Leadership Strategy Advocacy Unity

PRE-BUDGET SUBMISSION 2018-19

Winemakers' Federation of Australia

December 2017

About the Winemakers' Federation of Australia

The Winemakers' Federation of Australia (WFA) is the national peak body for Australia's winemakers. WFA represents the interests of Australian winemakers on national and international issues affecting the Australian wine industry.

WFA is recognised as a representative organisation under the *Australian Grape and Wine Authority (AGWA) Corporation Act* and is incorporated under the *SA Associations Incorporation Act 1985.*
WFA members produce around 70 per cent of the national wine grape crush. WFA represents small, medium and large winemakers from across the country's 65 wine-making regions, with each membership college having an equal voice at the Board level.

WFA works in partnership with the Australian Government and Australian Vignerons (AV), to develop and implement policy that recognises the critical economic and social investment made by the wine industry in the national economy, and in rural and regional communities.

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Introduction

Over the past 12 months, the Winemakers' Federation of Australia (WFA) has worked cooperatively with the Australian Government to set a direction that will restore profitability to Australian wine businesses, support investment and jobs in regional communities and enhance the opportunities in growing, but increasingly complex, export markets.

The Government's announcement in December 2016 of **reforms to the Wine Equalisation Tax (WET) Rebate** and its decision in the 2016 Budget to provide **$50 million for export and regional development**, has provided a solid platform for wine businesses to leverage significant opportunities. The industry and Government now need to implement those plans to ensure they achieve their intended outcomes and are accessible to wine businesses across all regions.

Our vision is to ensure that the Australian wine industry is able to respond to national and international customer demand for quality Australian wine by delivering substantial improvements in international market access and by ensuring domestic regulatory settings facilitate this growth.

In 2018-19, the Australian wine industry will be operating in an environment that offers international growth opportunities tempered by prospects of significant additional regulatory costs, particularly in the domestic market.

The **global trade outlook for wine exports** is very strong. This is supported by strong consumer demand in China, a competitive Australian dollar and increased market access. Exports to China and other North Asian markets are likely to continue to increase but the industry's capacity to take full advantage of the additional demand is variable. Australian wine remains competitive in domestic and international markets when considering price and quality, but must continue to differentiate itself by appealing to consumers on the basis of geographic regional characteristics, sustainability credentials and experience, to take full advantage of new opportunities across all market segments.

Free Trade Agreements (FTAs) have delivered increased market access and WFA remains strong supporters of free trade, supporting and commending the Australian Governments' efforts in this area. The challenge is to ensure the benefits are distributed across all wine producers who want to take advantage of these opportunities. The Export Market Development Grants have been highly effective in assisting marketing efforts in specific markets. The grants are widely used by the wine industry and the Government has used companies such as Casella Family Brands and the Aberdeen Wine Company to promote the grants. Minor changes are needed to this program so that wine companies can continue to take advantage of significant growth in emerging markets and the benefits delivered by FTAs.

Critical to industry's success is ensuring that bilateral negotiations between Governments expand, not restrict, Australian producers' market opportunities. One of the issues on the European agenda is the forthcoming FTA negotiations between Australia and the European Union (EU). It is clear there will be a strong Italian led push from the EU to prevent Australian producers using the grape variety *Prosecco* on Australian product labels. The issue is not restricted to *Prosecco*, but extends to other Italian grape varieties including *Nero d'Avola*, *Montepulciano, Vermintino, Fiano, Dolcetto and Barbera* to name just a few. WFA will continue to provide advice and support to the Government and negotiators to ensure that Australian wine producers are not unfairly disadvantaged from this agreement.

Research and development underpins the success of wine businesses. The wine industry is characterised by innovative research and fast adoption responding to consumer preferences as well as manufacturing innovations. The Australian Government must continue to support research and development and should consider ways to practically support its implementation at the individual business level. Without continued investment in research and development, the wine industry runs the risk of falling far behind our competitors.

We are also seeking the Australian Government's leadership in **implementing targeted and effective health policy and programs** that are not knee-jerk reactions to scare-mongering headlines. Long-term Government survey data provides convincing evidence that Australians are drinking less alcohol than they did 50 years ago, and that drinking habits in many age cohorts are improving considerably. The trends suggest that for many demographic sectors, people are consuming alcohol in a more responsible way. The industry has contributed to this behavioural change through significant investment in responsible consumption messaging at cellar doors, through social media, by adoption of strict advertising principles and promotion of campaigns such as the pregnancy labelling initiative.

Within this environment, the release of the **Draft National Alcohol Strategy (NAS)** is concerning as it explicitly removes industry as an important stakeholder in consultation and the development of programs to address alcohol-related harm. It ignores the significant goodwill and partnerships built by industry and Governments, particularly in promoting responsible consumption messaging, as well as the key role industry plays with consumers. The wine sector is willing to work with the Australian Government and all State and Territory Governments, to review the NAS and remain a key stakeholder in the development and delivery of important policy actions.

The Australian wine industry is an agricultural and export success story for our nation. Export and domestic regulation is important to ensure its reputation and safety. Continuing profitability will crucially depend on ensuring domestic and international regulation does not incrementally increase to pacify anti-alcohol or competing interests.

The Australian wine industry is vital to the economic and social prosperity of rural and regional communities. WFA looks forward to working with the Australian Government in 2018-19 to increase its contribution to export and domestic growth.

Tony Battaglene
Chief Executive
Winemakers' Federation of Australia

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Summary of Recommendations

WFA is pleased to make the following recommendations to the Australian Government for consideration during the 2018-19 Budget process.

In 2017, the Australian Parliament legislated important reforms to the Wine Equalisation Tax (WET) Rebate. The industry now needs a period of taxation certainty and stability as it prepares to capitalise on export and tourism growth opportunities.

It remains critical that the 2018 Budget maintains previous commitments to the wine industry to operationalise the WET rebate reforms, to deliver the $50 million Export and Regional Tourism Support Package and to deliver the Government's Cellar Door and Regional Tourism Grant in 2019-20 and future years.

WFA strongly supports the continuation of differential wine taxation treatment under the WET system. The historical policy rationale for this arrangement recognises the unique agricultural production, manufacturing characteristics and social and economic footprint of the Australian wine industry. These unique differences are accepted and recognised in alcohol tax regimes around the world, including Australia's global competitors.

Recommendation: ***Ensure taxation certainty and stability for industry by maintaining the WET system for wine products.***

Retain the reformed WET rebate and $50 million package as targeted measures to build industry capacity to take advantage of market opportunities.

Continue to consider policy options to remove the separate New Zealand producers' rebate

During 2018-19, it is critical that the Budget supports domestic policies and programs that enable Australian wine businesses to take advantage of the Government's $50 million investment and reforms. The industry is concerned these opportunities will be undermined by new domestic regulatory restrictions that would be ineffective in addressing specific public health issues and impose additional costs on wine businesses.

The Australian alcohol sector has adopted pregnancy labelling on more than 75 percent of the top market share of alcohol products through its voluntary labelling program. Most wine categories examined are above this level. Given proof of continued uptake and the sector's ongoing commitment to reach 100 percent uptake, there is no compelling need for Governments to mandate pregnancy labelling, which would incur significant additional costs for industry and Governments.

If the current logo and messaging is changed under mandatory regulation, it would also dismiss and negate the significant efforts of industry who have already incorporated the on-label message as part of their responsible consumption and social responsibility commitment.

The industry is supportive of working with Australian, State and Territory Governments on the next phase of awareness raising and would be prepared to facilitate industry involvement in a campaign in partnership with the Australian Government. The industry would be prepared to discuss a dollar for dollar matching funding campaign. DrinkWise should also be a key partner in delivering this important next phase of awareness raising activities.

Recommendation: ***Provide national leadership by acknowledging the success of the voluntary, industry-led Pregnancy Labelling Program and <u>not support</u> the imposition of mandatory regulation.***

Allocate funding to match industry in a joint campaign to increase community awareness of the NHMRC's advice regarding alcohol consumption and pregnancy.

The WFA supports providing information to consumers about alcohol products, demonstrated by the voluntary pregnancy initiative and messaging around responsible consumption. However, we strongly disagree that energy information provided on-label is the most effective means of informing or educating consumers about obesity –identified as the key objective by Governments.

There are dynamic and flexible technologies available including websites, social media, calorie calculators and web/smartphone applications, which are significantly more effective at informing and educating modern consumers, especially when combined with public health campaigns around all the factors relating to obesity. We will continue to urge Governments to consider modern and innovative solutions to these issues.

The Australian wine industry rejects mandatory energy labelling as it would result in significant on-going costs, as identified in the Government's Cost Benefit analysis, over ten years of between $71 million and $411 million[1] (depending on the scenario chosen) with no clear evidence that weight management benefits would be achieved.

