Response to the Agricultural Competitiveness Green Paper

11 December 2014

Winemakers' Federation of Australia

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Executive Summary

The wine industry is a significant agricultural industry for Australia. It is a large direct employer, supports many other industries and provides a significant boost to Australia's regional economy. Wine is a truly value-added Australian export, a flagship for Australian agriculture and fine produce around the world, and a stand-out tourism drawcard.

The wine sector is enthusiastic about our future and welcomes the Government's commitment to driving agricultural profitability through the development of the White Paper. In this submission we outline key issues from the wine sector's perspective that need to be addressed to ensure a sustainable and profitable future for Australian agriculture, the regional communities that depend on its success, and the Australian economy as a whole. We draw your attention to our previous submission on the Issues Paper and we will not repeat those suggestions here. This submission addresses specific policy ideas raised in the Green Paper relevant to the wine sector so this feedback can be used to inform the development of the Agricultural Competitiveness White Paper.

The Green Paper identified 11 policy categories to underpin the Governments' vision for a stronger and more competitive agriculture sector and our responses are summarized below. While they are all priorities, the importance of securing additional funding for the international marketing of Australian wine from savings generated from limited reforms to the Wine Equalisation Tax (WET) rebate is critical. The proposal as outlined in this submission will improve profitability by lifting demand for Australian wine in key overseas markets and by re-engaging global consumers with the diversity and value of Australia's wine offering.

We believe that the WET rebate continues to play an important role in supporting many small and medium-sized wine businesses during a prolonged period of difficult trading conditions. It is also a critical benefit to many regional communities reliant on winemaking and wine grape growing which was its original policy intent. This is why it must be retained. However, changes are required to ensure the WET rebate continues to deliver these outcomes.

Firstly, the number of New Zealand producers eligible to claim the rebate has significantly increased since 2006 which is at direct odds with the original intent of the rebate and the separate New Zealand producer rebate arrangement gives them with an unfair advantage over local and other foreign producers. There is a strong case to immediately abolish this entitlement.

The WET rebate should also be removed over time from bulk, unbranded and retailer "own brand" wine as the long-term future of the industry lies in strong branded product that can command loyalty and profitable margins from consumers and the highly consolidated domestic wine retail sector.

We need the support of the Australian Government to make these changes and to reinvest $25 million over four years of finite supplementary funding into the international marketing and promotion of Australian wine from the significant savings that will result. This proposed trade-off between tightening WET rebate eligibility and using some of the savings to boost the marketing and promotion of our wine has majority support among industry.

This proposal is urgent if we are to make the most of the window of opportunity created by the recent decline in the Australian dollar, the signing of key Free Trade Agreements in Asian markets and some signs of rising consumer confidence in the key U.S. market. If action is not taken, the opportunity will be seized by others and the potential for a transformational structural adjustment to the nation's wine industry will be lost.

With regards to this key proposal which lies at the heart of WFA's Action plan for the sector's recovery, we would particularly draw attention to our recommendations on wine tax reform and improving access to international markets.

The key recommendations WFA presents in this submission are:

Infrastructure
WFA supports close collaboration with state and territory governments to target improvements in key road, rail and port infrastructure to benefit agriculture production and logistics.

Working with the States and Territories
WFA believes the development of a National Phylloxera Strategy will enable the regulatory and legislative controls for phylloxera to be harmonised across Australia.

The development of a national sustainability framework for agriculture provides marketing opportunities to help drive profitability for business.

Competition and Regulation
WFA believes the Australian Government has a critical role in helping secure the data required to progress evidence-based policies that will help address the demand-supply imbalance. It remains critical for industry to have access to key foundation data for industry planning and strategic development. Industry has looked at the data collection mechanisms and identified the Australian Wine and Grape Authority is ideally placed to be the new central data repository.

The provision of better information relating to supply and demand throughout the season would enable growers to make better business decisions and remove the need for indicative pricing. Such information could best be provided by the Australian Wine and Grape Authority or a well-respected and independent research organisation such as ABARES.

Competition Laws
WFA has made a submission to the Competition Policy Review which we would draw to the White Paper's attention.

We believe Government has a clear role to help facilitate a fairer and more collaborative domestic marketplace through supporting industry Codes of Conduct and reforming the competition framework so that it delivers both consumer outcomes and a sustainable domestic production and manufacturing base.

With this in mind, wine should be included within the provisions of the *Food and Grocery Prescribed Industry Code of Conduct* and such a step would complement the collaborative voluntary activities in place already between WFA and the major retailers.

Chemical Regulation
WFA supports changes to the current registration and approval process including the introduction of a comprehensive, publicly-funded program for specialty crop and minor uses of agricultural chemical products.

Finance, Business Structures and Taxation
WFA supports the need for greater access to farm finance as outlined in our submission to the Issues Paper.

Taxation
WFA has a plan to improve profitability for the Australian wine sector by lifting demand for Australian wine in key overseas markets and re-engaging global consumers with the diversity and value of the Australian wine offering. To implement these initiatives industry needs an additional $25 million over four years to boost the marketing and promotional activities of the Australian Grape and Wine Authority.

Raising industry levies to fund these activities is not possible at a time of financial stress for many winemakers and grape growers. So the industry recommends that offsets be secured by making limited reforms to the WET rebate in a way where its core objective and original intent to support regional businesses is retained.

Our proposal includes revisiting the extension of this rebate to foreign producers including from New Zealand. We believe the WET rebate should also be removed from bulk, unbranded and retailer "own brand" wine as the long-term future of the industry lies in strong branded product that can command loyalty and profitable margins from consumers and the highly consolidated domestic wine retail sector. To ensure the industry has time to adjust to this change, the measure should be phased in over a four-year period.

