federation of Australia
President Tony D'Aloisio AM
Opening Address to the 2014 Wine Industry
Outlook: Taking Charge of our Future Conference

- Check against delivery -

The theme of this Outlook Conference is "Taking Charge of our Future". An important pre-requisite to our industry taking charge of its future is unity - acting with a united voice or one voice putting positions which improve industry settings. These positions may be to Government or to bodies on matters like market access, competition and tax.

This need for unity is not new. Indeed Brian Croser AO in 2002 said,
"It is important to recognise that our biggest challenges are yet to come and I know that industry unity will be the strongest factor in allowing us to face those challenges successfully."

He was right then and this need for unity is right today. To explain, important as the wine industry is for regional employment and exports, it is relatively small when compared to other industries and it is quite fragmented in the sense of different interests in the value chain of farm gate to consumer. To be an effective unity or a united voice, it is the only way of maximising our chances of success.

What's new and important since Mr Croser made his comment, however, is the clear evidence that industry unity, or where we are acting together with one purpose, is achieving results.

Let me illustrate this with examples past two years since the last Outlook Conference. First across Wine industry groups and secondly within WFA itself. These achievements would not have been possible without unity or one voice. Importantly, they have been driven by industry leaders who have recognised that the challenges we are facing not only go back to the GFC, but to the policies of the mid-to-late 1990s and early 2000s, and need united action.

United Action across industry groups...

First, the merger of WAC and GWRDC is a significant rationalisation much needed and it required a united approach to get both sides of politics to support it. The four bodies (WFA, WGGA, WAC and GWRDC) worked together to achieve this outcome and with extensive industry input.

Importantly, when it came to implementation, to get the two existing bureaucracies ready for the merger, the 4 Chairs of these bodies through the Chairs committee worked together on a lot of the detail which was readily agreed.

Next, the memorandum of understanding (MOU) put in place between WFA and WAC evidenced greater cooperation and direction and unity specifically on international marketing and market access.

We developed and costed a very significant marketing program over the next three to four years. It was recognised and accepted by the Chair of WAC (George Wahby) that these

initiatives needed to reflect what industry needed and not what particular interest groups wanted. Hence the strong cooperation between the two bodies.

Another example is the specific work by WFA and other wine bodies in working with Government and the good work Minister Robb is doing to deliver FTAs which reduce and eliminate 14% and 15% tariff barriers and put us in line with our major competitors. Examples are Japan, South Korea and currently we are working on China. Our role – a whole-of-industry role – is to ensure wine is not left out or its interests compromised out against other Government priorities and agricultural interests.

Just as an effective code of conduct is important between WFA and retailers, so too is an effective code between winemakers and grape growers.

The Joint Forum (a forum between WGGG and WFA including the Chairs and three Board members from both organisations) has reviewed and is finalising improvements to this code as part of its work. It has also made progress and continues to discuss and seek compromises on a range of other difficult and complex issues, such as biosecurity and organisational reform.

This cooperation and acting with a unified voice extends to raising funds for specific initiatives. Recently we have gone out to industry seeking financial support to help WFA get the expert analysis done to finalise our reform proposals to Government on significant tax issues.

Paul Evans will be detailing this work tomorrow in his key note address.

Another example across industry is the industry's adoption of the Pregnancy Labelling Initiative that delivers clear and consistent labelling advice it is safest not to drink while pregnant. Since WFA's call to industry to adopt these labels voluntarily in late 2012, we have seen over 300 branded wineries get on board, our analysis suggests over 85% of current domestic wine production now carries the messaging.

A recent meeting of the Food Minister's Forum on Food Regulation agreed not to regulate health warnings on wine labels and recognised what industry had achieved with the voluntary adoption of the pregnancy labelling initiative.

Yet another initiative is the cooperation and working together with WAC, WFA and Tourism Australia. The Restaurant Australia initiative and the Savour conference here in Adelaide last year provide excellent examples of pushing the quality and diversity of our wine.

And there is extensive cooperation and coordination with State and regional bodies too on a number of on-going issues such as management of the wine and health debate, circulating important industry data and progressing joint advocacy on issues such as coal seam gas, labour costs and wine tourism which see us working closely across the multiple levels of industry representation.

Now let me go through some examples of united voice in action within WFA...

WFA is a federation with large, medium and small committees, and each group having four board positions plus an independent chair who does not have a casting vote. Decisions need at least nine votes.

The Board is made up of respected individuals in the industry and are selected by their committee peers. I took over as President some two years ago and can speak first-hand

about how it operates. In that time we have dealt with many issues. All decisions have been by consensus. No formal vote has been needed and subjects like the WET rebate, the codes of conduct with retailers and growers, and how to address the oversupply and so on. Yet these issues – and many more – have been progressed against the yardstick of what is in the industry's best interests.