Recommendation: ***Provide national leadership to reject the imposition of mandatory energy labelling, and explore other more modern, off-label digital-based solutions to communicate with consumers.***

The draft National Alcohol Strategy, released for public consultation in December 2017 by the Ministerial Drug and Alcohol Forum, describes priority actions to prevent and minimise alcohol-related harm. The Australian wine industry strongly supports targeted policies and programs aimed at achieving this goal. However, we have significant concerns with the draft Strategy as it fails to highlight the positive long term trends of improved drinking habits in the community or to analyse the reasons for that improvement. The majority of the identified actions are broad-based regulatory and pricing measures, including minimum pricing, increased taxation and availability restrictions which are ineffective in addressing the real causes of harm.

Recommendation: ***Provide national leadership through the Ministerial Forum on Drugs and Alcohol to ensure that future alcohol policy and programs build on the effectiveness of current policies and are targeted at specific causal factors of harm.***

The Agricultural Competitiveness White Paper (the White Paper) announced $200 million for biosecurity surveillance and analysis to better target critical biosecurity risks. This investment aims to improve Australia's ability to detect and manage biosecurity risks early and in turn minimise damage to our farmers, the environment and the economy and support access to overseas markets.

There is currently a critical gap in the grape and wine industry's surveillance ability and preparedness. Consistent with the goals of the White Paper, the grape and wine industry has developed and scoped

[1] Page 49. NZIER Report to Food Standards Australia New Zealand (2015)

out a Digital Biosecurity Platform to effectively safeguard Australia's wine industry. The total estimated cost will be $1.1 million for this transformative project and an additional $850,000 in leveraged support from the Australian Government.

Recommendation: ***Allocate $850,000 to support the development of a Digital Biosecurity Platform to safeguard Australia's wine industry and associated businesses.***

The Australian wine industry supports free and open competition for its products as well as within its supply chain. WFA strongly supports the voluntary Wine Industry Code of Conduct and encourages all industry members to become signatories to the Code and to implement its best practices. During 2018, WFA will be working with the Australian Competition and Consumer Commission to provide a comprehensive understanding of wine industry supply chain operations and relationships. WFA supports the continuation of the industry-led program.

Recommendation: ***Support the continuation of the industry-led Wine Industry Code of Conduct.***

Most types of wine containers, such as those in glass bottles, are currently excluded from State and Territory Container Deposit Schemes (CDS) as they make a minimal contribution to the public litter stream (0.0009 per cent of all public litter items[2]). The Australian wine industry does not support any expansion of these schemes that might include wine containers, as it would significantly increase regulation and costs for the wine industry, with significant cash flow implications, and be inconsistent with the intent of the schemes. The recent New South Wales CDS rollout has shown that costs have disproportionately impacted small beverage producers, with that effect exponentially magnified if wine containers were included. WFA will continue to advocate against the inclusion of wine containers under any CDS in any jurisdiction and for consistency in scope and product definitions.

Recommendation: ***Closely monitor the implementation of CDS in other jurisdictions to ensure that the Australian wine industry is not significantly disadvantaged by unnecessary regulation.***

Support the principle that wine containers remain outside the scope of these schemes as they do not contribute to the away-from-home public litter stream.

Despite an overarching national policy approach to food safety regulation, State and Territory Governments inconsistently apply and interpret national food safety standards leading to considerable problems and costs for businesses trading nationally. Food Standards Australia New Zealand will not provide interpretation of specific food standards for industry unless they receive payment. Small businesses cannot afford to seek this advice, with costs multiplying where it is necessary to contact regulatory bodies in each jurisdiction to ensure compliance with their interpretation of standards.

This is an untenable situation. Poorly drafted food regulation has differing interpretations between enforcement jurisdictions, increasing costs and raising uncertainty for businesses trying to comply with the law. WFA seeks the Government's commitment to provide free interpretations of the Food Standards Code to provide greater business, consumer and regulatory certainty.

Recommendation: ***Remove the costs to businesses of interpretations of the Food Standards Code***

[2] National Litter Index 2015-16: Keep Australia Beautiful National Association, November 2016

States and Territories across Australia require employees associated with the selling of alcohol to hold Responsible Service of Alcohol (RSA) certification. Despite the widespread application of the national competency *Provide Responsible Service of Alcohol* in all jurisdictions, a certificate achieved in one jurisdiction is not easily or fully recognised in all others. This is contrary to the Tourism 2020 Strategy to provide solutions to this problem.

Small winemaking businesses depend on a national sales market including member tastings and special events interstate. Short-term, automatic recognition of RSA certificates limited to tasting events is critical to the wine industry in diversifying markets, and will not undermine jurisdictional integrity. Given consistency in national competencies, and common policy agreement under the Tourism 2020 Strategy, this should be achievable immediately.

Recommendation: ***Work with State and Territory Governments to achieve national recognition of RSA certifications without additional cost or study requirements.***

In the short-term, facilitate national agreement to immediately recognise interstate RSA certifications for the purposes of carrying out tastings.

Raise this issue with Tourism Ministers to continue to make progress under the Tourism 2020 Strategy.

In real terms, Research and Development (R&D) funding is declining and the levy system is constantly under threat as a cost-saving mechanism during the budget process. WFA is a strong supporter of the current system and is committed to ensuring that Wine Australia retains its focus on research and maintains the investment of research levies for research activities. The Government matching of industry funding collected through the grape research levy and the R&D component of the wine grapes levy has delivered significant benefits to industry and must be maintained.

Recommendation: ***Maintain Government matching of industry funding in real terms.***

Individual wine businesses invest heavily in R&D focussed on consumer preferences and product offerings, but also including packaging, digital marketing and innovative ideas to differentiate products in new and existing markets. They are also heavily involved in research on agricultural production. The wine industry does not support the recommendations of the R&D Tax Incentive Review to introduce an intensity threshold for recipients of the non-refundable component of the R&D Tax Incentive. Because of the capital intensive nature of the wine industry (high costs, high revenues, but low margins), this would effectively make most, if not all, wine businesses ineligible for the incentive.

The current tax incentive is also focussed on developing Intellectual Property (IP), without consequent recognition that to deliver actual value to a business, the IP needs to be taken to market. The cost of introducing innovation into business practices or new products is considerable and does not currently fall within the R&D definition. Smaller wine businesses cannot reap the benefits of R&D due to implementation costs. Current Government R&D assistance needs to recognise that market application is a critical component, particularly when introducing innovation into export markets.

Recommendation: ***Reject recommendations to introduce an intensity threshold for recipients of the non-refundable component of the R&D Tax Incentive.***
Adjust the current R&D support for businesses to include implementation costs.

A key aspect that will complement the $50million package is ongoing support for business training and development. In order to ensure businesses are prepared to capitalise on marketing, tourism and trade opportunities derived through the package we need to ensure wine businesses are well informed and ready to take advantage. WFA strongly supports the development of national training and development initiatives for wine businesses which will assist them to grow.

Recommendation: ***Continue to support national training and development opportunities for wine businesses in tourism, business development and trade.***

WFA supports the 2017 Foreign Policy White Paper outlining the Australian Government's vision in a changing and increasingly interconnected world. The future of the Australian wine sector and the flow-on benefits to Australia rural and regional economies is inextricably linked with our ability to respond to this changing environment. The Government's commitment to these goals dovetails neatly with the wine industry's vision. WFA supports the commitment to maintain a strongly consultative approach before, during and after trade negotiations and to seek stakeholder input to negotiations and policy development, particularly in the area of non-tariff measures.

Recommendation: ***Implement the White Paper's policies and focus on the reduction of non-tariff measures in trade negotiations.***

The wine sector is a strong supporter of the multilateral rules-based trading system under the auspices of the World Trade Organisation (WTO). The WTO's trade dispute mechanism not only provides a deterrent to countries that wish to implement trade restrictive policies, but permits trading nations like Australia to take action against systemic trade issues, to level the playing field for Australian exports. We encourage the Government to continue to support the WTO and take an active role in trade disputes when in the national interest.

Recommendation: ***Take an active role in the WTO including engaging in formal trade dispute action when a clear national interest exists, and where Australian industry is significantly and unfairly disadvantaged.***

WFA is a strong and committed supporter of free trade. The Australian wine industry supports FTAs and their goal to enhance competitiveness and remove barriers. In the upcoming Australia – European Union (EU) FTA we strongly urge the Australian Government to protect the right of Australian wine producers to continue to use common grape variety terms on Australian wine products, such as *Prosecco*, and also other commonly used Italian varietal names. This sector provides a significant growth opportunity for Australian wine producers in domestic and international markets as producers diversify their product to meet changing consumer tastes, and as specialised producers utilise new ways to reach a broader consumer market.

Recommendation: ***Resists attempts by the EU to prevent Australian wine producers from using common grape variety names on Australian wine products as an outcome of FTA negotiations.***

More broadly, FTA outcomes will need to ensure that Australia's Geographic Indication (GI) system is not undermined by any agreements reached during negotiations, as well as explicitly protect the right of Australian wine producers to use common grape variety names. This also has broader ramifications than the wine sector. The European Union is also likely to pursue GI protection for other foods. If Australia is to accede to these demands, then this will require the establishment of a GI system for all food products. The wine industry will be very keen to ensure this does not erode our protection of our

GIs and prevent us from marketing wine. Other sectors will be keenly watching what happens with grape variety names to see if Australia is strong enough to preserve the integrity of a GI system.