WFA believes that the Commonwealth should also introduce transitional rebate measures to encourage consolidation in the sector by allowing the second rebate on a merger of two businesses which are entitled to the rebate to remain with the new entity but be phased out at 25% per year over four years.

Foreign Investment

The wine sector is a highly capital-intensive industry and WFA supports measures to enhance the movement of foreign capital into Australia.

Education, Skills and Training and Labor

The Government needs to remain cognisant of the special interests of agricultural businesses that are reliant on seasonal, weekend and after-hours operations in the future determination of wages policy and incorporate these considerations into the policy framework.

Drought

WFA would encourage Government to continue to support measures to provide incentives to increase water efficiency and drought-proof properties and operations.

Biosecurity

WFA believes there is a clear and vital role Government must play in maintaining germplasm collections on behalf of the Australian industry. These collections should be available for the industry to access and innovate under certain conditions.

Research, Development and Extension

WFA believes Government needs to support the National Primary Industries Research, Development and Extension (RD&E) Framework to encourage greater collaboration and promote continuous improvement in the investment of RD&E resources nationally and, in particular, to ensure all participants in RD&E play their part and meet their commitments.

It is important that research priorities from publicly-funded research maintain a focus on national priorities. We believe it is time national and regional research priorities are reviewed.

WFA continues to support the Research and Development Corporation model that has worked so well for Australian agriculture.

Accessing International Markets

The key to success for Australian agriculture is to lift demand for our produce in key overseas markets and to continue to improve market access.

For the wine sector, we recommend an additional minimum of $2 million per annum is required over the next three years to supplement Australian Grape and Wine Authority's operating budget. This short-term assistance will provide AGWA with the capability to support restoration of core marketing capabilities and an appropriate level of global representation.

To enable the Authority to also undertake the specific in-market activities necessary for a step-up to build demand, a further $7.5 million in 2015/16 and $5.5 million in 2016/17 is also needed. In turn, this will restore levels of industry contributions and enable the sector to once again meet its own marketing needs by the end of the current Budget cycle. A further $6 million is required in 2015/16 to deliver a signature and comprehensive marketing campaign to re-launch the Australian category in the key U.S. market.

We believe this proposal will provide a good case-study for the entire agriculture sector on how short-term Government investment fully offset from savings generated from within the sector can provide long-term benefits when the program is developed by industry and for the industry.

Technical Market Access

Technical market access issues are a key impediment to Australia's competitiveness and profitability from export markets. WFA will continue to support Government initiatives in this area. Australia's interests in technical market access issues are best served through strong representation on multilateral bodies, including APEC, Codex Alimentarius Commission, the Organisation de la Vigne et du Vin (OIV) and the World Wine Trade Group.

In particular the opportunity to host regulators from major markets – such as Australia hosting the WWTG and APEC Wine Regulatory Forum meetings in 2015/16 – provides a major opportunity for Australian agriculture to demonstrate the strength of our regulatory system and we should encourage this activity wherever it is possible. Again, this is a good example of where other parts of the agriculture sector could follow suit.

An example of where Government support can be of assistance to industry is the current work on Maximum Residue Limits (MRLs) under the APEC Food Safety Cooperation Forum. A pilot project, involving wine as a case study, has been initiated for the purpose of promoting greater harmonisation of pesticide MRL standards. This project can have major benefits for agriculture as a whole.

The Australian Government can get behind these initiatives to support the agricultural sector. Furthermore, WFA believes the Australian Pesticides and Veterinary Medicines Authority and Food Standards Australia and New Zealand need to play a larger role in technical market access issues on a bilateral basis to further facilitate trade in agriculture products.

Government Support for Market Access

WFA supports increased resourcing to address international market access issues and supports the idea that industry bodies are well placed to provide some of this support to the network of Agricultural Counsellors. The technical expertise of industry can and should be used more broadly.

Introduction

The wine industry is a major player in the agricultural sector of Australia and makes a significant contribution to regional Australia and the national economy. The Winemakers' Federation of Australia welcomes the Government's commitment to agriculture and the opportunity to contribute to Australia's future agriculture policy.

In this submission we outline key issues from the wine sector's perspective that need to be addressed to ensure a sustainable and profitable future for Australian agriculture; the regional communities that depend on its success; and for the economy as a whole. Our submission addresses the specific policy ideas raised in the Green Paper to inform the development of the Agricultural Competitiveness White Paper.

Background

WFA represents approximately 90% of Australian winemakers by value and has a good spread of representation (some 380 plus members) drawn from small, medium and large businesses. Each of these has a committee with representatives on the WFA Board. While a number of smaller wine businesses are not direct WFA members they are members of state bodies which have direct representation on the WFA Board. This indirect representation minimises smaller operators paying multiple fees and ensures WFA speaks with industry authority.

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

WFA and WGGA are the two peak national industry bodies and this is recognised in relevant legislation covering the wine sector.

WFA has a blueprint to improve industry settings which is focused on assisting individual winemakers and grape growers to lift profitability and improve Australia's competitive position for this product. This blueprint for recovery can be found in the attached document, *"Actions for Industry Profitability 2014-2016".* It provides valuable background to this submission which follows our 2014 pre-Budget submission and has the support of the Industry.

Our plan includes 7 key industry initiatives with specific Actions for each including:

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

We believe that our Actions blueprint will complement the Australian Government's objectives in developing the national Green Paper.

State of the Industry

The wine industry has earned the reputation of being one of Australia's most significant, globally competitive industries. This achievement reflects decades of investment, hard work and collaboration by winemakers and growers and many others across Australia. This international reputation and collaborative approach will be an advantage when competing in new markets well into the future.

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

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

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

The 2014 Australian grape crush is estimated at 1.70 million tonnes, a 7% decrease from last year's crush. This figure is on par with the seven-year average and 136,000 tonnes lower than last year's crush estimate. The decrease in overall crush is attributable to generally lower yields per hectare in some of the cooler temperate regions, offset by higher yields in the warm inland regions. Like all agricultural commodities, Australian winegrape production is dependent on the vagaries of the weather as well as changing national and international demand for wine.

