



**Submission to  
Agricultural Competitiveness  
Issues Paper**

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**wfa** Winemakers'  
Federation of  
Australia

## Foreword

Australian agriculture offers a tremendous opportunity for our regional economies and for the nation.

We are geographically positioned on the doorstep of some of the fastest growing markets in the world where diets and consumer behaviours are changing rapidly and in favour of western produce. Our clean environment, range of climates and vast production area delivers three times what we need for domestic consumption and has the capacity for far more.

Australia's relatively stable political and economic settings are also capable of fostering the long term investment and innovation horizons required to deliver efficiencies, product diversity and competitiveness.

Importantly, we produce, as is the case with wine, globally competitive products which have been demonstrated to have huge export potential.

The Winemakers' Federation of Australia (WFA) believes that there are five key priorities of focus for government action to support jobs and growth if we are to make the most of these opportunities:

1. We need to change the perception of agriculture so it is seen for what it is – an opportunity over the coming decades for regional Australia and the nation.
2. We need to build the case to encourage more banking finance and investor funding both from Australia and overseas into agri-businesses to enable them to innovate, drive efficiencies and achieve and maintain risk/reward returns.
3. We need to continue to improve market access to key export markets through Free Trade Agreements with China and other key trading partners and continue to remove non-tariff barriers that also work against export opportunity or that might advantage foreign producers in our domestic markets.
4. We need to recognise and support industry-wide marketing initiatives in these export markets where, as with wine, the relative small size of the Australian industry compared to its competitors from other countries puts it at a competitive disadvantage in capturing new market opportunities. This is an important post access investment which is needed if we are to realise the gains from greater access to markets.
5. We need to continue to build regional infrastructure which will support among other things regional tourism so important for agri-businesses such as wine.

In addition to these priorities, WFA believes there are a range of supporting actions from government that would work to support the priorities identified above, improve the competitiveness of local industries and provide efficiencies to both industry and government. These include:

- Facilitating a fairer and more collaborative domestic marketplace through supporting industry codes of conduct and reforming the competition framework so that it delivers both consumer outcomes and a sustainable domestic production and manufacturing base.
- Ensuring regulatory frameworks support the competitiveness of our offering, protect the production environment for the long term and reinforce the distinctiveness of our products and their reputation for consistency and quality.
- Supporting evidenced-based decision making by businesses and policy makers by supporting foundation data collection and sector-wide analysis.

- Reconceptualising the role and value of public sector investment in Research and Development as a long term commitment to building a globally competitive industry and allocate, manage and assess funding accordingly; and
- Adopting a whole-of-government approach to policy making for regional development.

In this submission, we provide further details on these priorities and additional supporting actions.

The challenge before industry, governments and communities is to do what is required to make the most of the opportunities presented by our natural resources, our proximity to emerging markets and Australian knowledge and expertise.

WFA welcomes this opportunity to comment on the Agricultural Competitiveness Issues Paper and we look forward to working with Government in the further development of policies and their implementation.



**Tony D'Aloisio AM**  
President



**Paul Evans**  
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## Executive Summary of Policy Recommendations

This submission defines the supportive role Government can play in enhancing competitiveness in our agricultural sector, improving profitability for farm based businesses and securing regional communities. We believe the actions list build the case to change the mindset towards a recognition of the importance of agriculture to regional communities and the benefits it brings to the nation at large. It makes the following specific policy recommendations.

### **1. Improve access to farm finance and investment by helping markets define farm based assets and their values and risks**

Australian investors, fund managers and banks are less attracted to agricultural enterprises and land than their foreign-based counterparts. Generating greater interest in agricultural infrastructure depends on overcoming:

- Scepticism of longer-term returns in the sector;
- A lack of investor confidence in less liquid and less informationally complete asset classes such as agricultural land;
- Identifying further opportunities and assessing the potential for further operational efficiencies in, and consolidation of, agricultural investments; and
- The absence of a reliable benchmark and comparative data from land and operating returns.

#### Policy recommendations

That Government:

- Facilitates the creation of an Agricultural Land Index for Australia to help define value and risk;
- Together with industry, convene a National Summit on Farm Finance and Investors to foster understanding and to build confidence among the banking and investment community, industry leaders and policy makers and build an understanding on the restructure and changes agri-businesses need to make to be more attractive recipients of investment.

### **2. Help the export performance of businesses through adequate promotion of Australian goods in overseas markets, market access initiatives and targeted incentives;**

In the last five years, demand for many Australian agricultural goods competing in the international marketplace has been adversely affected by a high Australian dollar, fierce competition and high labour costs. Re-gaining our competitiveness and market share in these markets can be supported by Government through bilateral and multilateral trading agreements. The benefits achieved through this work should then be further enhanced and supported through Government assisted category-level promotion and marketing of Australian-made products as an extension of market access activities in much the same way as the EMDG recognises. This targeted support provided by Government, as is the case in the EU and other competitor nations, is important for Australian business to further level the playing field against our competitors. This is especially the case for the wine sector where the industry is relatively small in comparison to its competitors, highly fragmented with limited scope for individual marketing effort and confronted by significantly declining revenues to Wine Australia.

From the wine industry perspective, increasing export earnings and share can be achieved through export facilitation, improved resources for technical market access, finalization of

outstanding FTAs and multi-lateral trading agreements and continued support for the marketing activities undertaken by Wine Australia Corporation (WAC).

### Policy recommendations

That Government:

- Supports the marketing and promotional activities of wine in key markets such as through:
  - Establishing a much stronger presence at key trade shows
  - Implementing the Food and Wine Strategy
  - Greater investment in education in key markets
  - A Visitors Program
  - Domestic wine tourism, social media and regionally-based initiatives
  - Savour Australia 2016
- Supports the removal of technical barriers to trade via multilateral trade activities through the WTO, APEC, the Organisation de la Vigne et du Vin (OIV) and the World Wine Trade Group (WWTG)
- Continues to prioritise conclusion of key free trade agreements such as with China, the Trans Pacific Partnership (TPP), Indonesia, India and the Regional Comprehensive Economic Partnership (RCEP).
- By building on past policy achievements, continues to provide targeted assistance through a further enhanced Export Market Development Grants (EMDG) Scheme by doubling the available funding and reforming the eligibility criteria which currently exclude many of the most innovative wine industry leaders from receiving further grants.

### **3. Facilitate a fairer and more collaborative domestic marketplace**

Agricultural businesses such as winemaking rely on strong performance in the domestic marketplace and long-term collaborative relationships between suppliers, manufacturers and retailers to build economies of scale, robust business models and brands with enough equity to take confidently to the international marketplace. Enhancing greater competition among domestic retailers of food and beverage products and establishing open and fair standards of commercial behaviour can be achieved by developing Codes of Conduct throughout the value chain and reforming the competition framework so that it both delivers both a fair consumer outcome and a sustainable production and manufacturing base in Australia.

### Policy recommendations

That Government:

1. Works with Industry to encourage voluntary Codes of Conduct to improve relationships between suppliers, manufacturers and retailers and to establish agreed standards of principles and practices;
2. Includes in its examination of the Competition Framework consideration of:
  - a. How the competitive process embodied in our competition laws operates for small and medium businesses and, more generally, for effective competition;
  - b. The merger provisions in relation to “creeping acquisitions” and vertical integration;
  - c. Online markets and specific testing against current competition laws;
  - d. Rethinking and modification of the current legislative framework for protection of small and medium business; and
  - e. Combining consumer protection provisions with ASIC’s consumer protection mandate into a separate consumer body.

**4. Ensure regulatory frameworks support the competitiveness of our offering, protect the production environment for the long term and reinforce the distinctiveness of our products and their reputation for consistency and quality;**

**A. Regulation and regulatory process**

Rural businesses are subject to approximately 90 Acts administered by the Department of Agriculture. This does not include the myriad of State Acts to which they are subject. The wine sector is subject to an even wider range of regulatory requirements, including provisions that apply to manufacturing, export and taxation as well as liquor licensing and food standards. While regulation in agricultural production is critical to delivering sustainable economic growth and meeting community expectations on quality and business practices, it can also impose a range of imposts, both in real terms and in opportunity costs.

Policy recommendations

That Government:

- Continues its commitment to reducing red tape;
- Model future regulation on best-practice principles, with legislation, treaties, codes and other mechanisms being proportionate, accountable, consistent, transparent and targeted;
- Ensure COAG principles on improved regulation take into account the agricultural sector, recognising the time required for business to adjust to change;
- Reduce duplication in national chemicals regulation, providing alternative options for the agricultural sector; and
- Review costs of levy collection to determine the most efficient mechanism.

**B. Cost of doing business**

The management of our scarce water resources, unique production environments, biosecurity risks and the threats presented by climate change are critical to our future production capability, distinctiveness in offering and competitiveness. However, the costs to business should be minimized and further policy development in these key areas requires closer consultation with industry.

Policy recommendation

That Government:

- Encourage the adoption of a risk management approach to environmental management which drives continuous improvement;
- Assist industry with data maintenance, provision and dissemination of information;
- Ensure a holistic approach to management and, where possible, ensure broad collaboration between national, state and regional stakeholders;
- Support industry in promoting and linking the benefits of environmental management to the sector and marketing to external stakeholders.

**C. Labour markets**

The inability to reconcile rising labour costs against fluctuation of demand and pricing for our commodities and agricultural produce places significant pressure on margins and our global competitiveness, particularly over protracted periods of time.

### Policy recommendations

That Government

- Considers the interests of agricultural businesses reliant on seasonal, weekend and after-hours operations in the future of wages policy and determination (e.g. regional Australia for tourist facilities such as cellar doors);
- Create a one-stop-shop approach that sets out by sector, state and/or region all relevant government programs, funding, incentives and other information available to business;
- Re-focuses the Vocational Education and Training system and Skills Councils to better engage with, and meet the skills needs, of industry sectors;
- Develops programs that capitalise on opportunities presented by an ageing workforce including attracting, retraining and maintaining labour in regional Australia.

## **5. Support evidence-based decision making for businesses and policy makers**

Industry data is critical to evidenced-based decision making and informed investment in Agricultural enterprises. In regards to the wine sector, the new Australian Wine and Grape Authority will be well positioned to undertake this role on behalf of Industry. However, as is the case for many agricultural sectors, the future collection and availability of foundation data in the wine sector is not secure.

### Policy recommendations

That Government:

- Adequately fund core data collection and research agencies such as the ABS and ABARES;
- Allocate funding for a central repository for wine industry foundation data.

## **6. Maintain our edge in R&D and innovation**

R&D funding is critically important to maintaining the competitiveness of Australian agriculture businesses especially in highly fragmented sectors such as winemaking where individual enterprises have little research capability on their own to ensure on-going innovation and adoption. Government support for industry R&D endeavours should be re-conceptualized as an investment opportunity for long-term growth and competitiveness.

WFA supports a research objective that efficiently provide for the research needed to allow the Australian Wine Industry to become the most profitable and competitive supplier of wine to the consumer. The industry requires an approach that will:

- ensure that returns from R&D activities are maximised and driven by industry needs,
- encourage a high level of industry participation in setting the R&D agenda,
- provide the research needed to allow industry to innovate and become more profitable and competitive,
- help guide the expenditure of the Government matched levy,
- build research capability and maximise efficiency in delivery, and
- expand the funding base for R&D through the attraction of new investors and a broader range of research participants

WFA supports the following R&D strategy for the wine sector:

1. Maximize the return from the efficient investment of levy funds and funds from other sources in research, extension and pre-competitive technical activities
2. Ensure that WFA provides clear policy advice to the government on R&D issues on behalf of the wine industry;



3. Ensure that the wine industry's research priorities, including relating to a social licence are clearly stated and that they meet national and regional need across the entire supply chain;
4. Dissemination and extension of the outcomes/results of R&D must ensure an efficient and effective system; and
5. A cooperative research approach between industry, researchers, funding bodies and government needs to be fostered

#### Policy recommendations

That Government:

- Works with industry to identify and support clear priorities for and between the Research and Development Corporations (RDCs) to maximize returns on investment;
- Maintains its commitment to R&D co-funding.

#### **7. Adopt a whole-of-government approach to regional development policy making**

The sustainability of regionally-based enterprises depends on further consolidation and transition. During this time of change, strong support from Government will be required to ensure the impact on regional communities who support these businesses is minimized and that they can continue to provide necessary infrastructure and labour resources.

All of the recommendations in this submission reflect the importance of a partnership approach between industry and Government and a whole-of-government approach to policy development. In regards to the wine sector, the Australian Government has worked closely with Industry in establishing the new Australian Grape and Wine Authority which commences in July this year. It is a good example of Government partnering with industry to synergize interests and to align strategy and programme development.

#### Policy Recommendations

That Government:

- Takes a coordinated approach to regional development and continues to support regional communities during transition

## Introduction

### Who we are

The Winemakers' Federation of Australia (WFA) is the national peak industry body for Australia's winemakers.

Our objectives are:

- to represent the interests of Australian winemakers and grape growers of all sizes on national and international issues affecting the Australian wine sector, through a single organisation;
- to actively promote and protect the reputation and success of the Australian wine sector;
- to encourage unanimity of opinion and action amongst Members in all national and international matters pertaining to the Australian wine sector;
- to initiate legislative or other regulatory activity, or government response or action, or otherwise facilitate any outcomes, deemed desirable by the Association for the benefit of the Australian wine sector in Australia;
- to provide a medium through which opinions of Members may be ascertained or expressed;
- to provide relevant information to Members;
- to foster co-operation and goodwill between viticultural and oenological research and education bodies and all other bodies relevant to the Australian wine sector;
- to encourage good practice and standards of winemaking and wine business management within the Australian wine sector;
- to administer funds collected from Members in support of the activities and objects of the Association;
- to protect and enhance community and Government support for the Australian wine sector;
- to promote economic, environmental and social responsibility in the production and consumption of wine in Australia; and
- to promote the interests of the Association and to do all such other lawful things as the Association may consider incidental or conducive to the attainment or advancement of the objects of the Association.