The Expert Review and our Actions for Profitability across supply and demand, health and alcohol, oversupply, and supermarket power were debated and subjected to input from other wine organisations and members and non members. The result is an important blueprint for restoring profitability. The unity required to achieve these Actions was both within WFA and more broadly.

And there is unity and support in the implementation of those Actions. Just to mention a couple of examples.

For a number of years there have been complaints of supermarket conduct and how channels of distribution are being reduced. Two specific actions taken by WFA include the code of conduct recently announced with Woolworths and soon with Coles, and our submission to the Government's competition inquiry into limiting the future growth of this power.

For the medium and a number of the small winemakers and producers, the code will be significant in changing behaviour, which we are already seeing within Woolworths and in the way terms are negotiated.

The proposed "effects test" in the draft report of the competition inquiry that was released by the Government last week will be significant in limiting the exercise of market power if it is adopted finally. It will support the good work Minister Bilson is doing to promote the interests of small business.

Those who dismiss the WFA code with Woolworths as "motherhood" have missed two important points. Compliance with the Code, where a public company is involved, will generally be formally reviewed at the highest management levels within the retailer and reports prepared for the Board. This public accountability will ensure the code drives cultural change within the retailers. The other aspect is a legal one. There will be risks that non-compliance with our Code could be evidence in other legal actions (eg, claims of unconscionable conduct) and hence ongoing compliance will be important. This is hardly motherhood!

The proposed changes in our Actions to the WET rebate has seen a broad consensus with industry recognising that while the rebate should be retained to support small and medium producers, it needs to be brought back to its original intent and excesses removed and the preferential treatment to New Zealand stopped and possibly its removal from all foreign producers.

The fact that the tax office has announced some \$35m in wrongful claims and penalties indicates how the integrity of the WET rebate is being eroded and contributing to possible distortions in supply and demand.

The WFA submissions to WAC on marketing campaigns recognise what is generally accepted. We have two sub markets in the wine industry – commodity or commercial and fine wine. Our category-level marketing needs to be targeted so that fine wine leads the way but there is a distinct place and future for commercial wine.

Importantly, they are not really separate markets and you only need to apply principles of price elasticity to appreciate that. Both sub markets are important for jobs and export earnings and regional development.

This marketing is not going to happen without funds. The Government has made it clear that it will not provide additional funds to supplement industry resources for AGWA without off-sets from within the industry. WFA has been united in seeking an additional \$25m over four years using the proposed WET rebate savings as offsets. Compare that to Europe where they are spending some 300 million Euros.

No one has come up with a better plan to get these funds other than lifting levies or relying on voluntary contributions. Neither is realistic in the current industry environment of low profitability.

Unity is working ... as these examples across industry and within WFA show...

Now I don't want to be misunderstood. I am not saying there is total unity across industry or within the wine bodies. Nor am I saying there is no disagreement on issues. Necessarily in taking positions not everyone will agree but the evidence is a growing spirit of compromise and consensus.

A growing spirit of putting the best interests of the industry ahead of short term self interest and ahead of sectional interest. A spirit that if your view does not get up, it is for the greater good of the industry to support the position reached. It is important, however, not to skate over differences.

Differences can be over fact-based analysis or a view of what a body should be doing. Nothing wrong with that. That is all part of healthy debate. For example, there is a view that WFA should not involve itself in analysis and openly discussing issues like the WET rebate excesses or the oversupply as these are negatives and give industry a bad image. We should only focus on "talking up" the industry.

These are issues which WFA believes the vast majority of its members and others would like tackled rather than left and engage in some sort of industry spin. We believe there is a growing consensus that settling for the status quo and simply waiting for market conditions to improve is no longer acceptable, if it ever was.

There are other views that WFA should not waste time on tax; ending the New Zealand producer rebate will be too difficult, and; WFA should not be working with the ATO on reducing the uncommercial claims of the rebate. Leave it to the tax office.

We believe that unless the WET rebate is bought back into alignment with its original intent and we work with Government openly and clearly, there is a significant risk that it could be thrown out altogether, and there would be significant consequences where the rebate is supporting small producers. We had a healthy debate with roadshows on these issues. The broad consensus is where we have landed.

Then there are the differences arising out of criticisms which seek to attack the credibility or extent of representation of what a body maybe advocating or of its leaders and members.

For example, some believe the industry is too fragmented, too many bodies and nothing can happen unless rationalized. So, until then, it's all a waste of time. Sure, with a clean sheet

we could devise a different system. That is going to take time and we do not have that luxury. If we focus on what we agree on and are achieving, this criticism falls away.