This year's resilient winegrape crush, decrease in average winegrape prices, increase in stock-to-sales ratio, increase in unprofitable production and relatively flat demand projections suggest the 2015 vintage will not naturally deliver the fundamental change needed in industry dynamics or profitability.

Australian wine (in terms of volume and value) continues to fall short of pre-GFC levels. We are still not regaining volume share in the US market and we have lost volume in China (as have most other competitors) due to austerity measures imposed by the Chinese Government.

The industry recommends action must be taken in order to grow the demand opportunity and accelerate a correction in the supply base.

Issues

The Green Paper identifies 11 policy categories to underpin the Australian Governments' vision for a stronger and more competitive agriculture sector. Improving farm profitability is a major focus. The key issues WFA addresses in this submission include:

1. Infrastructure

The three issues identified in the Green paper are: building new transport infrastructure, improving existing infrastructure and transport regulation and enhancing communications.

The wine sector relies heavily on road, rail and maritime infrastructure to deliver the raw materials of wine (grapes) to processing facilities and then to deliver the finished value-added product (wine) to consumers. The grape growing areas are geographically widespread throughout Australia and enhancements to the road system and, in particular, improving existing infrastructure and transport regulations to reduce transport costs have an important potential benefit to the sector. Agriculture does not recognize state borders and grapes are transported across these borders to maximize production efficiencies.

The wine sector is also heavily export orientated and infrastructure allowing efficient movement of wine to ports and then to overseas customers is a major priority. We would support close collaboration with state and territory governments to target improvements in key road, rail and port infrastructure to benefit agriculture production and logistics.

Recommendation: WFA supports close collaboration with state and territory governments to target improvements in key road, rail and port infrastructure to benefit agriculture production and logistics.

2. Working with the States and Territories

There are a number of areas where greater coordination between state, territory and Australian governments could enhance competitiveness of the Australian agricultural sector.

Biosecurity

A key area is that of biosecurity. Legal and regulatory frameworks at the national, state and territory levels currently provide the mechanism through which biosecurity management programs are delivered. For example, the development of a National Phylloxera Strategy would permit the regulation and legislative controls for phylloxera to be harmonised across Australia. Variations in requirements result in greater costs for industry and reduced competitiveness. The principles that reference the World Trade Organisation Sanitary and Phytosanitary Agreement and the subordinate International Standards on Phytosanitary Measures (ISPM) should underpin the national framework to review and harmonise regulatory approaches.

However, it should be noted there are still concerns about the implementation of the National Fruit Fly Strategy. This should become a priority for the Government and the lessons learned from this process should be applied in the development of the National Phylloxera Strategy.

Sustainable Agriculture

One suggestion raised in the Green paper was to subsidise farm energy audits. This is a positive suggestion that could be expanded to develop a vision for sustainable agriculture production that could be taken to the world. Sustainable wine production is a major focus for the Australia wine sector. Incorporating sustainability into the business model improves the national environmental benefit, reduces costs of production and becomes an essential component of "Brand Australia" for all agricultural products. WFA runs a national sustainability program which is designed to help the sector improve its environmental performance and drive continuous improvement.

The Australia wine sector's approach has been to implement a national environmental management system (EMS) in line with the Australian Government's *National Framework for Environmental Management Systems in Agriculture* (NRM Ministerial Council, 2002). A national approach with flexibility in implementation is the key determining factor for WFA and the Wine Industry National Environment Committee (WINEC).

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

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

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

Management systems for business planning and risk management are important elements to ensure sustainable and prosperous businesses. A vital aspect in these systems is the requirement for ongoing improvement that forces business to continually review their operations.

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

Inconsistency in Food Regulation Between Jurisdictions

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

Despite an overarching national approach, inconsistent regulation remains due to the autonomy of state and territory governments in determining whether to implement national standards and their interpretation. 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, increasing costs and raising uncertainty for businesses trying to comply with the law. WFA seeks Government’s commitment to FSANZ providing free interpretations of the Food Standards Code to provide greater regulatory certainty.

Recommendation: A National Phylloxera Strategy needs to be developed to enable the regulatory and legislative controls for phylloxera to be harmonised across Australia.

3. Competition and Regulation

Agricultural businesses such as winemaking rely on strong performance in the domestic marketplace and long-term collaborative relationships between suppliers, manufacturers and retailers to build robust business models and brands with enough equity to take confidently to the international marketplace.

Enhancing greater competition among domestic retailers of food and beverage products and establishing open and fair standards of commercial behaviour can be achieved by developing Codes of Conduct throughout the value chain and reforming the competition framework so that it delivers a consumer outcome and a sustainable production and manufacturing base in Australia.

Increased Price Transparency

One of the suggestions in the Green Paper to improve market competition with direct implication for the wine sector is introducing options to increase price transparency throughout the domestic supply chain. This is a very useful idea that deserves consideration. There are two aspects that have resonance for the wine sector.

First, WFA supports the principle of developing policy from a sound and robust evidence base. In seeking to understand industry dynamics from such a position, WFA in 2012 commissioned independent expert analysis to help underpin its Action Plan to return profitability and restore asset values in the industry.

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

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

WFA has identified steps to hasten the correction and bring supply into better balance with demand, while also reducing pricing distortions. Priorities outlined in WFA's Action Plan include:

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

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

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

Historically the information came from the following sources:

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

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

A major concern for industry is the intelligence gap left by the withdrawal of funding for ABS to collect industry data viewed as critical to long-term planning and monitoring. There are no ongoing arrangements in place for the supply of viticultural data and the Australian Government has advised it no longer supports the collection of annual wine statistics post 2013/14. This includes the Vineyards Survey (which had been conducted by the ABS for over a decade) and the annual wine statistics collections (wine grape crush, wine production, wine inventories and domestic wine sales).

