

leadership

strategy

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# Pre-Budget Submission

February 2014

wfa

Winemakers'  
Federation of  
Australia

## From the WFA President and the CEO

Over the past 12 months and following extensive consultation with industry, the Winemakers' Federation of Australia (WFA) has developed a comprehensive industry-led plan to restore profits to wine businesses and to secure the futures of those regional communities and jobs that depend on their success.

This blueprint for recovery can be found in the attached document, "Actions for Industry Profitability 2014-2016" and it should be read in full in support of this submission.

The 43 Actions include initiatives aimed at:

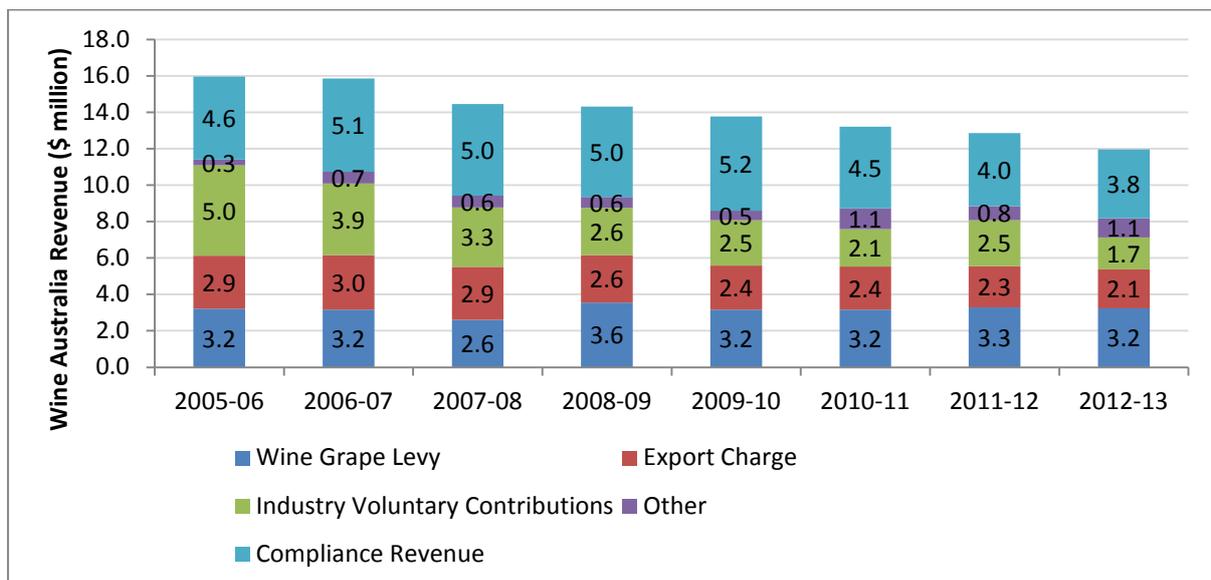
- Growing the demand for our wine in key markets.
- Accelerating the correction to the current supply-demand imbalance, and
- Putting in place codes of conduct between growers and winemakers and with retailers to ensure greater fairness and transparency in commercial dealings across the entire supply chain.

We believe that implementing these Actions over the next two to three years will deliver a sustainable uplift in profitability and asset values and help the sector's recovery of share and margin in our key markets. A structural decline in the value of the Australian dollar against competitor currencies will also be important but our plan for recovery will make a difference even if this does not occur.

Australian wine at all price points continues to be a globally competitive product and in this regard the sector is not looking for handouts or to restructure or retool. Our plan is about taking charge of our own future and continuing the considerable commitment of industry sourced funding already in place to open and develop markets through the Wine Australia Corporation (WAC) which is funded directly by the industry by \$12m in annual industry levies and contributions.

The need to implement the Actions aimed at growing demand for our wine comes at a time when the industry resources to do so have been impacted by significant declines in profitability, export performance and annual industry contributions to WAC. Additional investment is now required and at this point in the recovery cycle to ensure our wine businesses are supported to hold and take market share from competitors.

Since 2005/06 the industry-sourced revenue base of WAC has been steadily eroded by \$4m compared to 2012/13 impacting both core operating capability (including staffing and offices in key overseas markets) and the reach and impact of our promotional activities aimed at influencing wine buyers, opinion leaders and consumers.