Recommendation: ***Ensure FTAs do not undermine Australia's GI system and explicitly maintains the right of Australian wine producers to continue to use grape variety names in domestic and international markets.***

The international standards established under the Codex Alimentarius Commission are critical for the Australian wine industry. Australia needs to take a much stronger position in Codex Committees (in particular the Codex Committee on Food Additives and the Codex Committee on Food Labelling) to defend our national interests and industry. This requires stronger involvement and coordination by the Department of Foreign Affairs and Trade and the Department of Agriculture to ensure that other countries' trade and public policy positions do not result in the international adoption of protectionist measures.

Recommendation: ***Continue to support and engage in key international and national trade and market access forums.***

Take a stronger position in Codex Committees to ensure Codex retains its integrity as a standard setting organisation based on scientific principles and does not become a mechanism to implement protectionist trade measures or public health policies.

The consultation process around the Export and Regional Wine Support Package has highlighted the need to review the Export Market Development Grants (EMDG) Scheme. The practicalities and scope of a revised scheme would need to be further discussed and developed. WFA believes there is considerable scope to begin to develop changes to the scheme and is willing to work with the Government on the design of such a program.

Recommendation: ***Work with the Australian wine industry to develop the next iteration of the EMDG scheme that acknowledges market practicalities and new opportunities for Australian wine exporters.***

Carbon accounting is an area of importance for the industry as it is a focus of a number of customers in key export markets. It is important that the Australian wine industry maintains its reputation for good environmental practice and is not disadvantaged by national policy or regulation.

Recommendation: ***Engage with industry to consider ways to recognise and reward vineyard's contribution to carbon sequestration and related offsets.***

The Australian wine industry is one of the most efficient and effective managers of water in the world. This should be recognised by Government and that when changes to the way that water is managed are proposed, that Government or relevant authorities consult and give appropriate consideration to the economic, environmental and social impacts at the regional level.

Recommendation: ***Consider the impact on Australian wine businesses when considering changes to the way in which water resources are managed.***

The WFA believes all members of the wine sector should strive to enhance and maintain the quality of the environment in which they operate. This can be achieved by recognising and mitigating any operational impacts, and practicing good stewardship of natural values and landscapes on their properties and within wine regions generally. Government support for revegetation and biodiversity enhancement has been well utilised in the past by the Australian wine industry and supports its continued investment.

Recommendation: ***Maintain investment in biodiversity enhancement and revegetation initiatives for agricultural landowners.***

WFA has provided input into the 2017 Blueprint for the Future Security of the National Electricity Market (the Finkel review). We will continue to engage government and seek outcomes focused on improving affordability, reliability, and management of the electricity market, in line with WFA policy.

Recommendation: ***Work with industry to ensure a reformed electricity market delivering improved affordability, reliability, and management of the electricity market.***

Fuel Tax Credits ensures primary industry businesses are not disadvantaged by paying excise on the off-road use of diesel in the production of goods and services. Fuel tax credits are not a subsidy for fuel use, but a mechanism to reduce or remove the incidence of excise or duty levied on the fuel used by business in off road vehicles. WFA supports the retention of Fuel Tax Credits for Agricultural business, as they are vital to regional Australian businesses.

Recommendation: ***Retain the existing fuel tax credit scheme for agricultural businesses.***

Effective waste management requires the provision of affordable and available transport, facilities and services. Lack of facility or services and cost effective means of managing waste are some of the biggest issues facing wine businesses particularly in regional communities. We are supportive of government and industry investment in these areas to ensure that wine business are able to effectively manage waste.

Recommendation: ***Support investment in improved transport, facilities and services for waste, which reduce cost and improve its management.***

The Australian wine industry

The Australian wine industry supports the economic, environmental and social fabric of 65 rural and regional wine regions across the country.

The Australian wine industry is the only agricultural industry that is vertically integrated at the production and manufacturing enterprise level based in rural and regional Australia. Winemakers grow the grapes, manufacture the wine, package, distribute, export and market their own product, usually from their own vineyards in rural and regional communities.

At a glance

- $40.2 billion injected into the Australian economy from grapegrowing, winemaking and wine tourism each year
- $1.22 billion annual crush
- 1.93 million tonnes annual crush production (↑5 %)
- $565/tonne average grape purchase price (↑7 %)
- 1.2 billion litres wine production
- $2.5 billion exports
- 4th most valuable agricultural export
- 60 % of production exported
- 2,400 wineries in 65 distinct geographic regions
- Over 6,000 grape growers
- 172,736 jobs in regional Australia

Prospects for export growth

International market prospects of Australian wine are on an upward trend. Internationally market conditions have proven difficult for some of Australia's major competitors. Global wine production is expected to fall to its lowest in more than 50 years, according to the International Organisation of Vine and Wine (OIV). Total world output is projected to fall eight percent from last year to about 247 million hectolitres. This could raise prices and dissipate the global surplus caused by a demand slump in the wake of the financial crisis.

The production decline is largely due to extreme weather in Italy, France and Spain – the world's top three producers. According to OIV estimates, Italian wine production will fall 23 percent to 39.3 million hectolitres. Production will drop 19 percent to 36.7 million hectolitres in France, which is predicted by the European Commission to be facing its worst harvest since 1945. In Spain, production will be 15 percent lower at 33.5 million hectolitres. (A hectolitre is 100 litres.)

For wine-growing regions outside Europe, OIV's forecasts are more optimistic. Production in Argentina is expected to grow by 25 percent to 11.8 million hectolitres. However, output in the United States, the world's fourth-largest producer and its biggest wine consumer, will remain relatively steady, decreasing by only one percent, with reports the Californian wildfires struck after the majority of wine producers had already harvested their grapes.

Wine is Australia's fourth most valuable export after beef, wheat and wool valued at $2.5 billion in 2017-18[3]. Australian wine is export oriented with approximately 60 percent of output headed for wine markets in Europe, North America and Asia.

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[3] Agricultural commodities – September Quarter 2017 ABARES

Australian exports continue to show strong growth. In the 12 months to September 2017, the value of Australian wine exports grew by 13 per cent to $2.44 billion and volume increased by 9 per cent to 799 million litres. The average value of exports grew by 4 per cent to $3.06 per litre, the highest level since the equivalent period in 2009. Export value growth was driven by bottled exports, most notably at higher price points. Bottled exports grew by 13 per cent to $1.99 billion and the average value grew by 1 per cent to $5.53 per litre. Shiraz was the top varietal based on-label claim, increasing by 17 per cent in value to $574 million. Chardonnay increased by 10 per cent in value to $181 million.

Domestic operating environment

Australian winemakers are agricultural producers, manufacturers, retailers, distributors and exporters. They are also often restauranteurs, event managers, wedding planners and live music promoters. No other Australian agricultural-based industry has such an integrated approach to market of this length or reach, or deals with such diversified regulatory requirements relating to production, food safety, label integrity, liquor sales, on-premise consumption, export certification or international sales (distributors, marketers and consumers). The large majority of Australia's 2,400[4] winemakers are also small businesses entirely dependent on seasonal and climatic variations with only one opportunity each year to harvest and manufacture its agricultural product.

These wine industry businesses contribute (conservatively) $40.2 billion in gross output to the Australian economy and support over 170,000 full and part time jobs[5].

Total annual wine production has been estimated at 1.2 billion litres with a gross value of $5.9 billion. Wine grapes are grown in every Australian state and territory with South Australia, New South Wales and Victoria being the largest wine grape producers. Wine grape growing is an efficient user of irrigation water with a high gross value of production per litre of water used.

International tourists identify 'great food, wine, local cuisine and produce' as a major reason for visiting Australia. Tourism Research Australia estimated that in 2014-15 there were 15.8 million domestic visitor nights and 44.2 million international visitor nights associated with Australian wineries. Overall wine related visitor expenditure totalled $9.2 billion.

Table 1 Direct and Indirect Impact of the Total Wine Sector [6]

	Direct Effect	Production Induced	Consumption Induced	Total Flow-on	TOTAL IMPACT
OUTPUT ($'000,000)	13,347	12,417	14,449	26,867	40,214
Type 11A Ratio[7]	1.00	0.93	1.08	2.01	3.01
VALUE-ADDED ($'000,000)	6,224	5,484	7,993	13,477	19,701
Type 11A Ratio	1.00	0.88	1.28	2.17	3.17
INCOME ($'000,000)	3,324	3,233	3,854	7,086	10,411
Type 11A Ratio	1.00	0.97	1.16	2.13	3.13
EMPLOYMENT (No.)	68,395	45,286	59,055	104,341	172,736
Type 11A Ratio	1.00	0.66	0.86	1.53	2.53

Because Input-Output modelling only examines backward linkages this analysis does not capture margins on wine sales through wholesale, retail and restaurant sales. Values for wine sales and grape

[4] Australian and New Zealand Wine Industry Directory, 2017
[5] Economic Contribution of the Australian Wine Sector, AgEcon Plus Consulting, Gillespie Economics, December 2015
[6] ibid
[7] Type 11A Ratio Multiplier = (Initial + Production Induced + Consumption Induced Effects)/Initial Effects

sales are at the winery/farm gate. Inclusion of wholesale, retail and restaurant sales would make the estimates of total direct and flow-on contribution higher. For example the domestic wholesale value of Australian wine is $2.4 billion and retail value is $7.4 billion.