WFA is incorporated under the *SA Associations Incorporation Act 1985* and is a representative organisation for the purposes of the *Primary Industries and Energy Research Development Act 1989*. We are recognised by the Australian government as representing the interests of all winemakers – the levy-payers who fund the Grape and Wine Research and Development Corporation (GWRDC).

Wineries and exporters fund the Wine Australia Corporation (WAC). For the purposes of the *Wine Australia Corporation Act*, the WFA is a declared winemakers' organisation representing the interest of all winemakers. Government recognition of WFA as a representative organisation is on the basis that WFA represents the whole of the winemaking sector including non-members.

These two statutory bodies, WAC and GWRDC, will merge into a single entity on 1 July 2014 to form the Australian Grape and Wine Authority (AGWA).

WFA membership represents over 80% of the national wine grape crush and we have over 370 wineries as members.

WFA represents small, medium and large winemakers from all across Australia's wine making regions. The Board is made up of equal representation from each of these groups and reflects the diversity of the industry itself. Any policy decision made by the Board requires 80% support, meaning that no sector can dominate the decision-making process. In practice most decisions are determined on a consensus basis.

WFA works in partnership with the Australian government and our sister organisation Wine Grape Growers Australia (WGGA) to develop and implement strategy and policy in the wine sector's interest.

The Federation's activities are diverse but centred on our core activities of providing leadership, strategy, advocacy and support for our members and the broader industry

### **Contribution to the national economy**

The 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 and collaborative approach will be an advantage when competing in new markets well into the future.

Wine is a truly value-added Australian Export. No other commodity carries its Australian heritage in quite the same way as a bottle of wine. Australians are rightly proud of their wine industry and how it has managed to take on the Old World and produce wines of exceptional quality across all price points.

The wine industry is also a significant contributor to the national economy both in terms of creating direct and indirect employment, and generating export and tourism revenues. In 2012-13, it was estimated that the industry directly employed more than 16,000 people in grape growing and winemaking activities. Both export volume and value grew by 3% and ranked the industry 6th among the country's major agricultural, fisheries and forestry commodities exports.

The wine industry also continues to significantly contribute to tourism. For year ending September 2013, there were 684,018 international visitors to wineries. This is up by 3% from the previous year and represents 12% of the tourism market. The estimated overall visitor expenditure, both from international and domestic visits, is AU\$7.68 billion.

Detailed data on the industry can be found in Appendix 1.

## Specific Responses to Issues

### 1. Improve access to farm finance by helping markets define and understand farm based assets and their value and risks

#### Key Points

Australian investors, fund managers and banks are less attracted to agricultural enterprises and land than their foreign-based counterparts. Generating greater interest in agricultural infrastructure depends on overcoming:

- Scepticism of longer-term returns in the sector;
- A lack of investor confidence in less liquid and less informationally complete asset classes such as agricultural land;
- Identifying further opportunities and assessing the potential for further operational efficiencies in, and consolidation of, agricultural investments; and
- The absence of a reliable benchmark and comparative data from land and operating returns.

#### Policy recommendations

That Government:

- Facilitates the creation of an Agricultural Land Index for Australia to help define value and risk;
- Together with industry, convene a National Summit on Farm Finance and Investors to foster understanding and to build confidence among the banking and investment community, industry leaders and policy makers and build an understanding on the restructure and changes agri-businesses need to make to be more attractive recipients of investment.

The total value of Australian agricultural land is \$261 billion. While around \$3.5 billion in foreign investment has been made in Australian agricultural land assets in the last 5 years, less than \$500 million has been raised from local sources.

Without access to affordable additional capital in the near term (debt and equity), the agricultural sector will find it difficult to modernise, reinvest and remain competitive. It will not be well positioned to seize emerging opportunities created by emerging markets in Asia and the post-GFC recovery in traditional markets.

For understandable historical reasons, the mindset of local banks and institutional investors is that agricultural risks that cause uneven profits do not fit models and benchmarks for lending where short-term predictability and high returns are preferred.

Yet Australia boasts one of the largest pools of institutionally invested monies in the world, some \$1.6 trillion, much accumulated as long-term savings for retirement incomes which has to be invested in diversified risk assets. Australia also boasts a very profitable banking system with well-capitalised banks.

The starting point for attracting increased levels of locally-based investment in our agricultural land assets could be to better understand what the overseas global funds are doing. For example, farmland and agricultural infrastructure are being recognised as an asset class in the US and Europe. One prediction is that the current inflow of \$US28 billion into this class will grow to \$US42 billion in the near term and \$US150 billion in the medium term. Among factors fuelling this growth is that by 2015, an additional 75 million hectares will

need to be brought into production to meet global demand. In the last 10 years, only an additional 24 million hectares was brought into production.

Some of this global funds investment is coming into Australia and those investors are increasingly recognising the underlying and long-term value of our farmland and agricultural infrastructure, including water rights. Examples include acquisitions by pension funds from Canada, Denmark, The Netherlands, Sweden and the US and other funds from Switzerland and the US as well as Qatar's sovereign wealth fund, aggregating Telopea Downs Station through Hassad Food.

This overseas investment into Australia helps meet the need for capital, and hopefully will continue to grow in line with foreign investment guidelines.

The first challenge to attracting local investors is overcoming the scepticism that longer-term returns can be inadequate in this sector, given the risk profile. For example, it is likely that the experience with the listed vehicles in the agricultural sector that have not fared well in Australia will be pointed to, along with the MIS investments.

What we are seeing overseas, and what Australia should continue to explore, is ways to attract patient capital from pooled funds invested for the long term, to looking for rates of return above inflation, and possibly to be an inflation hedge.

The second issue for local institutional fund management is a relative inexperience in identifying and managing investments in less liquid, longer term and less informationally complete assets such as agricultural land. It is not surprising that despite its rapidly accumulating size from compulsory super contributions, the domestic industry is cautious and as funds belong largely to working families, investment changes to risk/reward take time.

The third challenge is that operational efficiencies in agricultural investments, gained from economies of scale and diversity, have not been easy to achieve. Fractional ownership through a broad base of shareholders has often not fared well. Such forms of ownership have tended not to be rewarded by the market and often trade at a significant discount to net tangible assets. The high proportion of land held by small owner-operators in Australia may also impede the operational scale required by institutional investors.

Financial innovation remains the hallmark of successful financial markets and we are seeing strategies overseas of restructures and separation of different parts of these businesses to unlock value and more closely match investors with different risks. The obvious example is the separation of the farmland from the operating businesses.

Finally, there is the lack of regular, reliable, benchmark and comparative data on returns from land and operating returns, so agricultural investments remain grouped with other informationally deficient investments in the ubiquitous "alternative asset allocation" class, along with private equity, venture capital and hedge funds.

The creation of a farmland and agricultural infrastructure index for Australia is critical should to take in the development of the necessary "market infrastructure" to underpin an asset class. Steps to make data provision (importantly, including annual land revaluations) and its disclosure a higher priority would also be beneficial.

WFA also believes a National Summit convened to explore these issues would help foster understanding and creativity among the financial community, industry leaders and policy makers.

## 2. Promote export earnings and market share

### **Key points**

In the last five years, demand for many Australian agricultural goods competing in the international marketplace has been adversely affected by a high Australian dollar, fierce competition and high labour costs. Re-gaining our competitiveness and market share in these markets can be supported by Government through bilateral and multilateral trading agreements. The benefits achieved through this work should then be further enhanced and supported through Government assisted category-level promotion and marketing of Australian-made products as an extension of market access activities in much the same way as the EMDG recognises. This targeted support provided by Government, as is the case in the EU and other competitor nations, is important for Australian business to further level the playing field against our competitors. This is especially the case for the wine sector where the industry is relatively small in comparison to its competitors, highly fragmented with limited scope for individual marketing effort and confronted by significantly declining revenues to Wine Australia.

From the wine industry perspective, increasing export earnings and share can be achieved through export facilitation, improved resources for technical market access, finalization of outstanding FTAs and multi-lateral trading agreements and continued support for the marketing activities undertaken by Wine Australia Corporation (WAC).

### Policy recommendations

That Government:

- Supports the marketing and promotional activities of wine in key markets such as through:
  - Establishing a much stronger presence at key trade shows
  - Implementing the Food and Wine Strategy
  - Greater investment in education in key markets
  - A Visitors Program
  - Domestic wine tourism, social media and regionally-based initiatives
  - Savour Australia 2016
- Supports the removal of technical barriers to trade via multilateral trade activities through the WTO, APEC, the Organisation de la Vigne et du Vin (OIV) and the World Wine Trade Group (WWTG)
- Continues to prioritise conclusion of key free trade agreements such as with China, the Trans Pacific Partnership (TPP), Indonesia, India and the Regional Comprehensive Economic Partnership (RCEP).
- By building on past policy achievements, continues to provide targeted assistance through a further enhanced Export Market Development Grants (EMDG) Scheme by doubling the available funding and reforming the eligibility criteria which currently exclude many of the most innovative wine industry leaders from receiving further grants.

In the last five years, demand for many Australian agricultural goods competing in the international marketplace have been adversely affected by range of factors such as the high Australian dollar, fierce competition and high labour costs. Like many in the agricultural sector, the fortunes of Australian wine producers are inextricably linked to its export success.

By way of example, in 2012 the domestic consumption of wine was 452 million litres leaving a remaining 721 million litres of production to be sold profitably on the global market.

Agricultural enterprises will continue to lead the growth in exports but there is a critical role for Government to play in three key areas:

- Adequate category promotion of Australian produced goods in key markets
- On-going commitment to improving market access for Australian exporters, and
- Targeted and adequately funded incentives

### **Adequate category promotion of Australian produced goods in key markets**

In a fiercely competitive global marketplace, the marketing and promotion of Brand Australia is critical to maintaining our profile and reputation in the minds of buyers and consumers. At a time of a strong Australian dollar and competition against subsidised competitors, adequate marketing support for our goods is even more important.

In the case of Australian wine, promotions undertaken by Wine Australia provide a key support to the efforts of individual wine businesses. Their work raises 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.

Industry contributions paid to Wine Australia Corporation have declined from \$17 million to \$11 million per annum since 2007. This decline is holding Australia back by hampering industry's ability to re-energise traditional and emerging markets and compete on a level footing with competitor nations who are outspending Australia's investment in real terms.

It is important to highlight that for many years Australia's marketing activities in this sector have been wholly funded by industry unlike competitor countries in the EU. Many of these have received substantial government funding for export promotion. The EU, under the Common Agriculture Policy, spent approximately €143 million on promoting wine exports in 2012 and another €171 million in 2013.

There is a direct correlation between the decline in expenditure on marketing Australian wine and the Australian category losing support among some traditional distributors and importers. In addition, spending less on marketing Australian products now could cost Australian producers considerably in the long-term, as competitor countries are investing more heavily in preparation for the emergence of the Asian Century ahead.

WFA believes that there is a case for short-term government funding support to make structural changes to export marketing programs. By making such investments, we can increase the market share of Australian agricultural produce in all major markets and in each segment.

In recognising the critical importance of category-level marketing to grow demand for Australian wine and shape appreciation for our diversity and quality of product, WFA believes there are a number of Wine Australia Corporation programmes that will re-engage international and domestic consumers beyond price and convenience, including:

- 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.

- Implementing the Food and Wine Strategy
  - 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 US and the UK.
- 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.
- Visitors Program
  - 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.
- Domestic wine tourism, social media and regionally-based initiatives
  - WFA also supports increased investment in domestic marketplace initiatives and the development with the trade of 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 and regional experiences available from our own backyard must remain a priority if we are to recover share from imports. Such programs could potentially link with other industries, including food and tourism and take full advantage of the recent decline in the Australian dollar against the currencies of importing countries.
  - WFA is also seeking support for WAC to develop and execute two new industry wide initiatives:
    - A social media-based platform to promote Australian wine: While many 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 online.
    - Regional promotions: In partnership with progressive regions, WAC with the support of the Australian Government to undertake 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.
- Savour Australia 2016
  - The benefits of government support for staging key events has been evidenced by the success of the recent Savour Australia 2013 event which



has already had a significant impact on demand for Australian wine internationally. The event was a major success that leveraged a government grant for the benefit of the industry and the country as a whole. Savour has galvanised the Australian wine industry and restored some much needed confidence. The industry has fed off the excitement generated by the event and is continuing to maintain the momentum. The industry's focus over the next 12 months will be to build on the Savour momentum and growing that positive sentiment to get more quality Australian wines on the world's retail shelves and wine lists. Delegate feedback suggests the Australian wine industry and the global wine trade generally see great value in Savour and would like it to become a regular event on the world's wine calendar with a strong link to Australian food also benefiting the broader agricultural industry.

Government support of these initiatives will dovetail with the existing priorities in multilateral and bilateral trade to further improve the export opportunity for the Australian wine industry.