## IN CONFIDENCE

Following close consultation with WAC and the broader industry, and consideration of the findings of the independent expert review of the competitive challenges we confront in our traditional and emerging markets (which is included in the attached Actions document), we believe a minimum of \$2m per annum is required over the next three years to supplement WAC's operating budget. This short term assistance will provide the incoming Board of the merged statutory authority for the sector (The Australian Grape and Wine Authority) with the means to restore our core marketing capabilities and an appropriate level of global representation.

To enable the in-coming Authority to also undertake the specific in-market activities we believe are required, a further \$13.5m in 2015/16 and \$5.5m in 2016/17 will also be needed. While this support will see the annual budget for WAC in 2015/16 and 2016/17 exceeding previous levels, we believe this investment, along with the implementation of the other Actions by industry, will deliver an uplift in performance and profitability. In turn, this will restore levels of industry contributions and enable the sector to once again meet its own marketing needs by the end of the current Budget cycle. That is why all the spending proposals in this submission are short-term or one-offs.

A good recent example of this approach and how targeted one-off support can make a difference was the Australian Government's recent funding of \$2.1m to WAC to host Savour Australia 2013 and related activities. WFA believes more must be done to build on the momentum created by this event.

On the supply side, finite funding is also needed to secure the immediate future collection of the foundation data required by the sector to continue to take an evidence-based approach to aiding the industry in correcting the current oversupply of certain wine grapes. Historically, key information from periodic vineyard surveys and wine statistics collections has been provided by the ABS but funding for these activities has now ceased. A National Grape and Wine Database is also needed to ensure more effective decision making and business planning. A central data repository administered by the new Authority would secure and maximise the efficiency in data collection and analysis for the sector at a cost of \$1m per annum for four years. We believe this measure is consistent with the Australian Government's recognition of the importance of foundation data for industry data by undertaking the ABS and ABARES review of the national agricultural statistical information system.

WFA also believes that there is no case to increase wine taxes over the coming Budget cycle at a time when the sector continues to face such significant profit and operating pressures. The WET rebate should also be retained to support those regional communities that depend on wine businesses. However, there is a need to urgently reform eligibility to the WET rebate to ensure it is not accessed by unintended recipients. In particular, the extension of rebate entitlements to New Zealand and other foreign producers at a time when imports are directly damaging branded Australian wine businesses that support local communities should cease immediately. This proposal has widespread support from the industry and alone would provide a minimum of \$25m in annual savings to the Commonwealth to reinvest back into the sector and the measures outlined in this submission.

While we recognise the difficulty of attracting additional Government funding in the current budgetary environment and the need to reduce government expenditure, we believe the measures we have proposed are a necessary short term investment needed to protect a globally competitive industry, grow our markets and secure regional communities and jobs. They can be funded in full by abolishing the WET rebate entitlements for foreign producers.

We look forward to working together to implement the Actions and believe this submission provides clear direction to the Government on how it can best support the sector taking charge of its own more prosperous and sustainable future.

Yours sincerely,



**Tony D'Aloisio AM**  
President



**Paul Evans**  
Chief Executive

## Executive Summary

The Winemakers Federation of Australia (WFA) is seeking support from the Australian Government under the following four headings:

1. Grow the Demand Opportunity
2. Hasten the Supply Correction
3. Retain with changes to the Wine Equalisation Tax (WET) Rebate, and
4. No increases to wine taxation

In this submission we present those initiatives which we are seeking government support. While the Industry will continue to lead the recovery of the sector and commit significant resources to that end, support from the Government is required to legislate certain changes to the WET rebate and to return the subsequent savings to the industry to fund the measures proposed in this submission. WFA will strongly oppose any policy that would see an increase to the overall tax revenue taken from the sector.

### 1. Grow the Demand Opportunity

#### **Budget measure 1.1**

**Budget Need:** Government to assist in rebuilding Wine Australia's core operating budget

**Budget Implication:** \$2m from 2014/15 for three years.

	2014/15	2015/16	2016/17	2017/18
1.1 Government to assist in rebuilding Wine Australia's core operating budget	(\$2m)	(\$2m)	(\$2m)	

#### **Budget measure 1.2**

**Budget Need:** Wine Australia to be funded to:

- Increase our presence at international trade shows - \$1m in 2015/16 and 2016/17
- Enhance the partnership opportunities with Tourism Australia - \$2.5m in 2015/16 and 2016/17
- Invest in education programmes in key markets - \$0.5m in 2015/16 and 2016/17
- Expand the Visitors Program - \$0.5m in 2015/16 and 2016/17
- Support domestic wine tourism, social media and regionally-based initiatives - \$1m in 2015/16 and 2016/17
- Host Savour Australia in May 2016 - \$2m in 2015/16