Input-Output analysis has shown that the Australian wine sector defined as wine grape growing, wine making and wine related tourism:

- Contributes $40.2 billion in gross output to the Australian economy. Gross output includes $19.7 billion in value (value-added) and $10.4 billion in wages and salaries from full and part time employment.
- Supports 172,736 full and part time jobs[8] most of which are located in regional Australia. Jobs supported by the wine sector include direct employment of 68,395 within the sector and a further 104,341 full and part time jobs due to flow-on effects. Estimates of full and part time employment are associated with economic activity linked to grape growing, wine making and wine tourism and do not include forward linkages such as employment in the retail sector.

Focus on small winemakers

Small winemakers (crushing up to 500 tonnes) make up the largest group of wine businesses in the sector. This sector is also a vital element of the economic and social viability of rural and regional Australia. It is estimated that small winemakers contribute eight percent to the Australian wine grape crush, sell an estimated $1.3 billion of wine and account for 35 percent of domestic sales value and 10 percent of export sales value.

In 2016-17, small winemakers reported strong growth in revenue and production across all sales channels. Production increased by 10 percent in line with the overall increase in the national vintage crush in 2017 and revenue grew on average by 10 percent. However, growth was not uniform across businesses, with 73 percent reporting increased revenue, 10 percent reporting no change and 16 percent reporting a decline in sales.[9]

Nearly half of all wine sales from small winemakers are made through retailers and approximately one third through the cellar door. Direct sales, through the cellar door or mail order are the most profitable for small winemakers which was the fastest growing retail channel in 2016-17. Retail consolidation has been a long-standing concern for small winemakers, but the entrance of new retailers may offer new opportunities to diversify sales streams.

There are a number of different business models within the small winemaking segment. The majority of businesses grow more than 90 per cent of their own fruit but a significant proportion conversely purchases more than 90 per cent of fruit. Few businesses have an equal mix of own-grown and purchased grapes. Similarly, about half of small winemakers make all of their wine in their own facility, while most others use contract processors and only 10 per cent use a mix of both.

The small winemaking segment is estimated to directly employ around 16,500 people, or 10 percent of wine sector employees. The number of employees is almost double the number of FTEs, indicating a significant use of part-time employees.

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[8] As defined in the Australian National Accounts 2012-13 as 'Full time and part time employees, employers, own account workers and contributing family workers'
[9] Small Winemaker Production and Sales Survey 2017, Wine Australia (November 2017)

Domestic Regulatory Settings

Overview

Profitable and sustainable winemaking businesses require high capital investment and a permanent regional footprint. The price and availability of source product for winemaking production (fresh grapes) is entirely dependent on weather during one annual growing season that determines the quantity and quality of one manufacturing opportunity each year. This also results in high revenue volatility.

Wine businesses are highly capital intensive with daily inputs, plant and equipment accounting for approximately 63 per cent of wine profits, labour for 17 per cent and depreciation for five per cent. The highly consolidated retail sector (77 percent is held by just three major retail chains) puts significant downward pressure on winery profit margins forcing most small winemakers to increasingly rely on direct sales to consumers.

Within this environment, the wine sector operates under a complex maze of federal, state and local government regulations.

Regulation extends across the full production and supply chain from agricultural production, on-site manufacturing, on-site packaging, food handling, export, workforce, transport and logistics, to cellar door sales and restaurant/café services. Changes to regulations have a significant impact on wine businesses which are largely small businesses, with many family-owned and run.

One bottle of Australian wine has been subject to regulations (and associated costs/levies) in the following areas:

- Water use EPA (licenses and compliance)
- Production management (chemical use – reporting, management, training)
- State and local wine/grape levies
- National grape research levy, the wine export charge, the wine grapes levy
- Grape supply contracts
- Manufacturing regulations (relating to winery operations)
- National Greenhouse Energy Reporting Scheme
- National Pollution Inventory reporting
- Biosecurity (certificates related to the movement of grapes between and within states)
- Label Integrity Program and other labelling requirements
- Geographical Indications requirements
- Food Standards Code (additives, production, traceability)
- Local Government permits related to development, events etc
- Food safety and handling certificates
- Tax compliance and reporting (payroll, income, WET, GST)
- Liquor licensing approvals and renewals
- Insurance, Workplace health and safety requirements
- Seasonal Labour Hire Requirements
- Multiple Workforce awards (agricultural, manufacturing, hospitality, cellar door) and conditions (leave, superannuation, entitlements, gender reporting)
- Export approvals and import requirements in other countries (certificates of origin, labelling, Free Trade Agreement documentation, UK anti-bribery laws and Modern Slavery Act)
- Consumer Law regulations (marketing, pricing, promotion, competitions)
- ASX compliance, where applicable.

In addition, many wine businesses operate across international, state and/or territory borders and the jurisdictional variations within these categories add a complex dimension to business operations.

Wine Equalisation Tax (WET)

It is critical for the Australian wine industry's future viability that taxation remain under the Wine Equalisation Tax system (WET). In discussing the basis for the differential tax treatment between other alcohol products and wine, the Treasury outlined the differences in its Discussion Paper on the Wine Equalisation Tax (WET) rebate (August 2015)[10].

> *Wine production is also more capital intensive than other alcohol industries and uses long-life assets, which can contribute to lower returns on capital compared to other industries. Profitability is generally more stable for producers of other types of alcohol such as beer and spirits, as these products are less dependent on the climate and other external factors. In particular, beer and spirits are produced from crops (such as hops, barley, other grains and potatoes) that are readily available all year round and are not subject to the challenges of seasonal vintages. Beer and spirits also tend to have higher returns to capital and lower cost structures than wine, particularly because they often have significantly larger economies of scale.*

The WET recognises these differences, and since its introduction in 2000 as part of the introduction of the GST, it has provided a stable taxation basis for the industry's 2,400 wineries, dominated by small, family-run businesses. The wine sector continues to be a major contributor to Australia's tax revenue, through the WET, company tax, GST and other taxes.

Among our international competitors, Australia is one of the mostly highly taxed wine industries in the world. Australia's 29 per cent WET is one of the highest tax rates among significant wine-exporting countries compared with: France (0.8 %), Italy (0%0, Spain (0%), Argentina (0%), Chile (15%), South Africa (3.8%) and the United States (6.6%). In Australia, the GST is imposed after WET, significantly increasing the GST tax take on wine products. Australian producers remain concerned that the WET rebate is available to New Zealand wine producers and would like to continue discussing policy options with the Government to resolve this ongoing issue.

The Government's legislated 2017 reforms of the WET Rebate and allocation of $50 million for export and regional development has provided a solid platform for wine businesses to leverage significant opportunities. WFA is now urging a period of tax stability to bed down these reforms and facilitate long-term investment by businesses. Constant public calls for taxation changes by other interests are of concern to the wine industry and undermine long-term confidence.

Recommendation:	***Ensure taxation certainty and stability for industry by maintaining the WET system for wine products.***
	Retain the reformed WET rebate and $50 million package as targeted measures to build industry capacity to take advantage of market opportunities.
	Continue to consider policy options to remove the separate New Zealand producers' rebate

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[10] Page 4. Wine equalisation tax rebate: Discussion paper (August 2015) The Treasury

Pregnancy labelling

The Australian wine industry has a proven track record supporting health messaging relating to alcohol consumption during pregnancy (voluntary labelling initiative), promoting the message at cellar doors and other point of sale outlets, and complemented by industry engagement in national policy developments relating to Foetal Alcohol Spectrum Disorder (FASD). The industry continues to invite engagement with the Australian Government to work in partnership in targeting alcohol harm through new and innovative programs, as an alternative to the introduction of blunt taxation or pricing measures that do not addresses specific causes associated with alcohol harm and abuse.

In support of the National Health and Medical Research Council's National Drinking Guidelines, the Australian wine industry, as part of the alcohol beverage sector, financed the development, management and promotion of the use of the DrinkWise pregnancy logo and messaging for use on packaged products. The industry continues to run a campaign to reach 100 percent uptake. WFA's own audit in late 2016 of Australian wine products in the top 75 percent of market share sold through major retailers found that 90 per cent of Australian wine products carried a pregnancy logo or message. This clearly demonstrates that most products consumed by the majority of the drinking public already carries the pregnancy logo.