It remains critical for industry to have access to key foundation data such as this for industry planning and strategic development. Industry has looked at the data collection mechanisms and identified the Australian Wine and Grape Authority is ideally placed to be the new central data repository.

We believe the Government has a leadership role to play in ensuring future collections are conducted and agricultural statistics and data provided to assist industry in planning for the future.

The second issue relates to better information to allow wine businesses to make informed decisions based on a better understanding of market dynamics. In the wine sector, grape prices not only reflect climatic conditions and the inputs used (such as agricultural chemicals, water, pruning, and environmental management), but also the ebb and flow of domestic and international grape supply.

Pricing of grapes in the wine industry is determined by contracts between processers and grape growers. However, the final price will be determined by fruit grade and its destined product line. In order to resolve disputes over price, the Wine Industry Code of Conduct (the Code) was established in 2009 by WGGA and the Winemakers' Federation of Australia and is supported by the Australian Government's Department of Agriculture, Fisheries and Forestry.

WGGA and the WFA believe a framework for fair and equitable grape purchase agreements and an impartial, cost effective dispute resolution scheme will help improve relationships between wineries and grapegrowers. In turn, our industry’s market prospects will be improved by improving the supply chain’s ability to meet consumer demand, as well as demonstrate to both consumers and retailers that the industry has sound and fair commercial practices in place.

A key element in the Code is for the provision of indicative prices in some instances. Indicative prices are not necessarily required as the Code allows a range of variations as long there are arrangements in place for determining a fair and reasonable price. This means that growers should know in good time *before* their grapes are handed over, what price they will receive. The contract could provide for any of the following:

- A fixed price/tonne;
- Payment based on weighted district average; and
- Grape price to be paid in line with general market price.

In such a case, then, an indicative price does not need to be offered. However, growers support the provision of an indicative price as it potentially allows them to make business decisions based on what they can expect to receive on sale of the crop. However in practice the indicative price has not provided such certainty. Indeed, indicative pricing had been identified as a major disincentive by wineries to sign the Code. It was also identified by the grape grower representatives as a major problem this vintage as it encouraged lower across-the-board prices.

WFA believes the provision of better information relating to supply and demand throughout the season would assist growers make better business decisions and remove the need for indicative pricing. Such information would best be provided by the Australian Wine and Grape Authority or a well-respected and independent research organisation such as ABARES.

Competition Laws

There are a number of issues raised in the Green Paper concerning competition laws. The WFA has made a submission on a range of matters to the Competition Policy Review which we would draw to your attention.

Agricultural businesses such as winemaking rely on strong performance in the domestic marketplace and long-term collaborative relationships between suppliers, manufacturers and retailers to build economies of scale, robust business models and brands with enough equity to move confidently into the international marketplace. For this to happen, healthy levels of competition at each level of the value chain are required to ensure on-going efficiencies are captured and innovation is fostered.

A relative balance in market power between suppliers, producers and retailers is important to maintain growth, profitability and support a sustainable local production base. However there is a significant disparity in the market power of the wine retail sector where up to 77% of all off-premise sales are made by the two largest wine retailers compared to a highly fragmented winemaking sector with about 2,400 producers, with the top five producers accounting for less than 50% of production volume.

An expert review commissioned by WFA in 2013 (http://www.wfa.org.au/information/action-plan-consultation/) identified many wine companies interviewed had between 40% and up to 80% of their volume sold by the two major retailers. This places winemakers under enormous pressure to “transfer” margins to retailers to ensure return forecasts are met.

In addition, the fragmentation of the wine industry where even the largest wine producers have significantly less sectorial power than the retailers has seen commercial agreements become commonplace that would be deemed unacceptable in more consolidated sectors. In particular, the practice of retrospective penalties or price support being demanded of suppliers to compensate for the discounting behavior of rival retailers is a particularly onerous practice, given that in many cases the rival retailer may even be self-funding the discounting.

Similar to the ability of retailers to demand retrospective pricing support, the on-going acquisitions of rival retail chains by major wine retailers has enabled them to undertake historical analysis of past trading terms of their current suppliers with rival retailers. This analysis then enables the retailer who has acquired the retail rival to assess the difference in wholesale pricing that each buyer group had received over the years and penalise the supplier if it finds a supplier has been providing stock at a different wholesale price. This practice is referred to in the trade as “reprisal due diligence” and it unfairly penalises the wine supplier for negotiated variations in their pricing strategies and business arrangements across the retail sector.

WFA is implementing a number of initiatives to assist the wine industry deal with this market imbalance and encourage more open and fair standards of commercial behavior. Our Action Plan initiatives include:

- Collaboration with the retail sector on shared issues through a standing Industry Working Group;
- Development of Industry Codes of Conduct for retailers, winemakers and grape growers based on agreed Principles and Practices; and,

- Engagement with the ACCC and Government on the structure of wine markets, potential further structural impediments (such as vertical and horizontal acquisitions by the retail chains), and the likely impact these impediments may have on competition and market structure.

WFA has in 2014 successfully negotiated the *Good Wine Buyer and Supplier Principles* with the Woolworths Liquor Group. We are currently in discussions with Coles and will open up dialogue with other retailers in pursuit of more Codes of Conduct. WFA believes this voluntary sector-specific agreement provides greater certainty around what should happen during the commercial relationship and puts in place an independent dispute resolution process.

However WFA's initiative requires broader support to address the full market issues involved and ensure alignment across retailers. Including wine within the *Food and Grocery Prescribed Industry Code of Conduct* would be a significant step forward in this regard and would complement the work already undertaken with the *Principles*.