**Budget Implication:**

	2014/15	2015/16	2016/17	2017/18
1.2 Wine Australia to be funded to undertake various promotional and marketing activities		(\$7.5m)	(\$5.5m)	

#### **Budget measure 1.3**

**Budget Need:** Re-launching Australian Wine in the USA

**Budget Implication:** \$6m in 2015/16

	2014/15	2015/16	2016/17	2017/18
1.3 Re-launching Australian Wine in the USA		(\$6m)		

**IN CONFIDENCE**

**2. Hasten the Supply Correction**

**Budget measure 2.1**

**Budget Need:** Government to provide funding to establish the National Grape and Wine Database and support ongoing management of Foundation Data.

**Budget Implication:**

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
2.1 National Grape and Wine Database and foundation data	(\$1m)	(\$1m)	(\$1m)	(\$1m)

**3. Retain with changes to the Wine Equalisation Tax (WET) Rebate**

**Budget Measure 3.1**

**Budget Need:** Government support for WFA to work with the ATO and Treasury on identifying any changes that can be made to the interpretation and application of the existing WET Rebate provisions so that eligibility is consistent with the original intent.

**Budget Implication:** Significant un-modelled savings, returned to industry, including in support of the other measures identified in this submission.

**Budget Measure 3.2**

**Budget Need:** Government to retain the WET rebate but undertake legislative reform as soon as possible so it is claimed in accordance with its original policy intent to support regional communities. The specific legislative changes sought from Government are:

1. Remove eligibility from bulk, unpackaged, unbranded wine and private label wine, commencing at 1 July 2014 and phased out at 25% over 4 years.

**Budget Implication:** Significant un-modelled savings, returned to industry, including in support of the other measures identified in this submission.

2. Remove the eligibility for New Zealand wineries and other foreign entities to the WET rebate.

**Budget Implication:** Significant savings, returned to industry, including in support of the other measures identified in this submission.

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
3.2.2 Remove the eligibility for New Zealand wineries and other foreign entities to the WET rebate.	\$25m	\$25m	\$25m	\$25m

**IN CONFIDENCE**

**4. No increases to wine taxation**

**Budget Measure 4.1**

**Budget Need:** No increase to the overall taxation on wine products or from the wine sector. No use of tax policy or artificial minimum pricing measures to deliver social policy objectives.

**Budget Implication:** Budget neutral

**SUMMARY OF BUDGET MEASURES (\$M)**

	2014/15	2015/16	2016/17	2017/18	Total
<b>1. Grow the demand Opportunity</b>					
1.1 Government to assist in rebuilding Wine Australia's core operating budget.	(2)	(2)	(2)		(6)
1.2 Wine Australia to be funded to: <ul style="list-style-type: none"> <li>• Increase our presence at international trade shows</li> <li>• Enhance the partnership opportunities with Tourism Australia</li> <li>• Invest in education programmes in key markets</li> <li>• Expand the Visitors Program</li> <li>• Support domestic wine tourism, social media and regionally-based initiatives</li> <li>• Host Savour Australia in 2016</li> </ul>		(7.5)	(5.5)		(13)
1.3 Re-launching Australian Wine in USA		(6)			(6)
<b>2. Hasten the Supply Correction</b>					
2.1 Establish the National Grape and Wine Database and support ongoing management of Foundation Data.	(1)	(1)	(1)	(1)	(4)
<b>3. Retain with changes to the Wine Equalisation Tax (WET) Rebate</b>					
3.1 Government support for WFA to work with the ATO and Treasury on identifying any changes that can be made to the interpretation and application of the existing WET Rebate provisions so that eligibility is consistent with the original intent.	<b>Un-modelled savings</b>				<b>Un-modelled significant savings</b>
3.2 Government to retain the WET rebate but undertake legislative reform as soon as possible so it is claimed in accordance with its original policy intent to support regional communities. The specific legislative changes sought from Government are: <ol style="list-style-type: none"> <li>1. Remove eligibility from bulk, unpackaged, unbranded wine and private label wine, commencing at 1 July 2014 and phased out at 25% over 4 years.</li> <li>2. Remove the eligibility for New Zealand wineries and other foreign entities to the WET rebate.</li> </ol>	<b>Un-modelled savings</b>				<b>Un-modelled significant savings</b>
	25	25	25	25	100
<b>4. No increases to wine taxation</b>					
4.1 No increase to the overall taxation on wine products or from the wine sector. No use of tax policy or artificial minimum pricing measures to deliver social policy objectives.	<b>Nil</b>				<b>Nil</b>

## Introduction

### Who we are

The Winemakers Federation of Australia (WFA) is the national peak industry body for Australia's winemakers incorporated under the *SA Associations Incorporation Act 1985*.