The Government-commissioned 2017 Siggins Miller evaluation found that across all alcohol products (spirits, wine and beer) in the top 75 per cent market share (including overseas products), the proportion of products with a pregnancy label was 75.3 percent, an increase of 15.5 percentage points from their 2014 evaluation[11]. Most wine categories examined are above this level by price category: red wine <$20 – 86.7%; red wine >$20 – 75.9%; white wine < $20 – 99%. White wine >$20 was 46.6% which may reflect product from smaller, high-value producers who are late adopters, and may also capture high value imported champagne and sparkling products. It should be noted that WFA's 2016 audit of Australian-manufactured wine products showed approximately 90 percent application of the label messaging. Both reports showing a continuing upward trend of adoption indicates the success of the voluntary program.

WFA will continue to strongly advocate that the industry has largely achieved the objectives of the labelling initiative as evidenced by the Siggins Miller evaluation with more than 75 percent coverage by market share. WFA will continue to push towards a 100 per cent adoption rate. Given evidence of progress to date, Ministers have no grounds to impose mandatory regulation. No significant additional public benefit can be achieved by mandating costly Government regulation on all businesses to encourage the late adopters, who are already being targeted by industry to join the voluntary program.

The industry shares Government's genuine concerns about ensuring that pregnant women have access to the full range of information to ensure a healthy pregnancy. The Siggins Miller evaluation clearly showed that the most common source of information about drinking alcohol when pregnant was medical practitioners, or information posters and pamphlets, with fewer than 12 percent of people who were aware of the health message nominating the alcohol label as a source of information[12]. It is now critical that Governments focus on the broader public health campaigns to complement the pregnancy labelling initiative, so that the label will trigger a broader awareness and understanding of the messaging. Labelling, whether mandatory or not, has significant limitations in achieving behavioural change as a stand-alone initiative.

[11] Second evaluation of the voluntary labelling initiative to place pregnancy health warnings on alcohol products: Siggins Miller (2017)
[12] ibid

The next phase of prevention and awareness raising should be a public campaign that complements current labelling efforts by educating consumers about the meaning of the logo and reinforcing the NHMRC's messaging. The Australian industry is supportive of this next phase and would be prepared to facilitate industry involvement in a campaign in partnership with the Australian Government. The industry would be prepared to discuss a dollar for dollar matching funding campaign. DrinkWise should also be a key partner in delivering this important next phase of awareness raising activities.

Recommendation: ***Provide national leadership by acknowledging the success of the voluntary, industry-led Pregnancy Labelling Program and <u>not support</u> the imposition of mandatory regulation.***

Allocate funding to match industry in a joint campaign to increase community awareness of the NHMRC's advice regarding alcohol consumption and pregnancy.

Energy Labelling

The Australian and New Zealand Ministerial Forum on Food Regulation (the Forum) is currently considering its response to the recommendations of 2011 Blewett review (*Labelling Logic: Review of Food Labelling Law and Policy*) with regard to energy labelling for alcoholic beverages. The report recommended that energy content be displayed on the labels of all alcoholic beverages, consistent with the requirements for other food products (recommendation 26). This was based on the premise that providing energy information would help people manage their energy intake. The Forum took up this recommendation but tasked FSANZ with seeking further information through a Cost Benefit Analysis and further industry consultation before a position could be taken.

The Cost Benefit Analysis later commissioned by FSANZ[13] in 2015 noted that:

> *Internationally there is currently very little mandatory energy labelling on alcoholic beverages so there is little prior experience of how effective it might be……*
>
> *There are many uncertainties around the estimates but on the evidence examined there are reasons to doubt whether the energy content labelling considered in this report would be sufficiently effective to induce the behaviour change required to produce net benefits. ….*
>
> *…….the evidence on the relationship between alcohol consumption and weight gain is mixed and the effect of alcohol consumption on weight gain is not readily predictable due to other confounding factors…..*
>
> *The literature on labelling effectiveness in general shows it can raise awareness and aid recall, but there is less evidence conclusively linking it to changes in behaviour. There are currently very few instances internationally of mandatory energy labelling on alcoholic beverages and there is no empirical evidence on effectiveness specific to this sort of labelling.*

The Cost Benefit Analysis as well as the significantly changed consumer preference to access product information since 2011 (given significant digital and web-based content growth) does not support the original premise of the recommendation that mandatory energy labelling will be effective in helping consumers to manage their energy intake.

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[13] The net benefits of energy labelling on alcoholic beverages: Cost benefit analysis of the impacts of mandatory labelling of energy content on alcoholic beverages. NZIER Report to Food Standards Australia New Zealand (2015)

WFA supports providing information to consumers about alcohol products, including our strong messaging around responsible consumption. However, we disagree that energy labelling on alcohol is the most effective means of informing or educating consumers. In the digital age there are dynamic and flexible technologies available such as websites, social media, calorie calculators and web/smartphone applications, which are significantly more effective at informing and educating modern consumers, especially when combined with public health campaigns around all the factors relating to obesity. WFA will continue to participate in the consultation processes of the Ministerial Forum in 2018 to strongly urge Governments to consider modern and innovative solutions to these issues.

The Australian wine industry rejects mandatory energy labelling as it would result in significant on-going costs, as identified in the previous Cost Benefit analysis, over ten years of between $71 million and $411 million[14] (depending on the scenario chosen) with no clear evidence that weight management benefits would be achieved.

Recommendation: ***Provide national leadership to reject the imposition of mandatory energy labelling, and explores other more modern, off-label digital-based solutions to communicate with consumers.***

National Alcohol Strategy

The draft National Alcohol Strategy, released for public consultation in December 2017 by the Ministerial Drug and Alcohol Forum, describes priority actions to prevent and minimise alcohol-related harm. The Australian wine industry strongly supports targeted policies and programs aimed at achieving this goal. However, we have significant concerns with the draft Strategy as it fails to highlight the positive long term trends of improved drinking habits in the community and analyse the reasons for that improvement. The majority of the identified actions are broad-based regulatory and pricing measures, including minimum pricing, increased taxation and availability restrictions. Many of the actions also simply call for tightening of current restrictions.

Government evidence already exists clearly identifying where alcohol harm is prevalent and scarce budgetary funds should be strategically and surgically targeted to address the causal factors leading to that harm. There is also no acknowledgement of the efforts made by industry in promoting responsible consumption messaging, for example, including voluntary programs such as pregnancy labelling and point-of-sale messaging, or industry's strong support for existing secondary supply laws. The Government's National Drug Strategy Household Survey 2016 has demonstrated positive trends. Since 2004, the percentage of 12-17 year olds abstaining from alcohol has increased from 54 percent to 82 percent[15]. For the same age group their drinking at lifetime risky drinking levels has decreased from six percent to one percent, and those drinking at levels risking harm on single occasions decreased from 17 percent to 5 percent[16], in the same time period. More pregnant women are also abstaining from alcohol consumption during pregnancy (56 % in 2016 c.f.40% in 2007)[17]. More considered analysis is required to work out the key drivers of these improvements.

We are also very concerned that the document explicitly excludes industry as an ongoing partner and stakeholder in future program development and delivery.

[14] Page 49. NZIER Report to Food Standards Australia New Zealand (2015)
[15] National Drug Strategy Household Survey 2016, Australian Institute of Health and Welfare, September 2017
[16] ibid
[17] ibid

Recommendation: ***Provide national leadership through the Ministerial Forum on Drugs and Alcohol to ensure that future alcohol policy and programs build on the effectiveness of current policies and are targeted at specific causal factors of harm.***

Allocate funding to match industry in a joint campaign to increase community awareness of the NHMRC's advice regarding alcohol consumption and pregnancy.

Biosecurity

The biosecurity landscape is becoming more complex, driven by increased global trade and tourism, agricultural expansion and intensification, urbanisation and climate change. The governance landscape is also characterised by changing government and industry priorities, increased scrutiny from trading partners during market access negotiations with the need to substantiate area freedom status, and an increasing Government desire for individual growers to help manage their own biosecurity risks.

Exotic and declared endemic incursions in Australia are increasing. Between 2010 and 2016, 14 exotic plant pest incursions were recorded in Australia: two were eradicated, four are being managed by jurisdictions and eight are under eradication programs. By comparison, in the previous period (2003 to 2009) seven exotic plant pest incursions across Australia were recorded. This represents a doubling in the number of exotic plant pest incursions nationally.

There is much at stake. The wine, table grape and dried fruit industries in South Australia alone has 75,732 hectares under vine, with the wine industry contributing $2.11 billion to the state's economy while employing tens of thousands of people across multiple sectors. Nationally, the wine industry contributes $40.2 billion annually to the economy while directly and indirectly employing more than 170,000 people.