The Australian Government has a clear role to play in helping facilitate a fairer and more collaborative domestic marketplace by supporting industry Codes of Conduct and reforming the competition framework so it delivers both consumer confidence and a sustainable domestic production and manufacturing base.

Chemical Regulation

For much of the agriculture sector, the costs of registering agricultural chemical products are prohibitive and act as regulatory barriers to commercialisation. This results in a less than optimal selection of agriculture chemicals available for industry's use leading to increased costs of production, less efficient product as a result, potential environmental damage due to older, less effective chemicals and problems complying with other countries' import requirements for maximum residue levels.

WFA would support changes to the current registration and approval process including introduction of a comprehensive, publicly-funded program for specialty crop and minor uses of agricultural chemical products.

Recommendations:

The Australian Government needs to play a key role in funding and securing critical data necessary to provide evidence-based policies that will help address the demand-supply imbalance. WFA believes access to better information on supply and demand throughout the season would help growers make more informed business decisions and remove the need for indicative pricing. Such information would best be provided by a well-respected and independent research organisation such as ABARES.

The Government should include wine within the provisions of the *Food and Grocery Prescribed Industry Code of Conduct* to complement the collaborative activities in place already between WFA and retailers.

The Australian Government to recognise the important role Codes of Conduct have in facilitating a fairer and more collaborative domestic marketplace.

The Australian Government update the current registration and approval process for chemicals including introduction of a comprehensive, publicly-funded program for specialty crop and minor uses of agricultural chemical products.

4. Finance, business structures and taxation

There are a number of policy suggestions including improving access to finance through permanent concessional lending and incentives for institutional investment in agriculture. WFA supports the need for greater access to farm finance as outlined in our submission to the White Paper.

Taxation

There were a series of policy proposals surrounding tax raised in the Green Paper. It was noted that these would be dealt with in the Government's White Paper on Taxation, but agricultural-related issues could be dealt with in the Agriculture White Paper. The key issue raised here concerned the WET rebate and the possibility to better target it or reduce the rebate to free up resources that could then be applied to other Government priorities.

WFA has a clear Action Plan to improve profitability for the Australian wine sector. This includes lifting demand for Australian wine in key international markets and re-engaging global consumers with the diversity and value of the Australian offering. We have developed very specific Actions to do this and these are outlined later in this submission. These have the support of industry, the former Wine Australia Corporation (WAC) and the new authority, AGWA.

To implement these initiatives the Australian wine industry requires an additional $25 million over four years. Raising industry levies is not an option at this time of financial stress for many winemakers and grape growers. Industry therefore asks Government to assist with a trade-off that will not incur additional costs Government. While the retention of the WET rebate continues to be important for the Australian wine industry, a trade-off is presented with limited reforms to the rebate in return for supplementary marketing funds. The trade-off needs to be in a way that retains the core objective and original intent of the WET rebate which was support for regional businesses.

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

In 2011/12 some $282 million of rebate was shared among at least 1,912 Australian claimants. In the same year 205 New Zealand claimants received $25 million in WET rebates. The rebate remains an important revenue source for small and medium winemakers in both the fine wine and commercial segments which are struggling with a decline in export sales and intense competition in the domestic market. It is clear that without the rebate a significant number of wine businesses would be severely impacted financially. Whether originally intended or not, the rebate has been factored into business models and pricing strategies at all points in the supply chain.

Reducing the Claims from Uncommercial Entities

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

It is also instructive that the Tax Commissioner rates the compliance risk associated with its administration of WET as “high'' and recently issued a series of Tax Alerts to Industry on rebate compliance issues. Media reports have stated that the ATO has recovered over $35 million in penalties and adjustments from WET rebate investigations.

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

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

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

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

Legislative Change – Removing Eligibility for Bulk and Unbranded Wine

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

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

To enable the industry time to plan and adjust to this measure, WFA recommends the measure be introduced with the rebate on bulk and unbranded wine phased out at 25% per year starting at 75% of the rate from Year 1.

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

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

However, WFA retains the strong view that removing the rebate from bulk and unbranded product is in the best long-term interest of the Australian wine industry.

Legislative Change – Removing Eligibility for New Zealand Producers and Other Foreign Entities

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

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

Current Rebate Arrangements May be Inhibiting Industry Consolidation

WFA also believes current rebate arrangements may be inhibiting industry consolidation at a time when there is considerable pressure to rationalise and capture efficiencies and economies of scale. Wineries that believe their future lies in consolidation should not be stymied by the unintended consequence of a tax measure. Transitional rebate rules should be introduced to support merger activity. WFA believes the Australian Government should introduce transitional rebate measures to encourage consolidation in the sector by allowing the second rebate on a merger of two businesses entitled to the rebate to remain with the new entity but be phased out at 25% per year over four years.

Recommendations:

WFA supports greater access to farm finance as outlined in our submission to the Issues Paper.

On taxation, WFA has a clear plan to improve profitability for the Australian wine sector through lifting demand for Australian wine overseas and re-engaging global consumers. To deliver, industry requires an additional $25 million over four years funded through a trade-off with WET rebate reform to generate critically-needed supplementary marketing funds.

The Government should retain the WET rebate as it continues to deliver on its original policy intent of supporting wine businesses and the regional communities they operate in.

The Government should immediately end the New Zealand producers' WET rebate entitlement as it is inconsistent with the original policy's intent.

The Government should phase out WET rebate eligibility for bulk and unbranded wine as this encourages the erosion of brand equity and the ability of wine businesses to generate long-term profitability for reinvestment back into regional communities. This measure should be phased in over four years to enable the industry to adjust.

The Government should introduce transitional rebate measures to encourage consolidation in the sector by allowing the second rebate on a merger of two businesses which are entitled to the rebate to remain with the new entity but be phased out at 25% per year over four years.

5. Foreign Investment

Recommendation:

The wine sector is a high capital-intensive industry and WFA supports measures to enhance the movement of foreign capital into Australia.