The objectives of WFA 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 Australian Wine and 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 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 a representative organisation for the purposes of the PIERD Act and is recognised by the Australian government as representing the interests of all winemakers – the levy-payers that fund the GWRDC.

Wineries and exporters fund the Wine Australia Corporation (WAC). For the purposes of the *Wine Australia Corporation Act*, 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.

WFA membership represents over 80% of the national wine grape crush and has 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 percent 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 organization 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 centered on our core activities of providing leadership, strategy, advocacy and support for our members and the broader industry.

## IN CONFIDENCE

### Actions for Industry Profitability 2014-2016

The Australian wine industry has enjoyed considerable success from 1991 through to 2007. However, in more recent times, a range of factors have challenged the industry. An independent expert review of the industry dynamics commissioned in 2013, which can be found in the attached document, concluded:

1. The Australian wine industry has tripled in size and been very successful at building export markets.
2. Since 2007 the profitability of the Australian wine industry has declined significantly.
3. This decline in profitability has intensified:
  - Export returns have declined sharply.
  - Domestic margins have been squeezed by retailers, low demand growth, and increased imports.
  - The decline and shift in export demand has created an “oversupply/under-demand” of grapes and wine in certain quality segments.
4. Efforts to improve profitability have, in many cases, only reduced the extent of the decline.
5. There are foreseeable circumstances that would put further pressure on profitability.
6. The other side of this ‘perfect storm’ is that no single lever will ‘fix’ the problem.
7. The industry is not being impacted equally—some players/segments are more affected than others; there are a number of success models.
8. Wine Tax arrangements remain an issue for the industry.

In response to the findings of the review and other industry data, and using their collective industry experience, the WFA Board released draft Actions in August 2013 to generate discussion on what was needed to restore profitability to the sector. An extensive consultation was then undertaken including road shows to wine growing regions and written submissions from over 70 national, state and regional wine organisations and industry stakeholders. Armed with this feedback and further input, the WFA Board released 43 final Actions in December which can be found in the attached document.

The Actions are grouped under eight headings:

- 1. Continue to engage the Wine and Health debate** - WFA will proactively engage the Wine and Health debate to promote responsible consumption and ensure a balanced regulatory framework for our Industry. These Actions aim to minimise harm to the community, promote the benefits of moderation and to shape the policy debate.
- 2. Grow the Demand Opportunity** – With support from Wine Australia and the Australian government, WFA will help wine businesses grow demand for our wine, both domestically and internationally. The outcome from taking these Actions will be an increase in the relative market share of Australian wine in all major markets.
- 3. Hasten the Supply Correction** - WFA with the Wine Grape Growers Association will hasten the correction to the supply base to improve margins throughout the value chain. The outcome will help reduce the oversupply of commercial grade grapes and the pricing distortion it creates throughout the industry.
- 4. Maximise Open and Fair Domestic Competition** - WFA will work with the national wine retailers and competition regulator on fairness, transparency and equity in the domestic wine market. These actions aim for a more sustainable domestic marketplace for industry where companies can grow share through quality, innovation and investment.

## IN CONFIDENCE

- 5. Retain with changes to the WET rebate** - WFA with the support of Australian Government will retain and make changes to the Wine Equalisation Tax rebate to support regional communities. The outcome will be the retention of the WET rebate to ensure that it is working within its original policy intent, and to seek policy changes to improve the workings of the WET rebate on the wine industry, consistent with its original intent.
- 6. Monitor the future of wine tax policy** - WFA will monitor the future of wine tax arrangements in response to changing market conditions. The outcome will be the on-going examination of optimal taxation arrangements for industry to support growth and our licence to operate with the community.
- 7. Secure the funding for the Action agenda** - WFA will secure the funding to support the recommended reform agenda in partnership with Industry and Government.
- 8. Areas for On-going Work** - WFA will continue and expand its good work in a number of important programmes and policy areas such as promoting innovation and R&D spend and improving market access.