The Australian wine and grape industries face unique issues that increase biosecurity risk. These include:

- Increased consolidation, with regional grape processing being replaced by 'super' processing facilities that transport higher volumes of grapes across regional and state boundaries.
- Increased international ownership of Australian wineries and vineyards, adding complexity to the system.
- Increased specialisation, with more contract vineyard management, pruning and harvesting, raising the risk of cross regional and cross-vineyard contamination.
- Increased wine-tourism and improved transportation corridors.
- The rising importance of 'old vines' in the marketing of regional wines and the need for younger vines to age.
- Ongoing tight margins for grape growers.

Collectively and individually, these factors are creating more opportunities for the entry, spread and establishment of pests and diseases.

In 2016, WFA, Australian Vignerons (AV), Wine Australia, Vinehealth Australia, AWRI and the Victorian Vine Biosecurity Committee (VVBC) agreed to work collaboratively to address the biosecurity responsibilities in the wine sector noting the strong template outlined in the Agricultural Competitiveness White Paper (the White Paper). In particular, the announced $200 million for biosecurity surveillance and analysis to better target critical biosecurity risks.

The grape and vine sector can provide a strong case for improved biosecurity surveillance and analysis activities from this funding. It would provide a lasting legacy beyond the funding period, if invested in the areas of data management and surveillance.

Industry has identified a critical gap in current surveillance ability and performance. The current system is outdated, inflexible, not scalable and not fit for purpose to meet our industries' needs and expectations in the face of rising threats. The inadequacy of the current system leaves Australia's multi-billion-dollar wine industry – and all those it supports – dangerously vulnerable.

Industry partners have scoped out a Digital Biosecurity Platform to effectively safeguard Australia's wine and grape industries into the future. Its modern database and interface tools will provide multiple ways for all stakeholders – Vinehealth Australia, State Biosecurity agencies, growers, wineries, nurseries, suppliers, individuals, industry bodies, government and research partners – to produce and consume data, and share and generate knowledge.

The proposed Digital Biosecurity Platform will position Australia as a clear global leader in the biosecurity field through the establishment of a new world's best-practice benchmark; strengthening and substantiating our valuable 'clean and green' reputation, and providing powerful leverage in international markets.

The platform will harness the capability of modern technology to seamlessly integrate all elements of the plant biosecurity system – preparedness, prevention, response and recovery. Individual growers will also access significant added value through the ability to use, manage and exchange information in a secure way. The platform will make it easier for growers to store and manage their geospatial data, and share it with neighbours and contractors. It will also facilitate community engagement through researcher and citizen science tools, allowing the tagging of vines with important data, and the expedient identification of biosecurity risks.

The platform will support researchers and regulators to rapidly distribute critical new biosecurity knowledge, and help growers immediately apply it. The design of the platform will enable it to be scaled, both across the wine and grape industries nationally, and across other agricultural sectors (such as olives and almonds), if desired. It will deliver direct benefits to all stakeholders, including grape growers, wineries, nurseries, contractors, suppliers, national, state and regional wine associations and the broader community.

The proposed Digital Biosecurity Platform's development and delivery, together with the necessary data cleanse and transition, will be executed as a staged process. The total estimated cost will be $1.1 million for this transformative project and industry are seeking an additional $850,000 in leveraged support from the Australian Government.

This falls under the biosecurity surveillance and analysis activities funded through the White Paper that are already providing long term benefits to Australia including reducing biosecurity risk, improving and helping to maintain market access, and improving our ability to rapidly respond to biosecurity incidents.

Recommendation: ***Allocate $850,000 to support the development of a Digital Biosecurity Platform to safeguard Australia's wine industry and associated businesses.***

Wine Industry Code of Conduct

The Australian wine industry supports free and open competition for its products as well as within its supply chain. WFA strongly supports the voluntary Wine Industry Code of Conduct and encourages all industry members to become signatories to the Code and to implement its best practices. The Code has been successful in managing dispute resolution and WFA is committed to promoting its advantages to all sectors of the industry.

During 2018, WFA will be working with the Australian Competition and Consumer Commission to provide a comprehensive understanding of wine industry supply chain operations and relationships. WFA supports the continuation of the industry-led program.

Recommendation: ***Support the continuation of the industry-led Wine Industry Code of Conduct.***

Container Deposit Schemes

Container Deposit Schemes (CDS) are currently in place in South Australia, the Northern Territory, New South Wales, and to be introduced in Queensland and Western Australia in 2018 and 2019 respectively. The stated objective of a CDS is to reduce litter in the away-from-home litter stream. Most types of wine containers, such as those in glass bottles, are currently excluded from the schemes as they are not common in public litter. Nationally, glass containers for wine and spirits make up 0.0009 per cent of all public litter items (or 58 wine and spirit containers out of a total of 66,838 litter items)[18].

Currently, there are minor variations in the scope of wine containers (related to size) excluded from the schemes between jurisdictions. The administrative costs of inconsistencies between the exclusion of various wine containers lead to administrative costs as most winemakers sell product in more than one State or Territory.

While this is currently a jurisdictional issue, there will be a role for the Australian Government if States and Territories seek to implement a nationally coordinated program, which would also increase pressure on the jurisdictions to expand the scope of current schemes and include wine containers. This would significantly increase regulation and costs for the wine industry, with significant cash flow implications. The CDS roll-out in New South Wales from 1 December 2017 has led to substantial industry disruption and costs with many retailers increasing prices significantly beyond the 10 cent per container refund fee to cover costs of compliance and administration. The New South Wales Government has been forced to offer interest-free loans to small businesses to cover the additional costs of compliance.

The administration requirements of label changeover and reporting requirements would be prohibitive for the 2,400 Australian wineries if glass wine containers were included under any future national or state scheme. The New South Wales rollout has shown that costs have disproportionately affected small beverage producers, with that effect exponentially magnified if wine containers were included.

WFA will continue to work closely with States and Territories to ensure they are cognisant of the significant impact of a CDS on the wine industry. WFA will also continue to advocate against the inclusion of wine containers under any CDS in any jurisdiction and for consistency in scope and product definitions.

[18] National Litter Index 2015-16: Keep Australia Beautiful National Association, November 2016

Recommendation: ***Closely monitor the implementation of CDS in other jurisdictions to ensure that the Australian wine industry is not significantly disadvantaged by unnecessary regulation.***

Support the principle that wine containers remain outside the scope of these schemes as they do not contribute to the away-from-home public litter stream.

Food Standards Code

State, Territory and Local Governments are primarily responsible for implementing and enforcing food standards and the Australian Government Department of Agriculture and Water Resources, 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.

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 a Ministerial Council now known as the Ministerial Forum on Food Regulation develops food regulation policy and adopts, amends, rejects or requests the review of food standards.

Despite an overarching national approach, inconsistent regulation arises due to the autonomy of State and Territory Governments in determining whether and how to implement national standards. FSANZ will not provide interpretation for the food standards they develop unless they receive payment. Small businesses cannot afford to seek this advice, with costs multiplying 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 interpretations between enforcement jurisdictions, resulting in increasing costs and uncertainty for businesses trying to comply with the law. WFA seeks the Government's commitment to provide free interpretations of the Food Standards Code to provide greater regulatory certainty.

Recommendation: ***Remove the costs to businesses of interpretations of the Food Standards Code***

Responsible Service of Alcohol (RSA)

States and Territories across Australia require employees associated with the selling of alcohol to hold Responsible Service of Alcohol (RSA) certification. Despite the widespread application of the national competency *Provide Responsible Service of Alcohol* in all jurisdictions, a certificate achieved in one jurisdiction is not easily or fully recognised in all others. For example, New South Wales and Victorian Governments require additional study and/or costs before recognising interstate certifications. This has a significant impact on the wine industry, especially when small businesses regularly undertake tastings in other states and territories for a short period, and are required to fully comply with RSA state requirements.

All Tourism Ministers announced in 2013 that as part of Tourism 2020, all jurisdictions had measures in place, or were introducing measures, to recognise interstate RSA certificates. This has not been achieved in a way that minimises costs to industry or facilitates the mobility of workers.

Small winemaking businesses depend on a national sales market including member tastings and special events interstate. A South Australian wine region, participating in a roadshow of regional wines in another State, incurred $28,000 in additional costs to achieve RSA compliance (beyond SA certificates already held) prior to one glass of wine being poured.

Short-term, automatic recognition of RSA certificates limited to tasting events is critical to the wine industry in diversifying markets, and will not undermine any jurisdictional integrity. Given consistency in national competencies, and common policy agreement under the Tourism 2020 Strategy, this should be achievable immediately. WFA will continue to seek this practical solution to an unnecessary and costly red tape restriction.

Recommendation: ***Work with State and Territory Governments to achieve national recognition of RSA certifications without additional cost or study requirements.***

In the short-term, facilitate national agreement to immediately recognise interstate RSA certifications for the purposes of carrying out tastings.

Raise this issue with Tourism Ministers to continue to make progress under the Tourism 2020 Strategy.

Research & Development

The Australian grape and wine industry has grown and prospered through innovation and strong leadership. Industry has used two processes to drive this innovation, 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. These include 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).