WFA is aware that Wine Australia Corporation has written to the Australian government seeking funding to support Savour Australia in 2016 and a significant marketing campaign in the United States. In the *Actions for Industry Profitability 2014-16 Report*, WFA identified the key importance of the United States market and rebuilding the image of Australian wine in that market.

The United States is the world's biggest wine market with sales of 3 billion litres valued at US\$39 billion in 2012. It has also been Australia's second biggest export market in volume behind the United Kingdom for the last 15 years and number one in value for the last five years.

In 2012, 19 million cases of wines (domestic and imported) were sold in the US at over US\$15 per bottle, up 5% on the previous year. However, Australia is significantly under-represented in this segment.

Research undertaken by Wine Intelligence suggests that Australia is losing its reach in the US with the number of Australian wine drinkers falling from 42% of the wine drinking population in 2008 to 27% in 2013. Furthermore, the quality perception of Australian wines among consumers is the lowest among the seven key imported wine suppliers to the market and has not changed since 2010. This is mainly due to the fact that 91% of Australia's sales in the US are at under US\$8 per bottle while only 60% of the market is in this segment. Feedback from US distributors suggests that the best opportunity for Australia lies at \$US15-\$25 segment. Unlocking this opportunity is paramount and requires significant investment.

Feedback also suggests that there are also opportunities at the higher value end of the market. In 2013, Australian wine exports to the US at above A\$67.50 per case were valued at A\$48million compared to A\$210 million in 2007 and a peak of A\$303 million in 2003. Restoring Australia's premium wine exports in the US to the level of five years ago would return A\$150 million to the Australian wine sector.

To realise these benefits, it is important to boost Australian wine's efforts in the USA. This would in turn continue to expand the impact of Savour Australia as a global event.

The proposed WAC campaign is supported by WFA and is directionally consistent with the recommendations of the Actions document. Key initiatives include:

- A multi-targeted program to engage gatekeepers large and small, including a focused distributor outreach effort via trade-only, business events and media partnerships in trade-only beverage business publications.

- An engaging outreach campaign to target retailers and restaurateurs across the US, with long 'Savour' lunches and compelling Australian visits.
- For consumers, a guerilla PR campaign across 10-12 US cities, complete with a tour-vehicle 'pop-up' themed wine truck. A media-partnership with Food & Wine Magazine and Events to layer in lead sponsorship of their top five large-scale consumer (and VIP trade) events of the year.
- Two comprehensive Visitor Programs (VP): one for distributors and national accounts – with strong business and logistics focus sessions and engaging trend spotting activities; the other for media, independent retail and the restaurant community focused more on engaging, inspiring education and perception shifting activities.
- Throughout all programs, Wine Australia will overlay the Restaurant Australia themes, through Tourism Australia's campaign, as well as regional/premium messaging.

### **On-going commitment to improving market access for Australian exporters**

There are three primary vehicles for government engagement in facilitating trade through the removal of tariff and non-tariff barriers:

- World Trade Organisation
- Other Multilateral trade, and
- Bilateral and plurilateral trade agreements.

#### World Trade Organisation

While negotiations through the World Trade Organisation (WTO) have been challenging in recent years, it remains an important tool for improving market access for the wine industry.

The two key agreements of importance to the wine sector are the Agreement on Technical Barriers to Trade (TBT Agreement) and the Sanitary and Phyto Sanitary Agreement (SPS Agreement). The TBT Agreement is designed to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles to trade. The SPS agreement provides rules on how governments can apply food safety and animal and plant health measures.

The rules are important for the wine industry as they provide leverage for small countries such as Australia against the major trading powers such as the United States and the European Union. The WTO rules reduce the number of trade disputes and prevent disputes that do arise from spilling over into broader trade wars providing increased certainty for our exporters.

Every time a government wishes to introduce regulation that will have an impact on trade, they are obliged to notify the WTO to allow other countries an opportunity to clarify or object to the regulations. Industry and governments need to collaborate to work through these to determine issues relevant to the wine sector, prepare responses and put our position forward.

Trade liberalisation negotiations are also important to the sector and present us with great opportunities, but also very real risks as our competitors try and further their trade agendas through the new round. Consequently, the wine industry needs to be proactive and work closely with government to ensure that our interests are protected.

Despite the difficulty in progressing major reform through the multilateral negotiations, we remain strongly supportive of these and continue to encourage the Government to pursue beneficial outcomes for the sector.

## Other Multilateral trade

Australia's interests in technical market access issues are best served through strong representation on multilateral bodies, including APEC, the Organisation de la Vigne et du Vin (OIV) and the World Wine Trade Group.

- The WFA strongly supports activity within APEC to reduce certification requirements, harmonise Maximum Residue Limits for agri-chemicals and improve regulatory coherence. In particular, APEC initiatives in the Standards and Conformance Sub Committee, Food Safety Cooperation Forum and Wine Regulatory Forum show tremendous promise and require adequate government support. To progress these initiatives, Australia is hosting a World Wine Trade Group meeting in conjunction with an APEC Wine Regulatory Forum in late 2015. This will require both industry and government support and participation.
- The OIV makes non-binding recommendations on a range of viticulture, oenological and regulatory matters relevant to the wine industry. Six of Australia's 10 largest markets are members of the OIV. The OIV recommends international standards for the wine industry including law, regulation, processing aids and additives, Maximum Residue Levels and labelling. The thrust of OIV recommendations are often reflected in European wine law, which emphasises the impact the OIV can have on wine regulation and trade (EU countries produce over 70% of the world's wine).
- The World Wine Trade Group This is a group of industry and government representatives with a mutual interest in facilitating international trade in wine and avoiding the application of trade obstacles. Members include Argentina, Australia, Canada, Chile, Georgia, New Zealand, South Africa, United States of America (with Brazil and Mexico participating as an observer). Key medium-term issues are:
  - Consideration of bilateral arrangements between WWTG as a group and a particular market such as China as a means of encouraging deeper engagement on regulatory issues;
  - Review and adoption of common principles of good regulatory practice including for methods of analysis;
  - Establishment of a MRL working group to feed into APEC work on harmonising agri-chemical MRLs in the APEC region;
  - A watching brief and collective action if required on the EU project to measure environmental performance of products and organisations using a lifecycle assessment approach;
  - Preparation of material to contribute to the debate on ingredient and energy labelling; coordination of positions in the Codex Alimentarius Commission; and discussion on a possible agreement with China to combat counterfeiting.

Australia must continue to support activities in APEC, OIV and WWTG among others. In particular, the opportunity to host meetings of regulators from major markets (such as Australia hosting the WWTG meeting in 2015-16) is a major opportunity for Australian agriculture to demonstrate the strength of our regulatory system and we should encourage this activity wherever it possible.

An example of where Government support can be of assistance to industry is the current work on Maximum Residue Limits (MRLs) under the APEC Food Safety Cooperation Forum. A pilot project, involving Australia as a case, is being initiated for the purpose of promoting greater harmonisation of pesticide MRL standards. The pilot involves the following steps:

1. Recognition that pesticides are used differently among production regions as product use patterns, pests and diseases and environmental factors differ internationally;

2. Consideration by APEC member economies to harmonize domestic standards with MRLs established by Codex or by a regulatory authority of an APEC member economy to facilitate trade in foods containing legitimate residues that do not pose health or safety concerns. Where issues are identified, APEC member economies may consider seeking relevant information from the exporting country relating to any established MRLs for pesticide residues in the relevant food;
3. Where consistent with domestic law, an importing APEC economy may consider adopting an MRL established by the exporting member economy or by Codex, where no safety concerns are identified in the context of the diet of the importing country;
4. Where feasible, share work plans on future MRL development among APEC economies in order to increase transparency and awareness of MRLs that are scheduled to be reviewed or in a national registration process. Where appropriate, share data and information to facilitate the adoption of harmonised agri-chemicals. Data exchange may be particularly useful in cases where an importing country does not produce a particular product or use a particular agri-chemical;
5. Case-by-case assessment by APEC member economies will assist in facilitating trade.

The Australian Government needs to get behind these initiatives to support the agricultural sector. Furthermore, WFA believes the APVMA and FSANZ need to play a larger role in technical market access issues on a bilateral basis to further facilitate trade in agriculture products.

#### Bilateral and plurilateral Trade Agreements

Market access can be restricted by tariffs, as well as by non-tariff measures (NTMs) such as differing labelling and compositional requirements or onerous certification requirements.

Increasingly, governments and industry are looking to bilateral and plurilateral trade agreements to enhance market access. The most obvious market access impediment is tariffs but other important benefits can occur in the agreements through the reduction in NTMs.

FTA's can give a clear market advantage to signatories over other trading partners. FTAs with the countries such as the USA and Thailand have delivered a significant advantage for any Australian exporters into these markets.

We also expect the recently concluded agreements with Japan and Korea, where 15% tariffs on wine imports will be eliminated, will also provide significant opportunities for the wine sector. The experience of Chile, who signed an FTA with the Republic of Korea involving a reduction of tariffs on Chilean wine imports, has overtime allowed Chilean winemakers to dominate the Korean wine market.

WFA strongly support the Government's efforts to conclude a range of key trade agreements including China, the Trans Pacific Partnership (TPP), Indonesia, India and the Regional Comprehensive Economic Partnership (RCEP).

We recognise all FTA negotiations are difficult and that outcomes are not necessarily as comprehensive as parties would wish, however, all improvements give exporters opportunity to grow.

Importantly, Australia must not get left behind in the race to open up new markets for wine products. Our economy is based on exports and we must ensure we have the capacity and flexibility to pursue competitive advantages as they arise.

## Targeted incentives

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

While the WFA commends the Government's first steps in introducing the *Export Market Development Grants Amendment Bill 2014*, the WFA believes there is sufficient industry justification to support a doubling of the EMDG for the sector.

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. These restrictions also come at a time when many of these leading businesses require support to undertake the difficult task of re-entering markets where demand for Australian wine has suffered as a consequence of external forces such as high exchange rates. Changes should also be made to ensure existing EMDG contracts have provisions that shield recipients from future policy changes that alter the terms of the grants.

<b>EMDG Assistance to Wine Manufacturers &amp; Wine Grape Growers</b>			
Financial Year or grant payment	Grants Paid	Total Value of Grants Paid	Total Value of Exports of Grant Recipients
2011/12	141	\$4,737,718	\$106,956,290
2010/11	252	\$6,499,726	\$148,269,089
2009/10	249	\$8,795,214	\$243,013,759
2008/09	255	\$10,474,870	\$217,697,451
2007/08	281	\$9,628,996	\$247,475,834
*Source: Australian Trade Commission, 2013			
*All figures relate to claims for EMDG expenses incurred in the year previous to the financial year of grant payment			

### 3. Create a fairer and transparent domestic marketplace

#### **Key points**

Agricultural businesses such as winemaking rely on strong performance in the domestic marketplace and long-term collaborative relationships between suppliers, manufacturers and retailers to build economies of scale, robust business models and brands with enough equity to take confidently to the international marketplace. Enhancing greater competition among domestic retailers of food and beverage products and establishing open and fair standards of commercial behaviour can be achieved by developing Codes of Conduct throughout the value chain and reforming the competition framework so that it both delivers both a fair consumer outcome and a sustainable production and manufacturing base in Australia.

#### Policy recommendations

That Government:

1. Works with Industry to encourage voluntary Codes of Conduct to improve relationships between suppliers, manufacturers and retailers and to establish agreed standards of principles and practices;
2. Includes in its examination of the Competition Framework consideration of:
  - a. How the competitive process embodied in our competition laws operates for small and medium businesses and, more generally, for effective competition;
  - b. The merger provisions in relation to “creeping acquisitions” and vertical integration;
  - c. Online markets and specific testing against current competition laws;
  - d. Rethinking and modification of the current legislative framework for protection of small and medium business; and
  - e. Combining consumer protection provisions with ASIC’s consumer protection mandate into a separate consumer body.

For many agricultural businesses, success on the global stage begins with building strong brands and businesses in the domestic Australian market with local consumers. To achieve this and given the risks around agricultural supply, close working relationships are needed often over the long term to secure supply, adopt innovation into business practices and to capture efficiencies.

However, many agricultural sectors in Australia including winemaking have a highly fragmented supply and manufacturing base selling through a highly consolidated retail market. In the case of wine, WFA estimates that up to 77% of all off-premise sales of wine are made through the dominant two wine retail chains.

This environment has led to imbalances in market power within the value chain and on-going concerns over behaviours and practices. It is also true that retail consolidation has reduced profitability for suppliers as they compete for limited shelf space and retail options. Margin growth is also often stymied by the pricing commitments of the retailers to consumers and a pricing culture dominated by discounting and price matching.

Over time, this downward pressure is passed through the chain all the way to the farm gate. In the case of winemaking, retail consolidation has contributed significantly to below inflation retail price increases for consumers and significant declines in returns for both winemakers

and grape growers. In turn, businesses have not been able to reinvest in their operations and brands and maintain the level of competitiveness demanded by the global marketplace.

WFA believes that addressing the issues raised by retail consolidation requires a two-fold approach:

- Firstly, developing codes of conduct between suppliers, manufacturers and retailers.
- Secondly, Government must review the current competition framework with a view to delivering both a consumer benefit and a sustainable production base for Australia.

## **Codes of Conduct**

Codes of conduct have the capacity to deliver better working relationships around transparent and agreed standards of behaviour and practices.

The Wine Industry Code of Conduct for winemakers and wine grape growers establishes a common Australian wine grape supply contract framework and provides a dispute resolution system to manage disagreements which arise over price or quality assessments.