The attached Actions document which includes the expert review of industry dynamics should be read in full in support of this submission.

### **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 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 the table below and in the expert review found in the attachment.

**IN CONFIDENCE**

<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 WineTrade (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 Winfacts 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>			

## Budget Needs

### 1. Grow the Demand Opportunity

The Australian wine industry enjoyed considerable success from 1991 to 2007. It more than tripled in size from less than 400 million litres to 1.2 billion litres and achieved total revenues of \$5 billion in 2007. The value of exports grew from \$212 million to \$3,004 million. The industry and many of its participants built an enviable global reputation for producing quality wine and created strong export markets particularly in the UK, US and Canada.

However, from 2007 a confluence of events confronted the sector with a number of challenges that are on-going:

- The global financial crisis hit world markets starting in August 2007 and accelerated through 2008—coinciding with a significant fall in Australian wine exports. Export volumes recovered through 2009, only to fall again in 2010 and 2011 including a fall in demand for Australian wine in key markets, especially the US, UK and Canada, from 2007 to 2012.
- From 2004 the Australian dollar rose steadily to almost parity in July 2008. A sharp fall to 62 cents in August 2008 preceded a steady climb to parity in November 2010 and beyond.
- Domestic retail consolidation which has resulted in approximately 77% of all off-premise wine sales now being controlled by the two national grocery chains.
- Flat domestic demand growth and an increase in imports.
- A supply-demand imbalance resulting from excess planting and wine making capacity given the 'unexpected' fall in export demand and rise in the Australian dollar.

The Australian wine industry is likely to remain in transformation for some years unless action is taken. A decline in the value of the Australian dollar will help but on its own will not be enough. We also need to re-engage our key markets and grow demand for our wine.

As such, a sustained uplift in support for our domestic and international marketing activities is fundamental to significantly growing demand and helping to restore industry profitability. Individual companies will continue to lead marketing efforts and the industry continues to invest in whole of industry initiatives through its marketing and promotion arm, Wine Australia Corporation (WAC). However, industry contributions paid to WAC to support its activities have declined from \$16m to \$12m per annum thereby hampering the ability of the industry to re-energise traditional and emerging markets and compete with the marketing campaigns of competitor nations.

It is important to highlight that for many years the sector's marketing activities have been wholly industry funded with no on-going government support, unlike competitor countries in the EU who receive substantial 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.

The decline in the capacity to spend on marketing Australian wine has led to the Australian category losing support among some traditional distributors and importers and potentially we are not well placed to capture the full opportunity presented by the 'Asian Century' and emerging markets such as China.

WFA is seeking additional short term funding from Government (to be met by the off-set savings measures outlined below) to support the activities of WAC. Critical activities include increasing the core funding of WAC to rebuild core operational activity and supporting specific programs to boost demand in major and developing export markets.

By making this investment, WFA believes we can increase the market share of Australian wine in all major markets in each segment, support regional economies and employment and grow the tourism spend. In time, this will enable the level of industry contributions to WAC to recover.

**IN CONFIDENCE**

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

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

**Budget measure 1.1**

**Budget Need:** Government to assist in rebuilding Wine Australia’s core operating budget

**Budget Implication:** \$2m from 2014/15 for three years.

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
1.1 Government to assist in rebuilding Wine Australia’s core operating budget.	(\$2m)	(\$2m)	(\$2m)	

**Global Marketing Activities**

In recognising the critical importance of category-level marketing to growing demand for Australian wine and shaping appreciation for our diversity and quality, WFA believes there are a number of existing and potential WAC programmes that will re-engage international and domestic consumers beyond price and convenience.

The key will be to change perceptions and raise awareness of the value presented by the category across all price points, bringing into the consumer conversation the breadth of styles, the characters and the places that give our wines their distinctive personalities and make them uniquely Australian.

WFA believes we need to reposition Australia’s best wines as being second to none, and also promote the quality, diversity and value of the wider Australian branded category. The overall aim is to restore “excitement” in the Australian category, and provide a strong basis for a more concerted industry effort to compete for sales against our competitors, return better margin to producers and anticipate and shape emerging consumer trends. The specific programme initiatives are:

*1. Establishing a much stronger presence at key trade shows*

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

*2. 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.