Research and Development (R&D) in the wine industry is the responsibility of a large number of organisations. The primary stakeholders are the industry (grape growers, winemakers) and the Government (Australian and State jurisdictions). Both groups invest directly in R&D as well as jointly through organisations such as Wine Australia and research providers. 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 though the National Primary Industries Research, Development & Extension Framework Wine Sector 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. It is also important to understand that RD&E not only underpins the profitability of the wine sector, but is also an important generator of income in its own right.

The two peak industry bodies representing the Australian wine sector have developed a common R&D policy. The objective of the wine sector policy position on R&D is to enable the efficient provision of research needed to allow the Australian industry to become the most profitable and competitive supplier of wine to domestic and international consumers. The critical policy underpinnings are:

- Government support for agricultural research to address significant market failure issues and under-investment in innovation.

- Research activities must align with the wine sector's research priorities, be clearly stated and be of national and/or regional benefit to the sector across the entire supply chain.
- Research, development and extension capability within the wine sector needs to be actively built and maintained at an appropriate level to reflect industry conditions.
- A cooperative research approach between industry, researchers, funding bodies and government needs to be fostered to ensure seamless integration of grape and wine research across the whole value chain.
- International collaboration in publicly funded research activities should be undertaken only if there is a likely net benefit to the Australian wine sector and/or the wider Australian community.
- Intellectual property management must give priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry.
- Dissemination and extension of the outcomes/results of R&D must ensure an efficient and effective system in line with industry expectations to ensure adoption of research outcomes.

R&D funding

Much of the funding for the Grape and Wine Sector R&D is disbursed through Wine Australia and comes from a levy of $2 per tonne of grapes delivered and $5 per tonne of grapes crushed, matched by the 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. Research providers through State and National investment also provide funds. In addition to the monies spent in this collaborative sense, many of wine companies (both small and large) are active in the research space with their own departments or individuals working on their own innovations.

In real terms, funding is declining and the levy system itself is constantly under threat as a cost-saving mechanism during the budget process. WFA is a strong supporter of the current system and we are committed to ensuring that WA retains its focus on research and maintains the investment of research levies for research activities.

The Government matching of industry funding collected through the grape research levy and the R&D component of the wine grapes levy has delivered significant benefits to industry and must be maintained.

Recommendation: ***Maintain Government matching of industry funding in real terms.***

Individual wine businesses invest heavily in R&D carried out within their own businesses, such as that focussed on consumer preferences and product offerings, but also including packaging, digital marketing and exploring a range of other innovative ideas that help businesses differentiate their product in new and existing markets. Viticulture is also a key focus of research.

Recommendation 4 of the R&D Tax Incentive Review Report currently being considered by the Australian Government, recommends the introduction of an intensity threshold in the order of 1 to 2 percent for recipients of the non-refundable component of the incentive. This would effectively make most of the wine industry ineligible for the incentive, given the highly capital intensive nature of wine businesses. Perversely, it would also decrease the incentive to invest in R&D as businesses would not know the tax treatment of R&D expenditure until after the end of the financial year, with a potential 8.5 percent differential treatment of R&D costs. This would not support the Government’s innovation or regional development agenda, and would undermine the future profitability of the Australian wine sector.

The current tax incentive is also focussed on developing IP, without consequent recognition that to deliver actual value to a business, the IP needs to be taken to market. The cost of introducing innovation into business practices or new products is considerable, and does not currently fall within the R&D definition. Smaller wine businesses cannot reap the benefits of R&D due to implementation costs. Current Government R&D assistance needs to recognise that market application is a critical component, particularly when introducing innovation into export markets.

Recommendation: ***Reject recommendations to introduce an intensity threshold for recipients of the non-refundable component of the R&D Tax Incentive.***
Adjust the current R&D support for businesses to include implementation costs.

Creating Demand for Australian Wine

Export and Regional Wine Support Package

The 2016 Budget included $50million over four years to increase wine exports and grow domestic wine-related tourism through the Export and Regional Wine Support Package (the Package). The annual allocations are given below.

Australian Government expense measures				
	2016-17	**2017-18**	**2018-19**	**2019-20**
Wine Australia (AGWA)	$2m	$16m	$15.9m	$16.1m

The $50million Export and Regional Wine Support Package was officially launched in August 2017. The money allocated to the program will be managed by Wine Australia according to the Business and Annual Operating Plans. The Plans focus on maximising opportunities for export promotion and wine tourism with a particular emphasis on China and United States of America (USA). WFA worked closely with Wine Australia and the Australian Government to ensure that the business and operating plans were consistent with the industry goals and will continue to be part of the implementation process to ensure all sectors of industry benefit from this expenditure.

The Australian Government expects these reforms to deliver 7-8 per cent per annum value growth across all export markets, including 15-17 per cent in China to $2.8-2.9 billion by 2019-20. WFA believes these are conservative forecasts and that export growth will be greater.

A key aspect that will complement the $50million package is ongoing support for business training and development. In order to ensure businesses are prepared to capitalise on marketing, tourism and trade opportunities which will be derived through the package we need to ensure wine businesses are well informed and ready to take advantage. WFA strongly supports the development of national training and development initiatives for business which will assist them to grow.

Recommendation: ***Continue to support national training and development opportunities for business in tourism, business development and trade.***

Market Access

The 2017 Foreign Policy White Paper outlined the Australian Government's vision in a changing and increasingly interconnected world. The future of the Australian wine sector and the flow-on benefits to rural and regional economies is inextricably linked with our ability to respond to this changing environment.

The Government's commitment to resist protectionism and advocate for an open global economy; to work with partners and in global institutions to protect and shape rules that promote economic growth, trade liberalisation and free markets; to ensure the lowest possible barriers to our trade and investment, including through modern free trade agreements; and to work with Australian businesses to advance our commercial interests in overseas markets, dovetails neatly with the wine industry's vision. We are particularly pleased with the commitment to maintain a strongly consultative approach before, during and after trade negotiations and to seek stakeholder input to negotiations and policy development.

Recommendation: **_Implement the White Paper's policies and focus on the reduction of non-tariff measures in trade negotiations._**

World Trade Organisation

The wine sector is a strong supporter of the multilateral rules-based trading system under the auspices of the World Trade Organisation (WTO). The WTO provides the framework which facilitates free trade throughout the world. The trade dispute mechanism provides a deterrent to countries that wish to implement trade restrictive policies and permits trading nations like Australia to take action against systemic trade issues, to level the playing field for our exports. WFA encourages the Government to continue to support the WTO and take an active role in trade disputes when in the national interest.

Recommendation: **_Take an active role in the WTO including engaging in formal trade dispute action when a clear national interest exists, and where Australian industry is significantly and unfairly disadvantaged._**

Free Trade Agreements (FTA)

WFA is a strong and committed support of free trade. We stand firmly behind the objective of ensuring our bilateral and regional FTAs are broadly compatible with each other, are linked to as many economies in the region as possible, and are as liberalising and comprehensive as possible. A free trade zone in our region would be an effective way to guard against the risk of discriminatory trading blocs that would disrupt value chains, undermine regional economic growth and damage Australia's trade and investment interests.

The Australian wine industry supports FTAs as their overall goal is to enhance competitiveness and remove barriers. With regard to the upcoming Australia – European Union (EU) FTA WFA strongly urges the Government to protect the right of Australian wine producers to continue to use grape variety terms, such as *Prosecco*, but also other commonly used Italian varietal names, on Australian wine products. This sector provides a significant growth opportunity for Australian wine producers in domestic and international markets as producers diversify their product to meet changing consumer tastes, and as specialised producers utilise new ways to reach a broader consumer market.

Recommendation: **_Resists attempts by the EU to prevent Australian wine producers from using common grape variety names on Australian wine products as an outcome of FTA negotiations._**

Non-tariff measures

Non-tariff measures impede exports and remain the key impediment to expanding trade into new markets. These can include regulatory barriers, standards-related measures, or labelling and customs measures. WFA will continue to seek to reduce such barriers in partnership with Government. These efforts will complement Government negotiations in the WTO and FTAs to open markets and facilitate trade. WFA supports the Government's proposal to implement a new non-tariff measures strategy to respond to business concerns and the five priority sectors for inbound investment as agreed with state and territory governments: agribusiness and food; major infrastructure; tourism infrastructure; resources and energy; and advanced manufacturing, services and technology.

Standards

Influencing international standards and regulations strongly supports Australia's economic interests. Where these standards are aligned with Australia's, this facilitates trade and make Australian businesses globally competitive.

Initiatives that reduce the regulatory burden will assist export competitiveness, including through equivalence or harmonisation. The wine industry has pursued a significant and long term agenda to harmonise standards through active participation in forums including APEC, the World Wine Trade Group (WWTG), the International Organisation of Wine and the Vine (OIV). The industry has also worked actively bilaterally, with the assistance of the Department of Agriculture and Australia's network of Agriculture Counsellors to overcome trade barriers. The Wine Industry Market Access Group, a joint Australian Wine industry and Government forum for sharing of information and engagement, has been highly successful. Strong engagement and leadership in these forums is vital to the success of Australia's trade and market access agenda. WFA continues to value Government support for activities in these forums.