The Code was developed by Wine Grape Growers Australia (WGGA) and WFA and is supported by the Federal Department of Agriculture, Fisheries and Forestry.

Around 40 of Australia's largest, medium sized and small wine producers have signed the Code and agreed to formalise what many cases is already standard business practice.

WFA believes that a strong Code of Conduct between winemakers and grape growers is very important. To ensure higher participation rates in the Code, WGGA and WFA are undertaking a review of the Code with a view to addressing outstanding matters of concern for some non-signatories.

WFA is currently reviewing both the existing code of conduct between grape growers and winemakers and working with the wine retail sector on a sector specific code.

WFA and WGGA are also investigating options surrounding the Horticulture Code of Conduct and mandatory codes. However, WFA believes that voluntary codes are the most effective mechanism to improve relationships.

In regards to the winemaker and retailer relationship, discussions are also underway to develop a Code based on agreed principles and practices. Similar to the Code with growers, WFA believes this has the potential to drive more fairness and consistency across the supply chain.

WFA believes the principles for any Code should be based on the following principles:

- 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: Industry participants will make reasonable efforts to make contracts as comprehensive as possible, easy to understand and in plain English.
- Clarity of procedure: All trading procedures will be clearly explained.

- 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 and 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.

While this Code is being developed between winemakers and the retailers, the Government should continue to work with industry players to ensure the code is workable and meets the needs of industry, government and consumers.

### **Review of the Competition Framework**

The WFA welcomes the review of the competition framework recently announced by the Minister for Small Business. This process will have significant relevance to the wine sector given the intense market concentration and vertical integration of the wine retailers and the subsequent outcomes such as an imbalance in market power, concerns over practices that may be an abuse of market power, the growth of home brands making retailers both customers and competitors and the lack of enough retail options for suppliers. This issue is discussed in far more detail in the WFA Actions for Industry Profitability at Attachment 1.

While it is argued that that this retail structure has delivered consumer benefits, WFA would argue that the majority of the cost of delivering this outcome has been absorbed by manufacturers and farm based suppliers. This has subsequently reduced profits and impacted the sustainability and diversity of many sectors including wine production. It is WFA's strong view that reform to the competition framework is urgently required to bring more balance to a policy intent which should aim for both a consumer benefit and the long term sustainability of a competitive and diverse production base.

Specifically, in reviewing the Competition and Consumer Act and the powers of the ACCC, WFA recommends due consideration needs to be given to:

1. How laws impact on the competitiveness of small and medium businesses and what barriers there may be to their growth and development, especially in view of the increased concentration in retailing and other related sectors;
2. Merger provisions, particularly associated with creeping acquisitions and vertical integration. For example, the case of the acquisition of Cellarmasters by Woolworths may have met existing legislative and ACCC tests but the flow-on impact to competition has been significant, with Woolworths now accounting for over 50% of all online retail sales. Similarly the 'stress test' of how the competition test is working with vertical acquisitions requires detailed review (e.g., supermarkets acquiring milk processing production facilities or retailers acquiring wine production capacity and vineyards);



3. Online markets: while on-line markets are a venue for buying and selling, there are special features which warrant specific analysis against current laws. Online markets can be quite sticky because of their tipping effect and can create barriers to entry for new players, among other anti-competitive conduct;
  
4. The existing legislative framework as it applies to small and medium businesses needs to be rethought and modified. For example, Section 46 (monopolisation) was not designed to deal with unfair and ultimately anti-competitive behaviour by dominant players. Further, the sheer difficulty of requiring small and medium businesses to mount actions under s46 has meant these provisions cannot be adequately tested and the fear of reprisal (irrespective of whether it is real) adds to this. The use of industry Codes of Conduct regulated under the Act assist. There has been talk of using unconscionable conduct provisions as in the ASIC Act but this area of law is far less certain than s46. Extension of the unfair contract terms may also be of some assistance. A re-think of the competition framework and how provisions operate is therefore needed. WFA believes that what is missing is a set of proscribed unfair or undesirable commercial practices where the business is dealing with a party that exercises a substantial degree of market power.

Examples of what could be classified as possible unfair practices in a new model include:

- unilateral changes to significant terms of trade;
- retrospective and/or unilateral change to terms of trade;
- delisting of products without reason or reasonable notice; and
- charging the producer for the margin which a retailer has had to give away to meet its competitor price on a product sold to that competitor by the same producer.

These are examples drawn from the wine industry but are more widespread. By making what are regarded as unfair practices prohibited, they will change behaviour and will provide a better playing field for more healthy competition and force the majors to compete more with each other and not look to improve margin at the cost of small and medium producers.

5. Consumer protection provisions and combining these with ASIC's consumer protection mandate into a separate consumer body.

There is cause to examine restructuring ASIC and the ACCC whereby the consumer roles of both could be brought into one consumer entity. This new body could also cover consumer superannuation. It would enable the current ACCC and ASIC to be market-focused and responsible for the competitive process as well as promulgation of what are efficient and fair markets. In the case of the ACCC, it would remove bias that small and medium business protection is through consumer protection. After all, today's small and medium businesses have the potential to be tomorrow's lead companies. Focus on them now will yield far-reaching economic benefits.

**4. Ensure regulatory frameworks support the competitiveness of our offering, protect the production environment for the long term and reinforce the distinctiveness of our products and their reputation for consistency and quality**

**Key points**

**A. Regulation and regulatory process**

Rural businesses are subject to approximately 90 Acts administered by the Department of Agriculture. The wine sector is subject to an even wider range of regulatory requirements, including provisions that apply to manufacturing, export and taxation as well as liquor licensing and food standards. While regulation in agricultural production is critical to delivering sustainable economic growth and meeting community expectations on quality and business practices, it can also impose a range of imposts, both in real terms and in opportunity costs.

Policy recommendations

That Government:

- Continues its commitment to reducing red tape;
- Model future regulation on best-practice principles, with legislation, treaties, codes and other mechanisms being proportionate, accountable, consistent, transparent and targeted;
- Ensure COAG principles on improved regulation take into account the agricultural sector, recognising the time required for business to adjust to change;
- Review regulatory requirements under the Wine Australia Act following the establishment of the Australian Grape and Wine Authority and if required move to a risk based management system for compliance;
- Ensure consistency of food regulation across jurisdictions,
- Reduce duplication in national chemicals regulation, providing alternative options for the agricultural sector; and
- Review costs of levy collection to determine the most efficient mechanism.

**B. Cost of doing business**

The management of our scarce water resources, unique production environments, biosecurity risks and the threats presented by climate change are critical to our future production capability, distinctiveness in offering and competitiveness. However, the costs to business should be minimized and further policy development in these key areas requires closer consultation with industry.

Policy recommendation

That Government:

- Encourage the adoption of a risk management approach to environmental management which drives continuous improvement;
- Assist industry with data maintenance, provision and dissemination of information;
- Ensure a holistic approach to management and, where possible, ensure broad collaboration between national, state and regional stakeholders;
- Support industry in promoting and linking the benefits of environmental management to the sector and marketing to external stakeholders.

### **C. Labour markets**

The inability to reconcile rising labour costs against fluctuation of demand and pricing for our commodities and agricultural produce places significant pressure on margins and our global competitiveness, particularly over protracted periods of time.

#### Policy recommendations

That Government

- Considers the interests of agricultural businesses reliant on seasonal, weekend and after-hours operations in the future of wages policy and determination (e.g. regional Australia for tourist facilities such as cellar doors);
- Create a one-stop-shop approach that sets out by sector, state and/or region all relevant government programs, funding, incentives and other information available to business;
- Re-focuses the Vocational Education and Training system and Skills Councils to better engage with, and meet the skills needs, of industry sectors;
- Develops programs that capitalise on opportunities presented by an ageing workforce including attracting, retraining and maintaining labour in regional Australia.

This section discusses three key issues:

- Regulation and Regulatory Processes
- Costs of doing business
- Labour markets

### **A. Regulation and Regulatory Process**

WFA supports the use of appropriate regulatory frameworks for the production, manufacture and sale of wine products as an important means for maintaining and enhancing a competitiveness advantage on quality, consistency and environmental sustainability.

However, wine businesses and the agricultural sector more broadly are highly regulated. In addition to legislation common to all businesses, rural industries are subject to around 90 Acts administered by the Australian Government Department of Agriculture alone. This represents some 8% of the total stock of Commonwealth Acts for an industry that contributes around 2% to Australia's gross domestic product. Additionally, industry must navigate many State or Territory Acts and local by-laws often inconsistent across borders.

While the WFA recognises there are challenges in maintain industry competitiveness due to issues often outside the control of policy makers such as the high Australian dollar and increased input prices impacting on terms of trade, the problem is exacerbated by unnecessary regulatory imposts which can arise in a number of ways, including:

- Excessive regulatory coverage;
- Overlap or inconsistency;
- Unwieldy approval and licensing processes;
- Heavy-handed regulators;
- Poorly targeted measures;
- Overly complex or prescriptive measures;
- Excessive reporting requirements; and
- Creation of perverse incentives.

In this regard, the Government's commitment to cut red tape by \$1 billion a year to improve Australia's competitiveness, help to create more jobs and lower household costs is particularly welcome.

The Productivity Commission's July 2013 Draft Report on Regulator Engagement with Small Business found that small businesses feel the burden of regulation more strongly than other businesses and almost universally, their lack of staff, time and resources present challenges in understanding and fulfilling compliance obligations. The report argued that the capacity for small business to fulfil compliance tasks should be at the forefront of a regulator's mind when administering regulation. WFA agrees with this position and argues that as well as within regulators, this approach also needs to be taken by governments whenever considering a regulatory approach.

The impact of regulatory imposition on businesses can be minimised through appropriate regulatory impact analysis (RIA) during the policy development phase. However, as the Productivity Commission found in their 2012 Regulatory Impact Analysis: Benchmarking Study, there are shortcomings in system design and a considerable gap between agreed RIA principles and what happens in practice, reducing the efficacy of processes. The Productivity Commission found that the Regulatory Impact Statement is often written after a decision has been made and effectively becomes an ex post justification for the decision.

Agencies that seek to maximise efficiency for themselves can quickly create large industry impacts. When considering the best way to achieve a desired policy outcome, agencies should always consider various approaches, such as working collaboratively with the agricultural sector, and avoid seeing regulatory imposition as the only answer.

WFA therefore supports the principles of better regulation (in the widest sense of the term, including treaties, laws, regulations, codes):

- Proportionate - the remedy must match the risk
- Accountable - to all stakeholders
- Consistent - with other regulations and risks
- Transparent - keep it simple, clear and open
- Targeted - focus on the problem

Within a global trading environment, the most effective regulation is achieved through crafting the appropriate instrument that is sufficient to meet the in clear and easily understood language, taking into consideration the compliance requirements of both local and foreign producers. Each instrument should be reviewed periodically to assess current relevance and effectiveness against its stated objectives. The overarching goal needs to be ensuring that the overall framework of regulation is appropriate, effective, and not duplicative or overly-burdensome.

While regulation may often be seen as a cheap and easy way for Governments to achieve objectives, the flow-on impacts to the sector, the economy and broader society should always be considered.

A lack of commitment by some Governments and Agencies to good regulatory principles and practice, often coupled with a basic misunderstanding of the effect of their policy decisions on industry, are having long-term impacts with regards to the costs of doing business in the agricultural sector. Governments and regulators need to be transparent in the way they interact with farm businesses, particularly regarding any costs they wish to recover from industry.

It is important that all governments not only maintain their ongoing commitment to the COAG regulatory principles, but interpret them in such a way as to take into consideration the unique circumstances of the agricultural sector. They must recognise that:

- there are invariably significant costs imposed on small business through new or modified regulation,
- most agricultural businesses do not have dedicated regulatory or compliance staff,
- there is limited understanding of government, regulatory and compliance processes, and
- a reasonable amount of time should be provided to ensure businesses are able to change and adapt to reflect the new requirements.

## **Regulation in the wine sector**

The wine sector is subject to a wide range of regulation that faces the agriculture and manufacturing sector. In addition, the wine sector faces additional regulation for exports under the Wine Australia Corporation Act 1980, state liquor licensing regulations (beyond the scope of this submission), and food regulation.

### Regulation under the *Wine Australia Act 1980*

There are two essential elements to the Australian regulatory regime; the Label Integrity Program (LIP) prescribed by the Act; and the Export Controls prescribed by the Regulations.

#### 1. Label Integrity Program

- The program is designed to ensure that any claim made regarding vintage, variety or geographical origin of wine can be substantiated through recorded traceability from the vineyard to the bottle.
- WAC monitors compliance with the program through its audit function.
- Non-compliance with the record keeping requirements of the Act can result in prosecution. The WAC will generally seek remedy through a consultative approach, with temporary license suspension an option in the more serious cases.
- WAC is required to investigate alleged breaches, prepare briefs for the prosecution (the Department of Public Prosecution (DPP) prosecutes on issues of LIP; breaches of Food Standards Code are prosecuted by State Health Authorities).
- Direct costs of prosecutions are borne by the Commonwealth Director of Public Prosecutions (CDPP), although the WAC bears the substantial operating costs involved in investigating alleged breaches and in the preparation of the briefs required by the CDPP.

#### 2. The Export Controls

- WAC maintains an export approval process requiring exporters to hold a licence.
- Permission to export wine unpackaged requires an additional criterion to be satisfied. Prospective recipients of bulk wine must be able to demonstrate compliance with an independently audited, internationally recognized, quality management standard. The process is administered by the WAC but the audits are conducted independently, with the international customer bearing the compliance cost. Commercial samples of the packaged product are returned from the international market to enable comparison with the material initially submitted for export assessment.