6. Education, Skills, Training and Labour

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

While there are issues about attracting the required labour to regions, the more crucial issue or impediment seems to be inadequate infrastructure in regional centres (either the lack of and/or the need to upgrade or establish) in the areas of housing, child care, education, health services and religious services. The lack of adequate infrastructure affects both the ability to attract suitable staff to regional areas as well as sustain existing employees and their families or networks. This is also an issue relevant to visa holders and other short-term (seasonal) employees in the regions where employers find suitable accommodation solutions a massive challenge to getting people to come and then stay on.

The wine sector is by and large a seasonal industry. The need for labour is at its highest during the relatively short period of vintage and therefore the capacity to keep people in regional communities over the long term remains a significant challenge.

Recommendation:

The Australian Government needs to be cognisant of the special interests of agricultural businesses that are reliant on seasonal, weekend and after-hours operations in the future of wages policy determination and incorporate these considerations into the policy framework.

7. Drought

Key issues raised in the Green Paper concerned drought preparedness and assistance measures. The wine sector is already one of the best performed agriculture industries in terms of its water usage. We would however encourage Government to continue support measures, for example through the provision of incentives to increase water efficiency and drought-proof properties and operations.

8. Water and Natural Resource Management

Most of the issues raised in the Green Paper concerned water infrastructure and markets. A major component of most agricultural businesses is water and this is true for the wine industry. Water is essential to the viability of our businesses as it can account for a significant portion of cost of production and also has a direct link to the quality of wine produced. For this reason cost of water and ensuring adequate supply are of vital importance.

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

However there are a number of factors related to water that industry and farm businesses cannot directly mitigate the risks of, such as drought, infrastructure and cost. These factors can all cause significant constraints on access to water resources.

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

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

The WFA recommends the Australian Government agree on what information is to be collected and who will collect and distribute this to other government entities/agencies.

Research, Development and Extension

This is a key issue for the wine sector. Issues raised in the Green Paper include the need to update the National Rural Research & Development Priorities; a return to the Productivity Commission recommendation to form a new body or task existing bodies to coordinate cross-sector research and increase flexibility in levy arrangements. WFA is a strong supporter of the Government-industry partnership in the provision of R&D and supports the RDC model.

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

Research and Development in the wine industry is the responsibility of a large number of organisations. The primary stakeholders are industry (grape growers, winemakers) and governments (national and state jurisdictions). Both groups invest directly in R&D as well as jointly through organisations such as the Australian Grape and Wine Authority (formerly Grape and Wine Research and Development Corporation) and research providers. However, research providers and funders also have vested interests in the R&D process. Efficiency in the funding and provision of research are essential to ensure scarce resources are not competed away in the scramble for funding. Coordination of this complex structure is though the National Primary Industries Research, Development & Extension (RD&E) Framework Wine Sector Strategy (PISC Strategy).

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

The two peak industry bodies representing the Australian wine sector have developed a common RD&E policy. The objective of the wine sector policy position on RD&E is to enable the efficient provision of research needed to allow the Australian Wine Sector to become the most profitable and competitive supplier of wine to the consumer. The critical policy underpinnings are:

- Government support for agricultural research is essential 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; and
- 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.

Strategies

To efficiently provide the research needed to enable the Australian wine industry to become the most profitable, competitive and innovative supplier of wine to consumers, we need strategies that maximize R&D returns and industry driving the R&D agenda. To do deliver results that have a high impact, industry participation needs to be encouraged in setting R&D priorities and these used to guide the expenditure of Government-matched levies. We need to build research capability and maximise efficiency in delivering outcomes, and we need to expand the funding base for R&D by attracting new investors and a broader range of research participants.

The sector has set the following strategies:

- Maximize the return from the efficient investment of levy funds and funds from other sources in research, extension and pre-competitive technical activities;
- Ensure clear policy advice is provided by peak industry bodies to Governments on R&D issues on behalf of the wine industry;
- Ensure the wine industry's research priorities, including relating to a licence to operate are clearly stated and meet national and regional needs across the entire supply chain;
- Dissemination and extension of the outcomes/results of R&D must be efficient and effective in line with industry expectations;
- A cooperative research approach between industry, researchers, funding bodies and Government needs to be fostered; and
- Maximise the efficiency in delivery of the R&D functions of the Australian Grape and Wine Authority.

Maximize the Return from the Efficient Investment of Levy Funds and Funds from Other Sources in Research, Extension and Pre-competitive Technical Activities

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

WFA and WGGA are recognised in the legislation as representative bodies for the Australian Grape and Wine Authority requiring it to be accountable to these bodies and the Australian Government in strategic planning and expenditure of funds.

WFA and WGGA are also committed to ensuring AGWA retains its focus on research funding and maintains the investment of research levies for research activities. The legislation establishing the Authority is clear in that it maintains research funds (including reserves) for R&D activities. However, there is a critical role for the industry representative organisations to undertake an oversight role of the Australian Grape and Wine Authority to ensure that the Authority does not allocate funds from the R&D levies to cross-subsidise market development activities or administration, unless such decisions are requested by levy-payers.

Maintain Funding for R&D Activities for the Australian Wine Sector

Wine industry RD&E is funded by the grape and wine industry through levies and direct investment, the Australian Government through levy co-investment, state governments via research agencies and infrastructure grants, universities and by CSIRO.

The major vehicle for industry RD&E investment is the Australian Grape and Wine Authority (formerly Grape and Wine Research and Development Corporation) funded by 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.

Support for the RDC concept

The Australian Government has in the past demonstrated a commitment to Rural R&D Corporations and R&D in the wine sector, by matching such industry contributions up to a maximum of 0.5% Gross Value of Production.

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

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

WFA and WGGA continue to support investment in R&D through an industry levy matched by Government, with a cap on matching contributions for all statutory levies at 0.5%, managed on behalf of industry by the Australian Grape and Wine Authority.

