



**Submission to the 2015 Review
of the Export Market
Development Grants (EMDG)
scheme**

4 March 2015

wfa Winemakers'
Federation of
Australia

Introduction

On 10 December 2014, in accordance with Section 106A of the *Export Market Development Grants Act 1997* (as amended), the Hon Andrew Robb AO MP, Minister for Trade and Investment, announced the appointment of Mr Michael Lee, the former CEO of Zip Industries, as the Reviewer for the 2015 Review of the EMDG scheme

The Review will be a comprehensive examination of the effectiveness of the Export Market Development Grants (EMDG) scheme, and will be carried out from January to June 2015.

The Review is to be completed and a written Report provided to the Minister by 30 June 2015.

The Winemakers' Federation of Australia is a strong supporter of the Export Market Development Grants (EMDG) scheme and believes recent modifications make it even more valuable to potential wine sector applicants. The Australian Government can play an important supporting role in strategies to increase the demand opportunity. The multiplier effect of Export Market Development Grants is well known, and the wine industry has had a major presence in the programme, averaging around 250 recipients each year. These grants have enabled many small and medium producers to develop and promote their products effectively, and should be expanded.

Background

This submission is prepared by the Winemakers Federation of Australia (WFA) on behalf of the Australian wine industry. WFA represents approximately 90% of Australian winemakers by value and has a good spread of representation (some 380 plus members) drawn from large, medium and small businesses. The large, medium and small member colleges of WFA each have a committee which provides their respective Board members with input on issues and with the ability to raise new issues. While a number of smaller wine businesses are not direct WFA members they are members of state bodies which have direct representation on the Board of WFA. This indirect representation minimises smaller operators paying multiple fees.

We also work closely with Wine Grape Growers Australia (WGGA). There are roughly 6,200 wine grape growers in Australia and WGGA can count around 3,700 of these as having a direct involvement in the organisation.

WFA and WGGA are the two peak national industry bodies and this is recognised in legislation covering the wine sector with both organisations formally nominated as the two industry representative bodies.

Issues

The Australian wine industry is a major exporter of agricultural products. In 2013-14 there were 1,360 wine exporters, most of whom are small to medium sized family businesses. They exported 694 million litres of wine, valued at over \$1.8 billion to 123 different countries.

As one of Australia's major agricultural export sectors, the Australian wine industry has long been a major user of the EMDG scheme, averaging around 250 recipients each year. The grants have successfully assisted many small and medium winemakers to develop and promote the export of their products providing a direct return to the Australian economy valued at over \$200 million each year. Without the grants, many of these family-owned and operated businesses would display little chance for success in international markets.

The wine sector has used the EMDG scheme for many years to increase its footprint in export markets. For example, in its 2008 Review of the Export Market Development Grants Scheme for DFAT, Lateral Economics found that the wine industry is a valuable export success story for Australia for many reasons, namely that the EMDG Scheme has played a role in the development of many well-known Australian wineries.

- In the 2006-07 grant year, there were 272 wine-related EMDG recipients including:
 - 137 in South Australia (\$4.7 million)
 - 52 in Victoria (1.8 million)
 - 45 in Western Australia (\$1.2 million)
 - 38 in New South Wales (\$1.6 million)

In 2013-14 a number of very important changes were made to the EMDG scheme that have enhanced its usefulness. The Export Market Development Grants Amendment Bill 2014 was passed by both Houses of Parliament in March 2014. The Bill aligned the EMDG scheme's rules with the revised level of scheme funding and also contained technical and simplification measures. The Bill provided for the following changes to the *Export Market Development Grants Act 1997*:

- an increase in funding for the EMDG scheme by \$50 million over four years, commencing in 2014–15
- an increase in the maximum number of grants able to be received by an applicant from seven to eight
- a reduction in the minimum expenses threshold required to be incurred by an applicant from \$20,000 to \$15,000
- a reduction in the \$5,000 deduction from the applicant's provisional grant amount to \$2,500
- prevention of the payment of grants to applicants engaging an EMDG consultant assessed to be not a fit and proper person
- introduction of a mechanism that enables a grant to be paid more quickly if the grant is determined before 1 July following the balance distribution date.

The total number of grant recipients in 2013–14 was 2,445. This is fewer than the 2,757 received in 2012–13, and lower than the budgeted target of 2,800–3,300.

In 2013-14 the principal market targeted by EMDG recipients continued to be the United States, with 58.6 per cent of all recipients paid grants for promotion activities which included the United States, followed by the United Kingdom, China, Singapore, Hong Kong and Germany . The advertising expenditure category was the largest expenditure category as a proportion of total assessed expenditure, followed by marketing visits and overseas representation costs. Marketing visits and overseas representation are critical for small and medium wine companies to grow brand recognition and build brand value as the industry transitions towards higher value products.

Winemakers Federation of Australia have identified the key growth markets for Australian wine exports as the United States (and Canada), and China and South-East Asian developing markets. Opportunities provided through recently completed Free Trade Agreement negotiations with Korea, China and Japan have also dramatically increased the future opportunities for exporters in these markets. The industry collaborative marketing undertaken by the Australian Grape and wine Authority (AGWA) means that EMDG grants can maximise the opportunity of small and medium sized enterprises to establish themselves in these growth markets. The EMDG grants are vital to the success of industry funded collective marketing initiatives over the next five years. EMDGs provide significant flow through benefits to the wider Australian economy and successes achieved by exporters through EMDGs assist the Terms of Trade and the Balance of Payments.

As it takes up to five years to grow a market to a sustainable level of profitability, many winemakers by this stage have exhausted EMDG funding opportunities and are unable to capitalize on entry into emerging markets such as China. However, to provide maximum benefit in this environment, it is important that the eligibility of the grants be reviewed, so that all wine exporters can take advantage of the opportunities that are provided by a recovering international economy and a targeted marketing and promotional campaign from industry.

This presents an opportunity for the Australian Government to assist the wine sector by providing ongoing support to ensure newly established international brands succeed for several years beyond their entry into the international market.

Conclusions

Australian wine is still an export success story and has achieved this status amidst various other challenges such as a major structural adjustment and oversupply crisis in recent years. Additionally, the global financial crisis and movement in exchange rates has also hampered wine export opportunities.

EMDGs are an extremely beneficial and rewarding initiative and assist many Australian winemakers in developing and promoting their products for export, and are hence a very important part of Australia's trade and export industry.

Critically, 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 our 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.

We seek the support of the Australian Government for the maintenance or increase in previous Budget funding levels and to amend the criteria for Export Market Development Grants. We would seek changes in eligibility criteria that would permit those exporters that have been forced out of markets and have exhausted their EMDG grants to receive further grants. This will provide maximum benefit to both exporters and the Australian economy, enabling all wine exporters can take advantage of the opportunities that are provided by a recovering international economy and a targeted marketing and promotional campaign from industry.

Contact

For further information contact:

Tony Battaglione

General Manager, Strategy & International Affairs

Winemakers' Federation of Australia

02 6239 8300