The formation of the new Australian Grape and Wine Authority provides an opportune time to review the existing domestic regulation and if required implement a risk based management system for compliance.

## Agricultural and Veterinary Chemicals

Recent years have seen a number of reforms in the laws governing the registration and control-of-use of agricultural and veterinary chemicals. Poorly managed processes and a lack of strategic vision have led to confusion and additional burden on the agricultural sector, without improved outcomes for human safety, the environment or farmers costs.

Most recently, the *Agricultural and Veterinary Chemicals Legislation Amendment Act 2013* saw the introduction of mandatory re-registration of agricultural and veterinary chemicals every 7–15 years. This clearly duplicates the Chemical Review Program undertaken by the Australian Pesticides and Veterinary Medicines Authority (APVMA), which was already in place and provided the opportunity to review chemicals that posed any concerns. The agricultural sector supports the regular review of chemicals to ensure their safety and efficacy.

However, such processes do not require legislative changes duplicating an existing process and adding to the workload of an already stretched regulator, without adequate public funding in recognition of the public good nature of their functions. Such policy reforms should also have been underpinned with sufficient incentive for newer and safer chemicals onto the market, particularly in cases where there may not be a commercial incentive for manufacturers due to the small Australian market. An adequately funded minor use data generation program would no doubt ease the burden on industry in years to come from products that are removed due to commercial decisions by chemical manufacturers not to go through with re-registration of their product.

Although effectiveness of the APVMA is sound, inefficiencies within the regulatory system exist.

The control-of-use of agricultural and veterinary chemicals is particularly confusing for many farm businesses when they are given conflicting advice from various bodies (such as fire departments and work cover) on matters such as safe storage of dangerous goods.

## Inconsistency in food regulation between jurisdictions

State, Territory and Local Governments are primarily responsible for implementing and enforcing food standards, although the Australian Government, through the Department of Agriculture, has a role in enforcing the Australia New Zealand Food Standards Code at the border. In 1998, the Blair Review recommended Australia adopt an integrated and coordinated food regulatory system with nationally uniform laws and a co-regulatory approach. Following this, Australian, state and territory governments agreed to move towards a national system. An Intergovernmental Food Regulation Agreement (FRA), signed by COAG in 2000, included the Model Food Act as a template for developing consistent legislation in each state and territory. The FRA also established the Australia New Zealand Food Regulation Ministerial Council, now known as the Legislative and Governance Forum on Food Regulation. The forum's membership comprises ministers responsible for food regulation from all states and territories, the Australian Government and New Zealand. Its role is to develop Australian food regulation policy using powers to adopt, amend, reject or request the review of food standards.

Despite an overarching national approach, inconsistent regulation remains, due to the autonomy of State and Territory Governments to determine how and whether to implement national standards and how to interpret them. FSANZ will not provide interpretation for the food standards they develop unless they receive payment. Small businesses cannot afford to seek this advice and the cost to businesses of seeking advice on food standards

multiplies where it is necessary to contact regulatory bodies in each jurisdiction to ensure compliance with their interpretation of standards.

This is an untenable situation, as poorly drafted food regulation has differing interpretation between enforcement jurisdictions and there is little certainty for businesses trying to comply with the law.

### Levy Collection

The Wine Grape levy (WGL), the Grape Research levy (GRL) and the Wine Export charge (WEC) are statutory levies and charges imposed under Commonwealth legislation to raise funds for research and development (R&D), marketing and biosecurity activities.

DAFF Levies collects and disburses the levies and recovers its costs in carrying out these activities. Legislation provides for this cost recovery.

The Commonwealth provides contributions to match R&D spending up to 0.5 percent of the industry gross value of production. This matching contribution is also limited to no more than 50 percent of the total R&D expenditure, and the amount of R&D levy collected. The lowest of these three caps is applied.

A change to the cost recovery has dramatically increased the cost of levy collection. For example, given overall levy income for 2012-2013 was \$17.129m, collection costs account for 9.25% of levy income.

WAC and GWRDC have offered to assist WFA and WGGA to explore options for structural changes to levies to arrive at a more efficient and commercially acceptable outcome. We are currently undertaking a review of the levy collection framework, but it is clear to us that the non-competitive nature for levy collection has increased costs beyond commercial reality. The review will investigate:

- specific matters with respect to the levy structure (e.g. potential structural deficiencies in the current levy model; the efficiency of levy structures for wine sector and the process by which levies are collected) and recommendations for reform; and
- develop a business case for the statutory body to be authorised to collect levies directly, if warranted.

WFA is keen to work with the Government in reviewing levy costs to determine the most efficient mechanism.

### **B. Costs of doing business**

Australia is a high cost operating environment for business. While there are a range of costs that are largely outside the control of government such as the high Australian dollar, there are a number of areas that can be addressed through Government policy and assistance.

These include:

- Water Policy and water data collection
- Climate change
- Landholder environmental management and marketing credentials
- Biosecurity
- Grapevine standards
- Germplasm collections
- Data provision

## Water Policy and data collection

A major component of most Agricultural businesses is water and this is true for the wine industry. Water is essential to the viability of our businesses as it can form a significant portion of cost of production and has a direct link to quality of wine being produced. For this reason cost of water and ensuring adequate supply are of vital importance.

As a means of internally moderating this risk to business Australia's vineyards have needed to adapt over the years and ensure that they are utilising water as efficiently and effectively as possible. As a result Australia's vineyards have become some of the most efficient water users in the world with industry data suggesting that over 90% of the industry is utilising drip irrigation.

However there are a number of factors, related to water, that the industry may not be able to directly mitigate the risks, such as drought, infrastructure and cost. These factors can all cause significant constraints on access to water resources. Connectivity of water infrastructure and barriers to trading are key components that need to be carefully considered by federal government.

A common complaint for farmers is the inability of governments to share information internally, and across jurisdictional boundaries. Even within agencies, grapegrowers and winemakers and industry representative bodies have to provide the same data numerous times. The industry is always looking to ensure the data they collect in their business is done in an efficient manner and only collected when it serves a valuable purpose, and they expect Government to do the same.

With the Australian Government's implementation of the *Water Act 2007*, there are now several Australian government agencies and authorities collecting water data. These include the National Water Commission, the Murray-Darling Basin Authority, the Bureau of Meteorology, the Australian Competition and Consumer Commission, the ABS, and the Department of Sustainability, Environment, Water, Population and Communities. In many cases, the different entities require slightly different water data, or in different formats. State agencies also collect water data. All these different data requirements increase the cost of doing business for the irrigation organisations and farmers who are required to provide the information – or they pay the costs of doing so through water charges.

The WFA strongly urges the Australian Government to agree on what information is to be collected and who will collect and distribute this to other entities.

## Climate Change

The Australian wine industry acknowledges the implications of climate change on the environment and the need for understanding with regard to its management. The industry also accepts its contribution to greenhouse gas emissions, both at a domestic and global level.

Through the WFA, the industry has taken a lead role in the area of climate change, via the early development of the Australian Wine Industry Carbon Calculator and the implementation of Entwine: an industry program designed to underpin the environmental credentials of Australian wine. The industry has also invested significantly in research and development for mitigation and adaptation to climate change. As a result the industry is confident that it can respond to the challenges of climate change by understanding its sources of greenhouse gas (GHG) emissions, staying abreast of the latest research and development and promoting best practice and continuous improvement.



Wine industry is particularly sensitive to climatic changes as they can affect a number of aspects around timing, quality and quantity of grape production. The extreme effect that climate can have on the industry was evident during the 2011 Australian vintage. This vintage saw unseasonal weather patterns which resulted in less than adequate conditions over the growing/harvesting season. In turn this caused significant increase in pest and disease pressures which at their peak meant shortages in agricultural pesticides required for management. As a result large portions of Australia's 2011 grape production were lost or of a lesser quality than hoped. The significance of climate change is by no means lost the wine industry and there has been significant efforts placed into understanding the effects and adaptation to climate change.

WFA supports policy responses to climate change that:

- Are national.
- Are developed and implemented transparently to engender community support.
- Are stable, predictable and avoid complexity to help minimise investment uncertainty.
- Do not expose Australian export and import competing industry to costs not face by these industries in other countries.
- Effectively address market failures.
- Promote public and private investment in first-of-a-kind low emission technologies.
- Do not discriminate against early movers and new entrants.
- Encourage the community to invest in adaptation strategies.

#### Landholder environmental management and marketing credentials

WFA supports the adoption of a risk management approach to environmental management which drives continuous improvement.

The Australia Wine sector has been very active in the last 10 years in implementing a national approach to Environmental management system (EMS) in line with the federal government's *National Framework for Environmental Management Systems in Agriculture* (NRM Ministerial Council, 2002). Flexibility in implementation and the overarching nature of this approach were key determining factors for WFA and the Wine Industry National Environment Committee (WINEC) in its adoption.

In 2009 the WFA launched the wine industries national environmental assurance program, Entwine Australia, to provide a means of meeting customer expectation around environmental management and encouraging improvement through EMS. The programs voluntary membership has grown to over 700 members representing roughly 40% of the whole industry but often driving this approach requires significant resources.

The national framework highlights that *"Implementing an EMS requires a commitment of time, labour and money for any enterprise. There is a range of other constraints to adopting and implementing EMS in agriculture, including the availability of environmental information for use in on-farm EMS and assistance with the costs of EMS implementation."* Since 2009 WFA have experienced these constraints to business adoption.

The nature of EMS means that businesses have to invest significant time and effort in adopting the system which can take several years to show direct improvements. These cost and time impediments coupled with lack of understanding of the benefits and the nature of EMS long term pay back mean that encouraging uptake can often be challenging with Small medium enterprises.

Management systems for Business Planning and risk management are important elements to ensure sustainable and prosperous businesses. A vital aspect in these systems is the

requirement for continuous improvement that forces business to continually review their operations under a process of Plan DO Check Act.

Through setting up a national framework for Agriculture there are also a number of marketing opportunities that would help to drive profitability for business. A streamlined marketing message centred on a unified collaborative approach would portray a strong message of the benefits of buying Australian produce. Australia has untapped opportunities to build awareness and transparency around sustainability, particularly around environmental stewardship and the contribution many businesses make to the environment.

### Biosecurity

WFA and WGGGA are strongly committed to ensuring the industry effectively reduces the potential for incursions of plant pests and diseases. Any incursion could potentially adversely impact the quality and quantity of grapes produced and/or add to the costs of production. Not only will the introduction of a plant pest or disease have the potential to severely impact the profitability of the grape and wine industry at a national level, but the potential impacts at a regional level may have devastating consequences for rural and regional Australia where viticulture contributes significantly to regional economies.

Biosecurity is a shared responsibility between industry and State and the Australian government/s. There is also a strong public good aspect to maintain an effective policy regime. However, it must also be recognized that this regime must also permit imports of planting material in a timely fashion while minimizing risk.

While the mainstream industry is well advanced now, each with their own industry biosecurity plan which identifies their specific pest risks, there is an overriding need for community engagement as awareness levels across regional and urban Australia are low.

Targeting regions of high production significance to improve awareness levels, vigilance and response capability across industry and community sectors, has to be a priority. This will require regional biosecurity plans with engagement of the whole value chain within industries, regional surveillance plans targeted at high priority pests and data collection, regional incursion response plans and rapid response teams with a pool of trained personnel, regional training programs, community awareness and education including for non-commercial producers, and regional recovery strategies.

Government has a clear role to play in this regard.

### Grapevine standard

The Viticulture industry, through initially the WFA and the (former) Winegrape Growers Council of Australia worked with Plant Health Australia, a range of government agencies including DAFF and all the state and territory Agricultural agencies to develop a comprehensive national approach to managing biosecurity risks in the Viticulture industry.

An important development in the biosecurity framework was recently made through the development of a new national standard for grapevine propagation material, following the completion of a project funded by the GWRDC.

This means that people purchasing grapevine propagation material sold under the standard can be assured about the cutting's identity, its health status and that it meets certain physical specifications.

The Australian Standard for Grapevine Propagation Material, AS 5588:2013 was developed by Standards Australia in consultation with representatives of the grapegrowing, winemaking and nursery industries, researchers and government. It was adopted after support from all of the organisations represented.

The standard, which sets a new benchmark for the industry, builds on and enhances the schemes of best practice and traceability previously used. The standard sets minimum requirements for:

- Establishing and maintaining the variety, provenance (origin and selection history) and health of grapevine propagation material
- Classification of material according to fitness for the purpose of propagation and/or vineyard establishment
- Documentation, including traceability, classification and labelling of propagation material.

Further work is required to assist industry in making decisions around being able to purchase 'clean' planting material.

This requires Australian Government involvement to maintain publically available records of imports of grape vine propagation material that identifies the variety and/or clone, source of material and health status. This will permit traceability which is an important in ensuring the industry has access to planting material that is clearly identifiable.

### Germplasm collections

Recommendations from a review of the current status of the existing Australian grapevine collections and 'best practice' management of genetic resources by other industries have been released by the GWRDC.

GWRDC commissioned Scholefield Robinson Horticultural Services to undertake the independent review of grapevine germplasm collections in Australia. The main findings of the review were:

- There are approximately 900 different grapevine varieties in Australian collections, and about 450 varieties only exist in one collection.
- Some varieties are pre-phyloxera heritage material and are probably unique to Australia.
- The current resourcing for grapevine germplasm collections – through cutting sales and government agency support – is not sustainable in the long term. Lack of industry involvement is likely to result in closure of collections to the public, less accessibility of varieties with high-health status, and more private importation.