Funding Allocation Within Levy Funds

The Australian wine industry has a long history of providing levy funds in partnership with the Australian Government to support cooperative endeavors. These funds have been administered through the two former statutory corporations – GWRDC and Wine Australia Corporation – on behalf of industry and Government with the ultimate objective of creating a more efficient and competitive industry.

Whereas the promotional and regulatory levy funds were expended directly by Wine Australia Corporation, the research and development funds were allocated to secondary service providers by the GWRDC on the basis of competitive bids from a range of relevant institutions.

The exception is that, in the past, a significant proportion of the levy funds for R&D have been hypothecated to the Australian Wine Research Institute and the National Wine and Grape Industry Centre (NWGIC) by the then-GWRDC. This occurred because of a perceived need to provide enough funds to give the AWRI administrative and research critical mass to allow it to operate as an independent wine-focused research institute and to try and build capability in the NWGIC.

WFA and WGGA have a position that supports the industry-established research organisation, the AWRI, with sufficient funds to undertake core activities and to harness the maximum extent the resources of all wine industry supportive organisations, including CSIRO, the universities and Departments of Agriculture/Primary Industries, by collaborative and non-duplicative endeavor.

The Maximisation of Funding from Sources Other than Industry Levies

In real terms, wine industry levy funds available for research are declining over time. Therefore, we need to encourage utilisation of resources from a much broader base.

Maintain Research Capability and Capacity

There is a critical decline in viticulture capability in our research institutions. State governments have also significantly pulled out of publically-funded agricultural extension. In addition, declining funding in real terms has meant increased funding pressure on key research agencies. It is important that sufficient funding is available to maintain research capability in key areas.

Ensure that Clear Policy Advice is Provided to Government on R&D Issues on Behalf of the Wine Industry

WFA is actively involved in the National Wine Strategy Implementation Committee which is responsible for the development and implementation of the PISC strategy to ensure wine RD&E is responsive to industry and government requirements and is conducted and delivered in the most efficient and effective manner.

The PISC Strategy was developed to build upon the existing wine RD&E collaborative arrangements so they met RD&E Framework requirements. The strategy has established a process to achieve a set of agreed outcomes. WFA and WGGA need to play an active role in the strategy's implementation to ensure the maintenance of capability and capacity, industry-led research priorities and efficient allocation of R&D resources. The government needs to support this strategy to ensure all participants in R,D&E play their part and meet their commitments.

Ensure that the Wine Industry's Research Priorities are Clearly Stated and they Meet National and Regional Needs

WFA and WGGA need to be actively involved in setting research priorities for the Australian wine and grape sector. This includes having input in the GWRDC Five Year plan and the new Australian Grape and Wine Authority Five-Year Corporate Plan which is currently out for consultation.

Key stakeholders involve the funding providers such as the Australian Government, Wine Grape Growers Australia (WGGA) and Winemakers' Federation of Australia (WFA). Each of these groups is consulted with separately to identify priorities and researchable questions for the coming Five Year R&D Plan. The consultation process recognises the special relationship of the peak industry bodies WGGA and WFA and should serve as a model for future plans. It is important that research priorities from publicly-funded research maintain a focus on national priorities.

We believe it is time that national and regional research priorities are reviewed.

The Need for Research Relevant to the Sector's 'Licence to Operate'

Corporate Social Responsibility (CSR) represents an important dimension in contemporary business practices. The wine sector, both internationally and in Australia, is subject to intense public debate on its social licence to operate due to issues relating to responsible consumption and perceived alcohol-related harms. For the wine industry, this has manifested itself in increasing levels of scrutiny on the CSR commitments of individual companies, pressure from some quarters for increased regulation including taxes and increased government expectations that industry will pro-actively self-regulate and pursue voluntary activities aimed at reducing levels of harm.

Dissemination and Extension of the Outcomes/Results of R&D Must Ensure an Efficient and Effective System in line with Industry Expectations

Research uptake is a priority area in the management and delivery of R&D to the wine industry. There is a wide variety of investment in current programs designed to support uptake.

Key issues surrounding extension include:

1) The importance of having the primary researcher directly involved in extension and research uptake, recognising some are very good at it whilst others are not;
2) The need to acknowledge "no one size fits all" in terms of extension programs, i.e. what works well in a workshop for one project might work better for another project via a field trial etc;
3) Although user-pays has some advantages, will such a policy promote research uptake or inhibit dissemination?

In nearly all primary industries, there are those who want to continually update and upgrade sources of information and intelligence to improve business outcomes. These individuals/companies endeavor to be plugged-in to knowledge and intelligence and often via technology and networks to many and different sources. There are also those who prefer information to be pushed to them and in such cases there is little certainty that the R&D information supplied is received or applied.

The National Wine Extension and Innovation Network has a pivotal role to play in the national coordination of extension.

Intellectual Property Management must give Priority to the Timely Dissemination of Research Results and Uptake of Research by the Australian Grape and Wine Industry

The following policy principles surrounding IP in R&D have been adopted by WFA:

1) The protection and commercial exploitation of IP from publicly[1] funded research will only be pursued if there is a net benefit to the Australian grape and wine industry and a partner willing to take the risk and fund commercialization is identified.
2) Any intellectual property management must give priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry.
3) Ownership of IP should be assigned by an appropriate contractual arrangement between the research funders and the providers, in association with a commercialization partner.
4) The pre-condition for international participation in publicly funded research is that all research results will be made available as a priority to the Australian industry. IP ownership will be on the basis of the negotiated contractual arrangement between the partners.
5) Where benefits accrue from the commercialization of intellectual property developed through publicly funded research, these should be returned for further industry R&D.