Another view is that WFA only represents the big end of town and so its views should be ignored or discounted. This is expressed in different ways when criticising WFA's position on an issue. For example, we often hear that WFA only represents 15% of the industry and that small winemakers should form a separate body.

These criticisms leave out that WFA represents 90% of the industry by value, but importantly they also leave out that representation of the smalls which have equal power within WFA is through the small winemakers' committee of WFA, and its linkages back into regional and state associations.

The way the Federation's small winemaker committee is set up encourages representation from the state associations covering small winemaker interests. There is one additional member from the three wine states on that committee which gives extra representation and there are a further 3 small winemakers who nominate themselves for positions so the linkages go back across the country.

While direct membership of all the smalls would provide additional revenue for WFA, in the current climate small members do not need additional fee burdens if their views are represented which they are. There is no groundswell for the small winemakers to form another body. Those representing the smalls see it as important that they are part of the Federation.

Other bodies like WAC, WGGA and GWRDC have also faced differences and criticisms along similar lines and these criticism can generally be answered.

By way of summary so far...

Unity or acting with one voice when putting a position works. This comes through clearly in the examples I have used. These differences should be behind us.

But it is important to pause here, and remind you how hard achieving change can be... even with unity or a united voice we may not achieve what we set out to do...

Let me illustrate that with the recent AGWA Chair and Board appointments. The Chair was appointed with support of WFA and WGGA as set out in the legislation. For some reason not yet explained by the Minister, it is an "acting" appointment only, until 30 June 2015.

In relation to the Board, the Minister rejected the industry based selection process set out in the legislation and proceeded to appoint his own Board. We now have an acting Board until 30 June 2015.

Here we have a situation where there was industry unity in the formation of AGWA. There was unity in the process for appointment of the directors and united industry input through selection of those on the selection committee.

All of us expected this process to be followed.

So, this is an example to remind us how hard it is to achieve change even when that unity or united voice is enshrined in legislation. It still did not win the day.

Despite disappointment that the industry-endorsed process was not followed, the appointed AGWA Board now in place does have our support and we look forward to working with it during its tenure. We are getting on with the job of working with and supporting our statutory authority and the new leadership including the difficult task of getting much needed additional marketing money (we think an additional \$25m over 4 years) for it.

Let's hope the final board will be finalised as quickly as possible and given at least a three-year mandate.

Let me conclude...

From what I have covered, unity or a united voice in putting a position is delivering results, whether it is across industry, groups or the Federation. Yes, we can and need to do better and we will occasionally get a set back where the process the industry advocates is not followed. Overall, the effectiveness of a united voice is clear.

Our challenge now is to continue to build industry unity and present a united voice on issues.

To that end, over the coming months WFA will continue its drive to secure much-needed additional marketing funds for AGWA in the order of \$25m over 4 years.

Similarly it will continue to implement and debate and refine its other Actions to improve industry profitability and continue to engage Government.

It will, with other bodies, continue to achieve and prosecute policies – positions that are anchored in fact-based research and consultation. I need to emphasise that. A lot of the subjects are covered in this Conference.

And with a view to further improving industry unity and advocacy to Government, I will write to each of my counterparts of the wine industry bodies to explore with them a meeting of leaders – a Summit, if you like, at the end of vintage 2015 will do two things ...

First, to focus on how we can be more effective in achieving results on those issues we agree on and avoid set backs. We have extensive plans or a blueprint on the Actions needed. How can we be more effective in implementation?

The other will be to understand differences and to explore how we can resolve them or indeed just park them and get on and improve industry settings. In short, see if we can accelerate the process which already has momentum, of acting with a united voice as part of Taking Charge of Our Future.

In a lunchtime discussion with NSW farmers recently Minister Joyce outlined his view of effective industry bodies.

It's reported he said:

"So what you want from peak industry bodies is, first of all, you want them to be completely focused on their people ... you want them to have clear vision of exactly what they want you to do because we really do rely on them. If I feel a peak organisation is on the balls of

their toes and sharp, I'll just cut and paste their policy into our direction ... because that's basically what I want to do".

We should as an industry adopt this challenge of getting Government to cut and paste our agreed policies. I actually don't think we are that far away from that, judged against the total picture (rather than an individual setback) of what we are achieving, and the support we enjoy, from all sides of politics.

Indeed, representation from the Premier and Federal Government this morning to open this Conference points in that direction, as does the work we do with all Ministers at state and federal level in agriculture, trade, small business and treasury.

Let's see if we can, through cooperation and discussion, further improve our results using a united voice on key issues, and demonstrate that we more than meet the Minister's criteria for an effective industry body.

Thank you. I hope you enjoy the Conference.