There is a strong case for government support for these actions and to maintain these collections. The review suggested that two types of collections are necessary to meet the current and future needs of the grape and wine sector: a germplasm repository of all varieties and a high-health collection containing only in-demand varieties and clones.

The steps to achieve this objective are:

1. Varietal identification of accessions in SARDI and CSIRO collections (and the few extra unique varieties in other collections)
2. International collaboration to ensure material in collections internationally is correctly identified and of known health status. This requires
  - Varietal identification of all potential accessions in Australia for a national collection
  - Agreed international protocol

- International (OIV) code for varietal identification of grapevines

### **C. Labour markets**

According to ABS Census data, employment in the wine sector has declined by some 5,000 employees from 2006<sup>1</sup> and 2011<sup>2</sup>. Anecdotal evidence suggests that businesses are doing more with less, they are using technology in place of people and redundancies have been a feature of the industrial landscape and will continue to be for at least the remainder of 2014.

Attracting labour has been a difficult task for the industry particularly amongst school leavers although where the industry has attracted those aged in their 20's or 30's, the majority to stay with the industry. Unfortunately, the industry is now characterised by an ageing workforce.

While there are issues about attracting the required labour to regions the more crucial issue or impediment seems to be inadequate infrastructure in regional centres (either the lack of and/or the need to upgrade or establish) in the areas of housing, child care, education, health services and religious services. The lack of adequate infrastructure affects both the ability to attract suitable staff to regional areas as well as sustain existing employees and their families or networks. This is also an issue relevant to visa holders and other short term (seasonal) employees in the regions where employers find suitable accommodation solutions as a massive challenge to get people to come and then stay on. We would imagine that the matter of infrastructure is not an issue confined to the wine industry but extends to other regionally dominated industries.

Whilst utilising traineeships or apprenticeships is a way of attracting younger people to the industry, the industry's experience has been such that:

- The system underpinning a strong traineeship or certificate of qualification does not always support delivery (and therefore qualified people who are 'job ready'), for example the quality or rigour of RTO's (private or public) in regions is hard to come by, and also minimum numbers mean that often qualifications that are needed by industry are not delivered in outlying regions if at all;
- When there is money available for training, it has often been negated by the lack of access or availability of good quality programs or trainers in regional areas and perhaps more importantly the ability to get or find rigorous assessors who can certify an employee as competent in the module of training they have undertaken.

Attracting trades and maintenance generally has been a problem for the industry in the last 5+ years. Apprenticeships are probably underutilised in the industry, with indications that those that are in place are often mature aged workers who the employer sees as more mature and reliable. More or better promotion of apprenticeships could potentially benefit the industry. There needs to be a productive dialogue to ascertain what types of apprenticeships are sought within the industry and what avenues are available to promote or satisfy that need. Of course identifying the trades that allow apprentices to work within the agricultural industry is also needed.

Other skills that are difficult to come by are some administration type and corporate roles, with some employers within regions finding it even difficult to attract suitably qualified or experienced persons to sales and marketing roles. One of the issues cited by employers as a deterrent of utilising traineeships or apprenticeships was that the Australian Qualifications Framework (AQF) does not meet the industry requirements and needs to be reviewed. On-

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<sup>1</sup> 27,955 employees employed across Australia in the wine industry (being grape growing & wine and other alcoholic beverage manufacturing)

<sup>2</sup> 22,070 employees employed across Australia in the wine industry (being grape growing & wine and other alcoholic beverage manufacturing)

the-job training continues to be the most popular way to develop skills, however employers in the industry would benefit from a better understanding of how to formalise this process and identify and fill skill gaps.

In addition, immigration solutions can be complex, time consuming and costly as a result of the risk of consistency, WHS, skills, language barriers and red tape. A review of this area needs to explore if the relevant visas are right and efficient solutions required by the market. There is a need to look at how Government engages industry about what is needed and funding is required to support this need. There appears to be no existing incentives in this area.

Finally, agriculture is by and large a seasonal industry. In the case of the wine industry, the need for labour is at its highest during the relatively short period of vintage and therefore the capacity to keep people in regional communities over the long term remains a significant challenge. Government therefore needs to be cognisant of the special interests of agricultural businesses that are reliant on seasonal, weekend and after-hours operations in the future of wages policy determination.

## 5. Support evidence-based decision making

### Key points

Industry data is critical to evidenced-based decision making and informed investment in Agricultural enterprises. In regards to the wine sector, the new Australian Wine and Grape Authority will be well positioned to undertake this role on behalf of Industry. However, as is the case for many agricultural sectors, the future collection and availability of foundation data in the wine sector is not secure.

### Policy recommendations

That Government:

- Adequately fund core data collection and research agencies such as the ABS and ABARES;
- Allocate funding for a central repository for wine industry foundation data.

WFA supports the principle of developing policy from a sound and robust evidence base. In seeking to understand the industry dynamics from such a position, WFA commissioned in 2012 independent expert analysis that could be used to underpin an Action Plan aimed at returning profitability and restoring asset values in the industry.

WFA's *Actions for Industry Profitability 2014 – 2016 Report (Actions)* demonstrated that Australia's wine industry was being challenged by a significant over-supply of grapes. The analysis estimates that up to 70% of total current wine grape production may be uneconomic with the most significant profitability issues concentrated in lower grade grapes. The oversupply of certain grape types is having the effect of distorting prices across the entire market.

This oversupply is likely to continue even under the most optimistic projections of demand growth for the domestic and international markets and will continue to see downward pressure over the long term on grape prices.

WFA believes a number of steps can be taken to hasten the correction and bring supply into better balance with demand, while also reducing pricing distortions. The key priorities outlined in the Actions document include:

- a better understanding, and directly addressing, the drivers of the slow adjustment;
- developing strategies to encourage fair and equitable dealings between grape grower and winemaker; and,
- identifying future research and programme priorities to improve the competitiveness of Australian wine through technical, economic and product innovation.

While many of these activities will be pursued by WFA and WGGA, the Australian Government has a key role in helping secure the data required to progress evidence based policies that will help address the demand-supply imbalance.

In the past, the Australian wine industry had world class information, statistics and analysis to help guide policy development, industry planning and individual business decision making. The information has been made freely available to grape growers.

Historically the availability of that information has come from the following sources:

- GWRDC funded ABS vineyards survey census providing foundation viticulture data

- Federal government funded ABS annual wine statistics collections providing annual foundation data on wine grape crush, wine production, domestic sales and wine inventories
- Export shipment data freely provided as a by-product of Wine Australia's Export Approval System, established for export shipment approvals
- WAC funded market insight and in-market, off-take data reports from various commercial suppliers
- WAC funded reports interpreting and analysing the various forms of data.

Foundation data enables more effective decision making at every level of the wine sector. It is a tool to overcome market failure in the sector to enhance vineyard profitability, incorporate better information in decision-making on cost structures, improve vineyard quality, and undertake better business decisions (i.e. to consolidate/diversify or to exit the industry). It is more efficient to provide such data centrally rather than every producer, region, State and national organisation investing in collecting and compiling the same data. Consequently, there is a high return from investment in category level foundation data because it focuses and frames all business decisions. It also constitutes an invaluable asset for category planning and reporting, without which many individual research projects would have to collect data on a one off basis.

A key issue for the industry is that for various reasons, the ongoing collection and availability of all foundation data sets are at serious risk. There are no ongoing arrangements for supply of viticultural data and the Australian Government has advised that they will only continue to support the annual wine statistics collections until 2013-14.

The ABS is the major data collection agency on behalf of the wine sector. The GWRDC have funded the ABS to run the Vineyards Survey for the last ten years, however, in response to reduced Commonwealth funding, the ABS has substantially increased costs and/or reduced content of their collections.

Due to the increased cost of the collections GWRDC have indicated they will no longer support the Vineyards Survey beyond 2012. The Australian wine sector was advised earlier this year that the ABS would no longer fund the annual wine statistic collections (wine grape crush, wine production, wine inventories and domestic wine sales).

In the 2012 Budget, the Commonwealth Government allocated \$425,000 over two years to maintain the collections in 2012-13 and 2013-14. However, the sector has been advised that the Commonwealth Government will not fund the collections after 2013-14.

It is vital that the sector continues to have access to key foundation data sets for industry planning and strategy development. The industry has looked at the data collection mechanisms and has determined that ideally a central data repository administered by the Australian Wine and Grape Authority would maximise the efficiency in data collection analysis.

WFA is seeking government financial assistance to establish the National Foundation Data set and estimates that recurring funding of \$1m per annum will be required to establish and then maintain it.

WFA also recognises and supports that the Australian Bureau of Statistics (ABS) and the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) are undertaking a review of the national agricultural statistical information system (NASR).

## 6. Maintain our edge in R&D and Innovation

### Key points

R&D funding is critically important to maintaining the competitiveness of Australian agriculture businesses especially in highly fragmented sectors such as winemaking where individual enterprises have little research capability on their own to ensure on-going innovation and adoption. Government support for industry R&D endeavours should be re-conceptualized as an investment opportunity for long-term growth and competitiveness.

WFA supports a research objective that efficiently provide for the research needed to allow the Australian Wine Industry to become the most profitable and competitive supplier of wine to the consumer. The industry requires an approach that will:

- ensure that returns from R&D activities are maximised and driven by industry needs,
- encourage a high level of industry participation in setting the R&D agenda,
- provide the research needed to allow industry to innovate and become more profitable and competitive,
- help guide the expenditure of the Government matched levy,
- build research capability and maximise efficiency in delivery, and
- expand the funding base for R&D through the attraction of new investors and a broader range of research participants

WFA supports the following R&D strategy for the wine sector:

1. Maximize the return from the efficient investment of levy funds and funds from other sources in research, extension and pre-competitive technical activities
2. Ensure that WFA provides clear policy advice to the government on R&D issues on behalf of the wine industry;
3. Ensure that the wine industry's research priorities, including relating to a social licence are clearly stated and that they meet national and regional need across the entire supply chain;
4. Dissemination and extension of the outcomes/results of R&D must ensure an efficient and effective system; and
5. A cooperative research approach between industry, researchers, funding bodies and government needs to be fostered

### Policy recommendations

That Government:

- Works with industry to identify and support clear priorities for and between the Research and Development Corporations (RDCs) to maximize returns on investment;
- Maintains its commitment to R&D co-funding.

Research and development is one of the vital components for driving business success and improving competitiveness for export and import-competing industries. Agricultural industries tend to be unique in that sectors are often highly fragmented with small players incapable of funding their own R&D activities and as such collective effort is paramount.

Investment in agricultural R&D can also have benefits more broadly beyond the agricultural sector, for example promoting food security, alleviating poverty or finding solutions for carbon reduction. A Council of Rural R&D Corporations (CRRDC) evaluation of 59 RDC programs, representing \$676 million in R&D investment between 2001 and 2009, found for



every \$1.00 invested, \$10.51 is returned after 25 years. Over the life of the Cooperative Research Centre Programme (Programme) established in 1991, there have been more than 50 agricultural CRCs representing around 28 per cent of the Programme. The agriculture sector, through the Programme had the most significant direct economic impact of all the sectors, estimated at \$6.15 billion in 2012.

Unfortunately, a recent senate enquiry noted that for the first time in history, agricultural R&D in Australia is declining at the same pace as our rate of productivity is flattening. Australia currently spends approximately 2.2% of its GDP on research and development – putting Australia in the middle of the OECD table. This spend is down from 5% of GDP in the 1970s.

For the wine sector, fewer funds seem to be available for investment in productive grape and wine R&D – and it is of concern that the understanding of its importance seems to be falling.

### **The role of innovation in the wine sector**

Effective R&D has been a critical element in the successful growth of Australia's wine industry over the last decade, especially in the fields of viticulture, oenology and market development. WFA remains convinced that research is critical to maintain Australia's competitiveness.

The Australian grape and wine industry has grown and prospered through innovation and strong leadership. Industry has used two processes to drive this innovation – through the provision of new knowledge from research; and through industry led and directed activity. Innovation is driven by the companies that make up the Australian wine industry, either individually or collaboratively, and uses information from a wide variety of sources, such as in-house research and technical activity, publicly funded research, extension and education, suppliers to the industry, private companies and consulting organisations, CSIRO, Universities and the Australian Wine Research Institute (AWRI).

R&D in the wine industry is the responsibility of a large number of organisations. The primary stakeholders are the industry (grape growers and winemakers) and the Government (Australian and State jurisdictions). Both groups invest directly in R&D as well as through jointly through organisations such as the GWRDC<sup>3</sup>. However, research providers and funders also have high vested interests in the R&D process. Efficiency in the funding and provision of research are essential to ensure that scarce funding is not competed away in the scramble for funding. Coordination of this complex structure is through the National Primary Industries Research, Development & Extension (RD&E) Framework Wine Sector Strategy (PISC Strategy).

From an industry perspective, it is important to ensure that the structures in place to initiate, fund, undertake and provide extension of R&D, maintain capacity and capability by State and federal providers/funders, minimise duplication and maximise efficiency in research and delivery.