## IN CONFIDENCE

### 3. *Greater investment in education in key markets*

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

### 4. *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.

### 5. *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.

### 6. *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.

Wine Australia Corporation is building on the overwhelmingly positive feedback from Savour Australia 2013 through a global program of industry-funded educational initiatives, tastings, masterclasses, trade and consumer events and retail promotions in all our markets over the coming months.

## IN CONFIDENCE

These include the Australia Day tasting in the UK, ProWein in Germany, Aussie Wine Month in Australia, the China National Food, Wine and Spirits Fair, the Wine Australia Trade Roadshow in the US and the in-store tastings with various liquor boards in Canada.

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.

### **Budget measure 1.2**

#### **Budget Need:**

Wine Australia to be funded to:

- Increase our presence at international trade shows - \$1m in 2015/16 and 2016/17
- Enhance the partnership opportunities with Tourism Australia - \$2.5m in 2015/16 and 2016/17
- Invest in education programmes in key markets - \$0.5m in 2015/16 and 2016/17
- Expand the Visitors Program - \$0.5m in 2015/16 and 2016/17
- Support domestic wine tourism, social media and regionally-based initiatives - \$1m in 2015/16 and 2016/17
- Host Savour Australia in May 2016 - \$2m in 2015/16

#### **Budget Implication:**

	2014/15	2015/16	2016/17	2017/18
1.2 Wine Australia to be funded to undertake various promotional and marketing activities.		(\$7.5m)	(\$5.5m)	

### **Re-launching Australian Wine in USA**

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.

**IN CONFIDENCE**

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.

**Budget measure 1.3**

**Budget Need:** Re-launching Australian Wine in the USA

**Budget Implication:** \$6m in 2015/16

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
1.3 Re-launching Australian Wine in the USA		(\$6m)		

## 2. Hasten the Supply Correction

The independent expert analysis found in the attachment 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. This oversupply of certain grapes however has a distorting effect on pricing across the entire sector and fuels the production of retailer private label wines.

Unless action is taken, 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 led 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 has had world class information, statistics and analysis to help guide policy development, industry planning and individual business decision making. This 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, and
- WAC funded reports interpreting and analysing the various forms of data.

This 'foundation data' enables more effective decision making at every level of the wine sector. 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 the ongoing collection and availability of all foundation data sets is at serious risk. There are no ongoing arrangements for supply of viticultural data and the Australian government have 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 CONFIDENCE

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 (due to come into being on 1 July 2014 following the merger of WAC and GWRDC) would maximise the efficiency in data collection analysis.

WFA also recognises 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).

The NASR was initiated by ABS and ABARES to build upon outcomes of recent internal program reviews by the agencies and national statistical work conducted by the ABS, in particular the Essential Statistical Assets for Australia. It will consider all aspects of the Australian agricultural statistical information system and the system's ability to inform decision making. It seeks to identify opportunities to improve the system and develop a framework for ongoing assessment, coordination and governance of information needs into the future.

The Review will identify:

- the priority information needs of stakeholders;
- where information needs are not being met by existing sources of data;
- overlaps and inconsistencies in data, and
- opportunities for efficiency in the national agricultural statistical information system.

WFA, WAC and WGGA are preparing submissions to the review to support the need for data collections as per this pre-budget submission.

### **National Grape and Wine Database**

To further educate and support growers, WFA and WGGA are seeking to produce a regular review of vineyard profitability supported by a National Grape and Wine Database managed by the Australian Wine and Grape Authority.

Given Government expertise in this area and the industry wide benefit, WFA is seeking continued government support for the collection of industry data to permit the ongoing analysis of vineyard profitability and complemented with a national register of vineyards, information on demand trends in key market segments and trend analysis of the industry's foundation data set.

In turn, WFA would play its part in committing greater resources to communicating these critical facts across industry and among key stakeholders in the investment community.

### **Budget measure 2.1**

**Budget Need:** Government to provide funding to establish the National Grape and Wine Database and support ongoing management of Foundation Data.

**Budget Implication:** \$1m over four years

	2014/15	2015/16	2016/17	2017/18
2.1 National Grape and Wine Database and foundation data.	(\$1m)	(\$1m)	(\$1m)	(\$1m)

### 3. Retain with changes to the WET Rebate

The Wine Equalisation Tax Rebate was originally intended to assist smaller producers to remain in business, so that diversity in wine styles is maintained and to secure the positive economic impact of wine enterprises in regional communities. The Explanatory Memorandum to the relevant legislation that introduced the current producer rebate system in 2004 stated, "Around 90% of wine producers will be able to fully offset their WET liability by accessing the new rebate. In particular, small wine producers in rural and regional Australia will benefit significantly." As summarised by the Australian National Audit Office, the rebate was introduced "in recognition of the substantial financial hardship being faced by small rural and regional wineries and aimed to support their viability and consequent capacity to generate employment and wealth in local communities."