Much work remains to be done in the field of international standards. Critically for Australian agriculture industries are the standards established under the Codex Alimentarius Commission.

However, Australia needs to take a much stronger position in Codex Committees (in particular the Codex Committee on Food Additives and the Codex Committee on Food Labelling) where Australia needs to defend our national interests and industry. This requires stronger involvement and coordination by DFAT and Department of Agriculture officials to ensure that other countries' trade and public policy positions do not result in the international adoption of protectionist measures.

Recommendation: ***Continue to support and engage in key international and national trade and market access forums.***

Take a stronger position in Codex Committees to ensure Codex retains its integrity as a standard setting organisation based on scientific principles and does not become a mechanism to implement protectionist trade measures or public health policies.

Geographical indications

The European Union and some of their member States are extending their protection of Geographical Indications (GI) through trademark applications, applications for GI protection and FTAs which is of concern to the Australian wine sector. WFA has been active in lodging objections to such GIs within Australia and internationally for some time. The assistance of the industry-funded Wine Australia in this respect has been welcomed.

However, it has been clear that we are fighting a losing battle and the European Union is steadily restricting the rights of Australian wine exporters through their protection of grape variety names internationally. Despite our best efforts, we have failed to actively address the issues of grape variety names in our FTA negotiations to the potential detriment of Australian industry.

The forthcoming FTA negotiations with the European Union will bring this issue to the fore again. We have had clear indications from Europe that they will aggressively attack the right of Australian producers to use *Prosecco* and other grape variety names on our wines. WFA is committed to holding the line and will pursue all possible opportunities to maintain Australian producers' international right to describe Australian wine using grape variety names.

This also has broader ramifications than the wine sector. Clearly, the European Union will pursue GI protection for other foods in the negotiations. If Australia is to accede to these demands, then this will require the establishment of a GI system for all food products. The wine industry will be very keen to ensure this does not erode our protection of our GIs and prevent us from marketing wine.

Other sectors will be keenly watching what happens with grape variety names to see if Australia is strong enough to preserve the integrity of a GI system. Given our extensive experience with GIs, both within Australia and internationally, WFA is willing to work with the Australian government in the development of any GI system and to strengthen our future FTA negotiations in this area.

Recommendation: ***Ensure FTAs do not undermine Australia's GI system and explicitly maintains the right of Australian wine producers to continue to use grape variety names in domestic and international markets.***

Export Market Development Grants

The consultation process around the Export and Regional Wine Support Package has highlighted some challenges with the existing export market development grants. The core issue is that existing exporters, with export sales expansion capabilities, aren't able to capitalise on opportunities as many have reached the eight year sunset for EMDG claims.

Given the Government's focus on continuing to support trade, and help industry to develop export opportunities, we believe there are a number of changes the Government can make, in order to further support export market development.

The program could incorporate a designated dollar pool contributed by Government each year, which would be distributed to winemakers, based on two streams:

1. A base grant guaranteed stream which would be paid on a matched winemaker expenditure basis which is similar in principle to the current EMDG scheme payment rules; and
2. A merits based stream, in that winemakers will have to demonstrate export sales growth to be able to access a grant from the funding pool and that the quantum of grants paid are paid pro-rata in line with sales increases from year to year.

The new grants should also only be available to wine businesses with "skin in the game", in order to prevent the grants being dominated by those whose only investment was in stock. This would help to provide a greater incentive to invested wine businesses, which currently represent less than half of the exporting wine businesses. Those without skin in the game could continue to access current EMDGs but not the new scheme.

This means that export sales growth economic benefits will be captured in the regions with the associated economic multiplier effect due to increased direct and indirect employment as well as increased use of service operations to supply the increased winemaker production.

The practicalities and scope of a revised scheme would need to be further discussed and developed. We believe that there is considerable scope to begin to develop changes to the scheme and would be delighted to work with the government on the design of such a program.

Recommendation: ***Work with the Australian wine industry to develop the next iteration of the EMDG scheme that acknowledges market practicalities and new opportunities for Australian wine exporters.***

Environment

The Australian wine industry is deeply committed to the protection of our environment and stewardship of our natural resources. We acknowledge that the industry's businesses form a part of the environment in which we operate and governments key role in working with industry to protect the environment.

Climate Change

The industry acknowledges the implications of climate change on the environment and sector and recognises the need for greater understanding with regard to its management. The industry accepts it makes a relatively minor contribution to greenhouse gas emissions at the domestic and global level. However, industry recognises the need to play a leadership role to adopt better emissions practices.

Through the WFA, the industry has taken a lead role in climate change management, via the early development of the Australian Wine Industry Carbon Calculator and environmental stewardship through the implementation of Entwine Australia: an industry program designed to underpin the environmental credentials of Australian wine.

WFA supports an enhanced capacity to respond and adapt to the impacts of climate change on wine grape production at a regional level. To enable this, it is vital that government adopt consistent national approach, aligned with international protocols and in consultation with industry, to deliver effective climate change policy. Understanding the contributions and effects on industry is key to developing policy, which will deliver viable outcomes.

Recommendation: ***Engage with industry to consider ways to recognise vineyard's contribution to carbon sequestration and related offsets.***

Water

Water is essential to the viability of Australian wine businesses, therefore the WFA believes that all members of the wine industry must demonstrate good water stewardship. Winemaking and viticulture practices must ensure the sustainability of water resources. In particular, the WFA will promote efficient irrigation and an awareness of the industry's impact on water resources, whilst seeking secure, fair and equitable access to water.

The Australian wine industry are some of the most efficient and effective managers of water in the world. This should be recognised by government and that when changes to the way that water is managed are proposed, that government or relevant authorities consult and give appropriate consideration to the economic, environmental and social impacts at the regional level.

Recommendation: ***Engage with Australian wine businesses when considering changes to the way in which water resources are managed.***

Biodiversity

The WFA believes all members of the wine sector should strive to enhance and maintain the quality of the environment in which they operate. This can be achieved by recognising and mitigating any operational impacts, and practicing good stewardship of natural values and landscapes on their properties and within wine regions generally. Government support for revegetation and biodiversity enhancement has been well utilised in the past by the Australian wine industry and it's hoped that this investment will continue.

Recommendation: ***Maintain investment in biodiversity enhancement and revegetation initiatives for agricultural landowners.***

Energy

The Australian wine industry places high importance on the efficient management of energy including fuels, gas and electricity. WFA believes that all industry should demonstrate efficient and effective management of energy and support the transition to reduced greenhouse gas emissions by addressing energy inefficiencies and, where appropriate, by incorporating alternative energy opportunities and innovative technology in their operations. WFA supports changes or retention of national energy policy, in consultation with industry, which seek to improve affordability, reliability and management of energy.

Electricity

The Australian wine sector is electricity-dependent and is significantly impacted by price rises and unreliability of supply. Electricity can be a significant proportion of the costs of production for businesses in the wine sector. The industry is concerned about the extent and rate of increase of electricity prices that have occurred over recent years. As a result many wine businesses are seeking alternatives to grid reliance. WFA is working with the Agricultural Industries Energy Taskforce to ensure this valuable business input is delivered in a more sustainable manner for agricultural businesses. Through the Taskforce, WFA has provided input into the 2017 Blueprint for the Future Security of the National Electricity Market (the Finkel review). WFA will continue to engage Governments and seek outcomes focused on improving affordability, reliability, and management of the electricity market, in line with WFA policy.

Recommendation: ***Work with industry to ensure a reformed electricity market delivering improved affordability, reliability, and management of the electricity market.***

Fuel Tax Credits

Fuel Tax Credits ensures these businesses are not disadvantaged by paying excise on the off-road use of diesel in the production of goods and services. Fuel tax credits are not a subsidy for fuel use, but a mechanism to reduce or remove the incidence of excise or duty levied on the fuel used by business in off road vehicles. WFA supports the retention of Fuel Tax Credits for Agricultural business, as they are vital to regional Australian businesses.

Recommendation: ***Retain the existing fuel tax credit scheme for agricultural businesses.***

Waste

The wine sector should take advantage of all opportunities to utilise materials and resources in such a way that waste is minimised. It is vital that industry's waste management practices are continually improved across the sector, primarily to reduce the impact on landfills and the financial cost associated with creating waste and removing it from the property/facility.

The waste management hierarchy of - avoid, reduce, reuse, recycle and recover - should be applied in all businesses' approach to managing waste.

Effective waste management requires the provision of affordable and available transport, facilities and services. Lack of facility or services and cost effective means of managing waste are some of the biggest issues facing wine businesses particularly in regional communities. We are supportive of government and industry investment in these areas to ensure that wine business are able to effectively manage waste.

Recommendation: ***Support investment in improved transport, facilities and services for waste, which reduce cost and improve its management.***