### **R&D Objectives and Strategies for the Wine Sector**

WFA's supports a research objective that efficiently provide for the research needed to allow the Australian Wine Industry to become the most profitable and competitive supplier of wine to the consumer. The industry requires an approach that will:

- ensure that returns from R&D activities are maximised and driven by industry needs,

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<sup>3</sup> The GWRDC is the major vehicle for industry RD&E investment and is funded by a levy of \$2 per tonne of grapes delivered and \$5 per tonne of grapes crushed matched by Australian Government (up to 0.5% of the Gross Value of Production). The total fluctuates with the harvest but is around \$25 million per annum with \$40 million in project partnerships.

- encourage a high level of industry participation in setting the R&D agenda,
- provide the research needed to allow industry to innovate and become more profitable and competitive,
- help guide the expenditure of the Government matched levy,
- build research capability and maximise efficiency in delivery, and
- expand the funding base for R&D through the attraction of new investors and a broader range of research participants.

This objective can only be achieved through support by Government and partnership with the Industry. WFA has set the following strategies which are further discussed below:

1. Maximize the return from the efficient investment of levy funds and funds from other sources in research, extension and pre-competitive technical activities
2. Ensure that WFA provides clear policy advice to the government on R&D issues on behalf of the wine industry;
3. Ensure that the wine industry's research priorities, including relating to a licence to operate) are clearly stated and that they meet national and regional need across the entire supply chain;
4. Dissemination and extension of the outcomes/results of R&D must ensure an efficient and effective system; and
5. A cooperative research approach between industry, researchers, funding bodies and government needs to be fostered

1. Maximize the return from the efficient investment of levy funds and funds from other sources in research, extension and pre-competitive technical activities

WFA welcomes the improvements recently implemented by Government to the publicly funded R&D model with important implications for the grape and wine sector, including the ability for the Australian Grape and Wine Authority to invest non-matching funds in R&D; the removal of the maximum levy rate in legislation and enhanced corporate governance and accountability requirements for statutory authorities.

This commitment to RRDCs recognises the significant market failure typical in rural industries. Most rural enterprises have insufficient capacity to commission research on their own behalf, and/or are unable to exclude “free riders” from also sharing in the benefit of the research. Consequently, without Government intervention, there would be substantial under-investment in rural related research.

In addition, rural industries have a substantial impact on Australia's natural resources and much of the research portfolio of the RRDCs is directed towards ways of better managing these resources to minimise harmful environmental impacts. Indeed, RRDCs typically apply considerable resources towards research priorities and objectives that fit within those defined by the Australian Government.

The benefit to Government, and the broader economy, accrues through the improved international competitiveness of Australian rural industries, and the resulting impact on trade, regional investment and taxation, as well as the social impact on regional communities and better management of Australia's natural resources.

According to an independent assessment commissioned by the GWRDC, for every dollar invested in research to improve the performance of yeasts in wine generates \$7.40 back in returns to winemakers.

The independent report conducted a cost-benefit analysis of GWRDC's research effort to develop new yeast strains and new techniques to manage yeasts during fermentation.

Yeasts play an essential role in wine production that goes way beyond alcoholic fermentation – it helps give wine its character, aroma, flavour and mouth-feel.

This is a further example of how research and development (R&D) in the rural sector has a long history of delivering impressive returns.

This cost-benefit analysis of seven GWRDC funded projects shows the crucial role well targeted R&D can deliver for our rural industries. The seven projects cost about \$15 million over seven years and are expected to deliver a net value of more than \$475 million in the next 30 years to those who adopt the technologies. The cost-benefit analysis looked at seven projects funded by the GWRDC including some that were breeding new yeast strains to allow winemakers to enhance natural fruity or savoury flavours in their wines and others to better manage challenging ferments. The key areas of R&D investment for GWRDC include grapevine and yeast breeding, biosecurity, vineyard profitability, process efficiency and consumer insights.

However, it should be noted that there is a critical decline in viticulture capability in our research institutions. State governments have also significantly pulled out of publically funded agricultural extension. Declining funding in 'real terms' to GWRDC has meant increased pressure on funding to key research agencies. It is important that sufficient funding is available to maintain research capability in these key areas.

2. Ensure that WFA provides clear policy advice to the government on R&D issues on behalf of the wine industry

As highlighted throughout this submission, the importance of industry and government working closely in partnership is important in delivering positive outcomes. R&D is no exception.

Collaboration between industry and government has delivered the *National Primary Industries Research, RD&E Framework Wine Sector Strategy* which is led by the GWRDC, WFA, WGGA, South Australian Research and Development Institute and the National Wine and Grape Industry Centre with support from CSIRO and the Governments of New South Wales, South Australia and Victoria.

The purpose of the strategy is to develop and implement systems and structures that boost the competitiveness, productivity and sustainability of the Australian wine industry through access to highly efficient, collaborative and multi-disciplinary research development and extension (RD&E) across the whole value chain.

The strategy was developed by key stakeholders from the wine sector, research, universities and Government to build upon the existing wine RD&E collaborative arrangements so that they met the requirements of the RD&E Framework.

The centrepiece of the strategy is a structure and system with a:

- National Wine Research Network
  - a forum for wine research and development providers to share research and information, to encourage consultation, coordination and communication amongst research and development providers and to be a point of contact for industry bodies.
- National Wine Extension Network;
  - coordinates wine industry extension and innovation services to ensure those services are delivered efficiently, in both a client-focused and cost-effective manner.

- Wine Strategy Implementation Committee.
  - The National Wine Strategy Implementation Committee is responsible for the development and implementation of the strategy to ensure that wine RD&E is responsive to industry and Government requirements and is conducted and delivered in the most efficient and effective manner.
  - The Wine Strategy Implementation Committee reports to PISC and Primary Industries Ministerial Council (PIMC) on implementation of the strategy and makes recommendations to government/s through PISC.

From an industry perspective, it is important to ensure that the structures in place initiate, fund, undertake and provide extension of R&D, maintain capacity and capability by State and federal providers/funders, minimise duplication and maximise efficiency in research and delivery.

Arguably one of the issues we face is the ability to retain and attract top quality researchers due to the lack of long term funding and scarcity of funding. Possible solutions could include:

- top up programs to supplement existing resources to attract high quality applicants to key research and teaching positions; and
- attracting increased long term funding by increasing the pool of available research funds.

WFA believes that many State governments are walking away from their responsibilities agreed under the PISC strategy. We are seeing a diminution of RD&E resources from wine and viticulture that are being redirected into other industries. Innovation is vital for all agricultural industries success and State and the Australian government need to continue their investment in the sector to take advantage of the sector's potential.

3. Ensure that the wine industry's research priorities are clearly stated and that they meet national and regional needs

WFA and WGGA have an active involvement in setting research priorities for the Australian Wine and Grape Sector through the development of the GWRDC Five Year plan. The current GWRDC Five Year R&D Plan commenced in July 2012 and considered the following strategies:

- The Australian Government's Rural Research and Development Priorities
- The National Primary Industries RD & E Framework – Wine Sector Strategy
- The National Strategic Rural Research and Development Plan
- PIMC - Standing Committee on R&D

Key stakeholders involve the funding providers, namely the Australian Government, WGGA and WFA. Each of these groups is consulted separately with a view to gaining what they see as priorities and researchable questions for the coming Five Year R&D Plan. The consultation process recognises the special relationship of the peak industry bodies – WGGA and WFA - and should serve as a model for future plans.

4. Dissemination and extension of the outcomes/results of R&D must ensure an efficient and effective system

Research uptake is a priority area in the management and delivery of R&D to the wine industry. There is a wide variety of investment in current programs designed to achieve research uptake, ranging from those undertaken by the AWRI involving direct transfer of knowledge to industry to those with an emphasis on business skills undertaken by WFA.

There is, however, a lack of consistency in recommended changes designed to improve research uptake, ranging from the employment of regional extension officers, on-farm trials, industry newsletters, research publications to a greater focus on seminars/workshops. Extension of viticulture R&D must acknowledge both the geographical diversity of the industry and the organisations involved in R&D.

Key issues surrounding extension include:

- the importance of having the primary researcher directly involved in extension and research uptake, recognising that some are very good at it whilst others are not
- the need to acknowledge “not one size fits all” in terms of extension programs, i.e. what works well in a workshop for one project might work better for another project via a field trial
- although user-pays has some advantages, will such a policy help to promote research uptake or inhibit dissemination?

WFA supports GWRDC’s recommendation on extension which is included in their agricultural competitiveness white paper submission. There needs to be a review of the level of funding provided to traditional extension activities. The ongoing decline of funds attributed to this area has resulted in a slow drain of RDC funds to help bridge the gap.

In nearly all primary industries, there are those who want to continually update and upgrade sources of information and intelligence that assists their operations to perform better. These individuals/companies endeavour to be plugged into all the key intelligence available through many sources these days, most notably through email and the internet – in relation to R&D, they will always be on the lookout for outcomes which might benefit their businesses. On the other hand, there are those who are less inclined to help themselves – many of these individuals/companies see the GWRDC or other research agencies as having an “obligation” to “hand feed” them, and even then, there can be no certainty that the R&D information supplied will be put to the best use.

In the education sector it should be recognised that there are training institutions that play a critical role in promoting a “learning and innovation” culture in the industry as well as incorporating new R&D outcomes into external education and training courses and materials.

The GWRDC itself (and other relevant funding agencies) have the challenge of determining just what is an appropriate level of investment in RD&E and uptake, recognising that in GWRDC’s case, its role is to ensure that both “the industry and the community receive the best possible return on the investment of funds”.

Furthermore, Intellectual Property management must give priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry. WFA believes that the following policy principles should apply:

1. The protection and commercial exploitation of IP from publicly<sup>4</sup> funded research will only be pursued if there is a net benefit to the Australian grape and wine industry and a partner willing to take the risk and fund commercialization is identified.
2. Any IP management must give priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry.
3. Ownership of IP should be assigned by an appropriate contractual arrangement between the research funders and the providers, in association with a commercialization partner.

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<sup>4</sup> Publicly funded research is defined as research funding obtained partially or wholly from government sources or industry levy funds. It does not refer to research funded solely through private investment.

4. The pre-condition for international participation in publicly funded research is that all research results will be made available as a priority to the Australian industry. IP ownership will be on the basis of the negotiated contractual arrangement between the partners.
  5. Where benefits accrue from the commercialization of intellectual property developed through publicly funded research, these should be returned for further industry R&D.
  6. Research agencies and other key providers should be encouraged to maintain a focus on R&D and leave commercialisation activities to industry or commercial organisations.
5. Cooperative research approach between industry, researchers, funding bodies and government needs to be fostered

Each institution, especially those relying on levy funds for core infrastructure, needs to identify its key capabilities with an aim to reduce duplication and to increase efficiency of the use of scarce research funds. In an environment of falling levy funding, it is important that key research institutions get better at what they do well, rather than try and expand their businesses to seek additional funding sources with a consequent diminution of excellence.

There is a need for collaboration between institutions to seamlessly integrate the grape and wine research and education endeavour from the environment to the vineyard, winery, market and society. Research clusters provide a theoretical model of this approach. Such multi-disciplinary research must have enhanced benefits for the industry.

Broadly speaking the same principles that apply to international collaboration also apply within Australia and between Australian research institutions. Principally, collaboration should be undertaken only if there is a net benefit to the Australian grape and wine industry and/or to the Australian people.

It is acknowledged that *ex ante* it is difficult to measure the potential costs and benefits of collaboration. Collaboration may not lead to immediate gains, but the development of strategic partnerships may have long term benefits.

Given the limited (and in real terms diminishing) funds available for wine sector research in Australia, domestic and international collaboration is particularly important because it allows participation in, and access to, activities from which scientific and technological innovation largely derive, especially where the cost of major research facilities and associated research projects are prohibitive when spread across Australia's research institutions.

The most effective transfer of the benefits of research collaboration into commercial application requires the integration of the wine sector into the process. The nature of the wine industry does mean that the practical results of research diffuse quickly to other producing countries, either through formal company links, flying winemakers and viticulturists or through researcher interaction.

Clarity is essential on the issue of international collaboration and the intellectual property issues to maximise the benefits available from the priority setting process. This is particularly important to set policy guidelines for the AWRI and other research providers for how they undertake research for international clients.

Commercialization of IP is not the key driver for wine industry research. From the industry perspective, the critical issue surrounding R&D is to make sure that any policy does not prevent the timely dissemination of research results. It is critical that potential IP be identified at the beginning of the research project and that the owners of such IP also are identified and that that IP be available to Australian industry.

It should also be recognized that the ability to collaborate internationally can add to the skills base of Australian researchers and add to their incentives to remain in Australia.

## 7. Adopt a whole-of-government approach to regional development policy making

### Key points

The sustainability of regionally-based enterprises depends on further consolidation and transition. During this time of change, strong support from Government will be required to ensure the impact on regional communities who support these businesses is minimized and that they can continue to provide necessary infrastructure and labour resources.

All of the recommendations in this submission reflect the importance of a partnership approach between industry and Government and a whole-of-government approach to policy development. In regards to the wine sector, the Australian Government has worked closely with Industry in establishing the new Australian Grape and Wine Authority which commences in July this year. It is a good example of Government partnering with industry to synergize interests and to align strategy and programme development.

### Policy Recommendations

That Government:

- Takes a coordinated approach to regional development and continues to support regional communities during transition

The importance of evidenced based policy formulation was discussed in the previous section, but it is also important to note that the capacity to develop and deliver sound policy is severely compromised if a whole of government perspective is not engaged. Such an approach should avoid the potential for unintended consequences of developing policy in a vacuum. This is of particular importance in regional communities where the sustainability of regionally based enterprises is now, more than ever, dependent on further consolidation, integration and transition to new business models and practices and where government has such an important regulatory and fiscal role in driving that change.