In 2011/12 some \$282mm of rebate was shared among at least 1,912 Australian claimants. In the same year 205 New Zealand claimants received \$25m in WET rebates.

The rebate remains an important revenue source for small and medium winemakers in both the fine wine and commercial segments which are struggling with a decline in export sales and intense competition in the domestic market. It is clear that without the rebate a significant number of wine businesses would be severely impacted financially. Whether originally intended or not, the rebate has been factored into business models and pricing strategies at all points in the supply chain.

However, there are widespread concerns within the Industry that the WET Rebate has evolved beyond its original intent and is being compromised by the ability of brokers, intermediaries and foreign-based entities to access the entitlement. There are also reports of non-commercial multi-party schemes and ventures. Between 2007/08 and 2011/12 ATO data indicates an increase of 21% or 365 in the number of rebate claimants with refunds increasing over the same period from \$211m to \$308m.

It is also instructive that the Tax Commissioner rates the compliance risk associated with its administration of WET as "high" and has recently issued a series of Tax Alerts to Industry on rebate compliance issues.

WFA supports the enforcement and compliance work of the ATO in this area. But we believe more can be done. In particular WFA believes that the rebate should only be accessed by those who make a contribution to regional communities.

In seeking to address the concerns from within the industry in relation to the WET Rebate, the *Actions for Industry Profitability 2014 – 2016* Report concluded that the WET should be maintained, but with an enhanced compliance and enforcement regime accompanied by 3 key legislative changes.

In relation to compliance and enforcement, WFA will seek to work with the ATO to identify changes that can be made to the interpretation and application of the existing provisions so that eligibility remains in line with the original intent. For example, we believe WFA can assist the ATO in identifying and assessing claim accessibility for uncommercial arrangements. This may occur, for instance, when the ATO forms the view that claimants have split their activities or have colluded in the establishment of business activities with the substantial purpose of claiming multiple rebates. Similarly, there may be occasions where schemes have been established with the sole or dominant purpose of accessing the rebate contrary to the anti-avoidance provisions.

We also believe that WFA can assist the ATO in its understanding and identification of uneconomic practices which are not in keeping with the original policy intent and what steps can be taken to stamp them out.

In relation to legislative change, WFA does not believe that bulk, unpackaged, unbranded wine and private label wine of wine retailers should be eligible for the rebate as, over the long-term, they do not support regional development and they diminish the ability to build brand equity and margins with retailers and consumers. Therefore, the rebate should be limited to those who:

## IN CONFIDENCE

- a) Manufacture and sell wine in a form that is packaged ready for retail sale and where the finished product is identifiably theirs; or
- b) Grow grapes and sell wine in a form that is packaged ready for retail sale and where the finished product is identifiably theirs.

WFA defines bulk wine as being wine in containers over 25 Litres. To enable the industry time to plan and adjust to this measure, WFA proposes that the measure will be introduced with the rebate on bulk and unbranded wine phased out at 25% per year starting at 75% of the rate as of 1 July 2014.

This proposal would continue to support the industry consistent with the original intent of the rebate discussed above. By way of example, it would enable the following activities to continue to claim the rebate:

1. Winemaking and grape growing businesses that produce their own branded and packaged wine;
2. Winemakers who lease their production assets or contract out the making of their wine and produce their own branded and packaged wine; and
3. Businesses that purchase grapes or leases vineyards and produce their own branded and packaged wine.

The rebate eligibility for New Zealand wineries and other foreign entities should be removed. This is particularly important at a time when local producers are already confronting high exchange rates and escalating competition from imports.

WFA's rationale for this proposal is that it is also inconsistent with the original intent of the rebate to support small and regional winemaking businesses while encouraging diversity of Australian wine. While all foreign entities are currently eligible to access the rebate, it is New Zealand winemakers that have particularly benefited from the rebate. In recent years, we have seen New Zealand imports increase from 21 million litres in 2007 to over 51 million litres in 2012 resulting in a 30% of the total value of the leading 20 SKUs sold in Australia. This loss of market share in large part underpinned by the rebate has directly harmed Australian producers, and consequently regional communities.

These legislative changes are expected to deliver significant budget savings to the Australian. WFA will seek to work with the Department of Treasury and the ATO to better define and quantify the savings. It is the firm view of the industry that these savings should be returned in full to the industry, including to support the budget measures identified in this submission.

### **Budget Measure 3.1**

**Budget Need:** Government support for WFA to work with the ATO and Treasury on identifying any changes that can be made to the interpretation and application of the existing WET Rebate provisions so that eligibility is consistent with the original intent.

**Budget Implication:** Significant un-modelled savings, returned to industry, including in support of the other measures identified in this submission.

**IN CONFIDENCE**

**Budget Measure 3.2**

**Budget Need:**

Government to retain the WET rebate but undertake legislative reform as soon as possible so it is claimed in accordance with its original policy intent to support regional communities. The specific legislative changes sought from Government are:

1. Remove eligibility from bulk, unpackaged, unbranded wine and private label wine, commencing at 1 July 2014 and phased out at 25% over 4 years

**Budget Implication:**

Significant un-modelled savings, returned to industry, including in support of the other measures identified in this submission.

2. Remove the eligibility for New Zealand wineries and other foreign entities to the WET rebate.

**Budget Implication:**

Significant savings, returned to industry, including in support of the other measures identified in this submission.

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
3.2.2 Remove the eligibility for New Zealand wineries and other foreign entities to the WET rebate.	\$25m	\$25m	\$25m	\$25m

#### 4. No increases to wine taxation

The Australian Wine Industry currently pays some of the highest domestic wine taxes of any wine producing nation in the world and further increases would penalise and directly inhibit the sustainability of the industry at a time when the industry is already under significant pressure.

As the attached independent expert review concludes, the sector continues to be typified by low profitability and declining asset values and continues to face a number of challenges including:

- Weak global economic conditions and consumer spending and a significant fall in Australian wine exports.
- Fall in demand for Australian wine in key traditional markets.
- Loss of market share and competitiveness from a high Australian dollar.
- A highly consolidated retail sector and on-going vertical integration by the national grocery chains
- Flat domestic demand.
- Increasing imports, and
- An oversupply of certain grapes.

WFA notes the Government's commitment to undertaking a broad ranging Tax Review in its current term. This forum will undoubtedly raise issues relevant to the WET rebate discussed in the previous section along with broader wine tax arrangements that will attract comment from both the public health lobby and the beer and spirits sector, all of which have consistently lobbied for an increase in the rate of taxation on wine. Given the current low levels of profitability in the wine sector and the need to undertake the Actions to help the sector recover, WFA does not believe additional tax revenue should be sought from the sector over the Forward Estimates.

In response to calls from the public health lobby to increase the retail price of wine to reduce alcohol-related harms, WFA does not believe there is a credible evidence base that establishes the link between pricing and the drinking behaviours of at-risk consumers. A tax increase in the pursuit of social policy outcomes will only penalise the vast majority of drinkers who do the right thing and place further downward pressure on an already flat domestic market and the economic viability of wine producing regions and jobs. It is also likely that any tax increase on the sector will be absorbed by the producer given the high concentration of retail power in our market and that the assumed price increases will not be passed on to the consumer. WFA will continue to strongly resist calls to increase wine taxes aimed at delivering a social policy objective.

WFA is fully committed to pursuing a range of activities that will help minimise alcohol-related harm. For example, in 2013 WFA launched its Responsible Winery Initiative which involves a framework for all wine businesses to make a difference through the two main ways in which they engage with consumers: at their cellar doors and through their advertising and marketing activities. As another example, WFA recognises that women are a key demographic who consume wine and strongly supports the voluntary Pregnancy Labelling Initiative that places warning labels on each wine bottle that "it is safer not to drink while pregnant". A recent survey of the industry showed that almost eighty per cent of current year production sold into the domestic market contains messages regarding drinking during pregnancy.

WFA will continue to build on these wine and health initiatives with those identified in the attached Actions document. They are key priorities for the industry that will be led by WFA and funded from industry sources.

##### **Budget Measure 4.1**

**Budget Need:** No increase to the overall taxation on wine products or from the wine sector. No use of tax policy or artificial minimum pricing measures to deliver social policy objectives.

**Budget Implication:** Budget neutral

## Contacts

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**Attachment**

1. Actions for Industry Profitability 2014-2016