WFA welcomes the formulation of the Agricultural White Paper as it has the capacity to outline a vision and strategy for Australian agriculture and regional communities more broadly from a whole of government perspective. This approach should aim to understand how areas of policy interrelate and impact on one another including areas such as:

- Population and demographic trends,
- Job creation,
- Infrastructure investment,
- The raft of regulation relating to on-site operations and individual products,
- Business incentives and regional investment attraction,
- Environment, and
- Social policy objectives.

For example, there is little value in developing and implementing policies to support investment in agricultural industries if there are a range of trade and market access barriers, there is conflicting regulation, no supporting infrastructure for local communities or an inability to the efficiently and cost effectively move goods.

The nature of agriculture is largely unique given the range of issues confronting it and the communities it supports. While government support is not always justified, common areas of justification for dealing with market failures in primary industries include:

- funding of research,
- provision of information concerning markets, particularly in export markets,



- provision of information about export market activity and operation, and
- adjustments for relative 'market power', usually as a result of the number of small producers in an industry.

Clearly these issues range across a number of policy portfolios and responding to the challenges clearly benefit from a cross-portfolio approach.

While WFA acknowledges this is a Federal Government White Paper, the role of States and Territories cannot be forgotten or ignored. COAG remains the key platform for strategic policy engagement across jurisdictions but there is little doubt that it could be improved. There is clear value in maintaining targeted Ministerial Councils, but these should not operate in isolation from one another. Again, the principle of taking a cross portfolio, whole of government approach is critical to supporting agriculture and regional communities against a shared strategic vision for the sector.

Finally, the benefit of whole of government engagement directly with industry in policy making should also not be understated. All of the recommendations in this submission underscore the importance of this approach and highlight the value of developing policy in partnership.

For example, in regards to the wine sector, the Australian Government has worked closely with industry in establishing the new Australian Grape and Wine Authority which commences in July this year. The merger of Wine Australia Corporation and the Grape and Wine Research and Development Corporation into this national entity is a significant outcome and reflects what can be achieved with cooperation at the national level. It is a good example of Government partnering with industry to synergize interests and to align strategy and programme development.

We believe that a single statutory authority could best deliver the services to the industry and meet the needs of Government. Combining the current functions served by WAC and GWRDC, one authority, established under a single statute will:

- create one national delivery agency for the Australian wine industry
- maintain the Label Integrity and Geographic Indications programs and associated regulatory and government-to-government activity
- align research and marketing strategy and maximise efficiency in delivery against this strategy with scarce resources
- direct and, where necessary, extend the wine industry's responsibilities in areas such as health, education and environment; and
- realise economies through common management and financial reporting, corporate support, systems and procedures.

## APPENDIX 1: Snapshot of the Australian Wine Industry

<b>Snapshot of the Australian Wine Industry</b>			
<b>Wine Producers</b>			
Wineries		Value	% change over last 12 months
2012	number	2,572	1.6%
# Increase	number	40	
<b>Wineries by Size of Crush (2012)</b>			
< 500 tonnes	number	2,243	1.9%
500-4,999 tonnes	number	173	-6.0%
5000-9,999 tonnes	number	16	-11.1%
>=10,000	number	31	0.0%
Unspecified	number	109	12.4%
<b>Direct Employment</b>			
2012-13	number	16 055	-2.3%
<b>Viticulture</b>			
<b>Winegrape Crush</b>			
2013	'000 tonnes	1 830	10.6%
<b>Winegrape Price</b>			
Australian average, all varieties (2013)	\$A	499	9%
<b>Environment</b>			
<b>Water Use (2012-13)</b>			
Megalitres per hectare	ML	2.52	21.7%
<b>Beverage Wine Production</b>			
2012-13	million litres	1 231	0.4%
<b>Sales &amp; Trade</b>			
<b>Domestic Sales - Volume</b>			
2012-13	million litres	455	-0.9%
<b>Domestic Sales - Value</b>			
2012-13	\$A million	2 369	-5.2%
<b>Imports - Volume</b>			
2012-13	million litres	84	2.2%
<b>Imports - Value</b>			
2012-13	\$A million	577	8.8%
<b>Imports share of domestic market</b>			
2012	%	19	
<b>Exports - Volume</b>			
2012-13	million litres	684	3.0%
<b>Exports - Value</b>			
2012-13	\$A million	1 781	3.0%
<b>Exports - Value per Litre</b>			
2012-13	\$A/litre	\$2.61	0.0%
<b>Wine as % of total value of crops export (fob)</b>			
2012-13	%	8%	
<b>Wine Exports' Ranking on major agricultural, fisheries and forestry commodities exports</b>			
2012-13	ranking	6th	
<b>Australian Wine's Contribution to Value of World Wine Trade (2012)</b>			
Ranking	ranking	4th	
%	%	6%	
<b>Tourism</b>			
International visitors to wineries (2013)	no.of people	684 018	3.0%
Domestic visitor overnight trips to wineries (2013)	no. of trips in '000	2 672	14.6%
Estimated tourism revenue generated from international and domestic visits (2013)	\$A billion	7.68	8.6%
<b>Consumption</b>			
<b>Wine Consumption Per Capita</b>			
2011-12	litres	29.89	0.40%
<b>Taxation</b>			
Net Wine Equalisation Tax 2012-13	\$A million	445	-0.7%
<small>Sources: ABARES Commodity Statistics, Australian &amp; New Zealand Wine Industry Directory, IBISWorld Industry Report, Tourism Australia, Entwine Member Database, ABS Domestic Sales and Import Statistics and Wine Australia Export Approval Database via Winefacts Statistics; ABS Catalogue No: 1329.0 Australian Wine and Grape Industry, ABS Catalogue No: 8504.0 Shipments of Wine and Brandy in Australia by Australian Winemakers and Importers, ABS Catalogue No: 4307.0.55.001 Apparent Consumption of Alcohol, Wine Australia and Treasury (Budget and Mid-year Economic and Fiscal Outlook)</small>			

### Wine Industry at a Glance

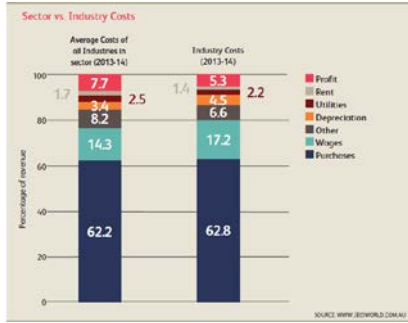
#### Contribution to the national economy

Industry value added	\$1.77bn
Employment	16,122
Businesses	1,867

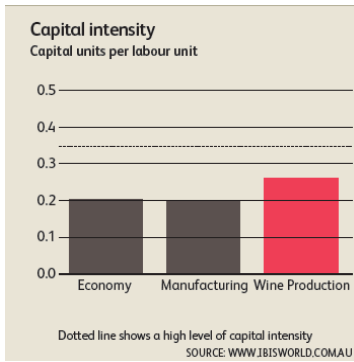
#### Profitability

Revenue	\$5.7 bn
Profit	\$302.6m
Profit/revenue	5%

Cost structures



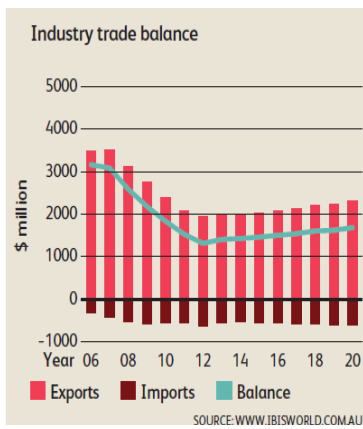
#### Capital Intensity



#### Trade Balance

Exports	\$2.0bn
Exports/revenue	35%

Industry trade balance

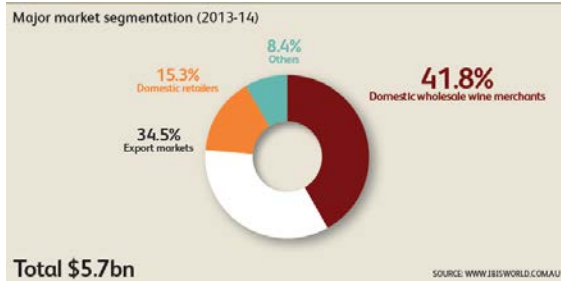


Source: IBISWorld Industry Report C1214, July 2013

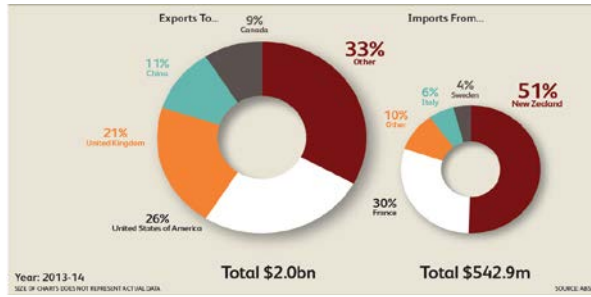
#### Competitive Landscape

Market	40.80%
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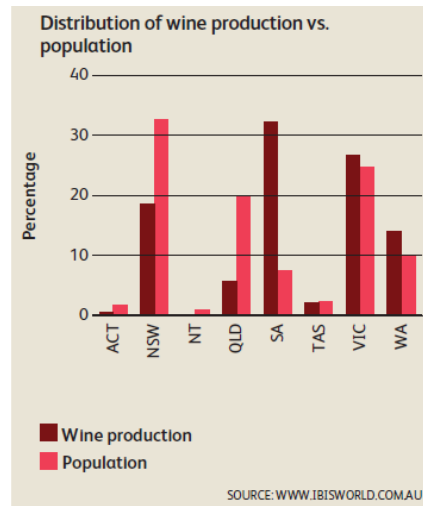
Major Markets



#### International Trade



#### Business Locations



## **APPENDIX 2: Glossary and acronyms**

### **Wine industry bodies**

Winemakers' Federation of Australia (WFA)

Wine Grape Growers Australia (WGGA)

Wine Australia Corporation (WAC)

Grape and Wine Research and Development Corporation (GWRDC)

Australian Grape and Wine Authority (Authority)

From 1 July 2014, the two statutory authorities, GWRDC and WAC, will merge into a single entity and will be known as the Australian Grape and Wine Authority.

WFA Actions for Industry Profitability 2014-2016 (Actions)

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ASEAN- Australia-New Zealand Free Trade Agreement (AANZFTA)

Asia-Pacific Economic Cooperation (APEC)

APEC Wine Regulators Forum (APEC WRF)

Australian Pesticides and Veterinary Medicines Authority (APVMA)

Association of South East Asian Nations (ASEAN)

Australian Wine Research Institute (AWRI)

Codex Alimentarius Commission (CAC)

Council of Australian Governments (COAG)

Council of Rural R&D Corporations (CRRDC)

Corporate Social Responsibility (CSR)

Environmental Management System (EMS)

Food Standards Australia New Zealand (FSANZ)

Free Trade Agreements (FTAs)

Gulf Cooperation Council (GCC)

Intellectual Property (IP)

Innovation Policy Working Group (IPC)

International Organisation of Legal Metrology (OIML)

International Organisation of Vine and Wine (OIV)

Label Integrity Program (LIP)

Maximum residue limits (MRLs)

National Wine Coordination Forum (NWCF)

National Primary Industries Research, Development & Extension (RD&E) Framework Wine Sector Strategy (PISC Strategy)

The PISC Strategy is led by the Grape and Wine Research and Development Corporation, the Winemakers' Federation of Australia, Wine Grape Growers Australia, South Australian Research and Development Institute and the National Wine and Grape Industry Centre with support from CSIRO and the Governments of New South Wales, South Australia and Victoria.

The strategy was developed to build upon the existing wine RD&E collaborative arrangements so that they met the requirements of the RD&E Framework. The Strategy has established a process to achieve a set of agreed outcomes.

National Wine Extension and Innovation Network (NWEIN)

The National Wine Extension and Innovation Network coordinates wine industry extension and innovation services to ensure those services are delivered efficiently, in both a client-focused and cost-effective manner.

National Wine Research Network (NWRN)

The National Wine Research Network is a forum for wine research and development providers to share research and information, to encourage consultation, coordination and communication amongst research and development providers and to be a point of contact for industry bodies.

National Wine Strategy Implementation Committee

The National Wine Strategy Implementation Committee is responsible for the development and implementation of the strategy to ensure that wine RD&E is responsive to industry and government requirements and is conducted and delivered in the most efficient and effective manner. The Wine Strategy Implementation Committee reports to PISC and PIMC on implementation of the strategy and makes recommendations to government/s through PISC and the wine sector through the Wine Sector Innovation Policy Committee (IPC).

Non-Tariff Measures (NTMs)

Pacific Trade and Economic Agreement (PACER Plus)

Primary Industries Ministerial Council (PIMC)

Regional Comprehensive Economic Partnership (RCEP)

Research and Development Corporations (RDCs)

Research Development and Extension (RD&E)

Rural Research and Development Council (RRDC)

Sanitary and Phyto Sanitary (SPS)

Technical Barriers to Trade (TBT)

Trans Pacific Partnership (TPP)

Wine Industry National Environment Committee (WINEC)

World Wine Trade Group (WWTG)

World Trade Organization (WTO)

## **APPENDIX 3: WFA Actions for Industry Profitability 2014-16**