[1] Publicly funded research is defined as research funding obtained partially or wholly from government sources or industry levy funds. It does not refer to research funded solely through private investment.

6) Research agencies and other key providers should be encouraged to maintain a focus on R&D and leave commercialisation activities to industry or commercial organisations.

Cooperative research approach between industry, researchers, funding bodies and government needs to be fostered

Each institution, especially those relying on levy funds for core infrastructure, needs to identify its key capabilities with an aim to reduce duplication and increase efficiency in the use of scarce research funds. There is a need for collaboration between institutions to seamlessly integrate grape and wine research and education. Broadly speaking the same principles that apply to international collaboration also apply within Australia and between Australian research institutions. Principally, collaboration should be undertaken only if there is a net benefit to the Australian grape and wine industry and/or to the Australian people.

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

Given the limited (and in real terms diminishing) funds available for wine sector research in Australia, domestic and international collaboration is particularly important.

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

- Commercialization of IP is not the key driver for research in the wine industry. From the industry's perspective, the critical issue surrounding R&D is to make sure any policy does not prevent timely dissemination and application of research results in situ. It is therefore important for potential IP to be identified early on in the research process, along with potential beneficiaries and IP owners, as the IP needs to be made available to the Australian industry.

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

Policy principles surrounding collaboration are[2]

1) International collaboration from publicly-funded research will only be pursued if there is a net benefit to the Australian grape and wine industry. To achieve these following tests must be met:
   a) There must be clear justification of why research is done in a particular country, a particular institution, with a particular investigator, with a particular participant and in a particular community;
   b) The pre-condition for any international collaboration must give priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry.
2) Research by Australian research institutions on behalf of overseas (non-levy payer) interests should only be undertaken if there is a **net gain** to the Australian grape and wine industry. To achieve these the following tests must be met:
   a) Researchers cannot be taken off research if it will impact on meeting project outcomes or the undertaking of new priority research;
   b) The results of the research must be made available to Australian levy payers in a timely fashion.

[2] This policy should be read in conjunction with the WFA Intellectual Property principles

3) Before submission of a collaborative research proposal, there shall be clear agreements on all aspects of the research. These include intellectual property sharing, management of the research process, division of responsibilities, finances, spreading of benefits and burdens, and any other appropriate aspects.
4) Ownership of IP should be assigned by an appropriate contractual arrangement between the research funders and the providers, (and if applicable, in association with a commercialization partner), but must not restrict access by the Australian grape and wine industry to the IP. IP ownership will be on the basis of the negotiated contractual arrangement between the partners.
5) Collaboration cannot be forced and should not be a pre-condition of funding.
6) It is recognised that transaction costs from collaboration can be high and it is important that these be taken into account when establishing collaborative ventures.
7) There are many different forms of collaboration and measurement on the basis of shared publications and joint projects is not always an appropriate measure.

Maximise the efficiency in service delivery of the R&D functions of the Australian Grape and Wine Authority

The Australian Grape and Wine Authority combines the dual responsibilities of funding marketing and promotion activities on behalf of the Australian wine sector and investing research levies on behalf of the funders – Australian grape growers, winemakers and the Australian Government.

The Australian Government has acknowledged that RDC investment decisions are guided by both industry and government priorities and as a jointly funded body, the AGWA needs to be accountable to both levy payers (through the representative bodies, WFA and WGGA) and the Australian government.

Under the legislation establishing the Authority and the Statutory Funding Agreement which will guide its activities, performance and accountability protocols and measures will be established. Statuary authorities have strong governance requirements imposed by legislation and government and industry are increasingly demanding improved performance measurement. Key areas of performance surround:

1) Delivering of objectives in the Strategic plan;
2) Efficient and cost-effective provision of services;
3) Meeting legislated objectives and obligations;
4) Communication with the industry bodies on the development of strategy, priorities and operational issues (primarily, but not limited to, WGGA and WFA) was undertaken in an effective manner;
5) The communication process with WGGA and WFA (and other interested stakeholders) to discuss the outcomes of the Annual Operational Plan (AOP); and
6) The communication process that correlates to the Annual Report period so that stakeholders are aware of performance against the KPIs established for the AOP and Five-Year plans.

The Australian government has stated it would monitor RDC performance in a way that enables ready assessment of outcomes for the whole program, and identification of specific performance problems.

WFA and WGGA consider that due to the dominant role of the AGWA in the landscape of research, development and extension in the wine sector and because of WGGA and WFA's roles as representative bodies under the *Australian Grape and Wine Authority Act* it is appropriate to identify specific policies related to its operations.

Recommendation:

WFA believes the Australian Government needs to support the National Primary Industries Research, Development and Extension (RD&E) Framework to encourage greater collaboration and promote continuous improvement in the investment of RD&E resources nationally and, in particular, to ensure all participants in RD&E play their part and meet their commitments.

It is important that research priorities from publicly-funded research maintain a focus on national priorities although it should be recognised that regional priorities cannot be ignored. The national and regional research priorities are ripe for review.

9. Biosecurity

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

Biosecurity is a shared responsibility between industry, state and national governments. There is also a strong public good in maintaining an effective policy regime. However, it must also be recognized that this regime must also permit imports of planting material in a timely fashion while minimizing risk.

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

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

Government has a clear role to play in this regard.

Germplasm

Agriculture industries depend on the quality of their genetic material in order to improve productivity and quality. The wine sector is no different as it competes in a global market where the attributes of product quality, productivity (including the ability to meet climatic fluctuations), and ability to meet consumer demands underpin profitability. In order for the Australian wine industry to continue to prosper in future, it needs to be successful in an increasingly competitive global market where the average standard of winemaking is very high, margins are tight and regulatory requirements including for truth in product labelling are very strict. This means the industry has to be efficient, innovative and strictly compliant throughout the value chain from grapes to glass.

High quality planting material is fundamental to competitiveness, being at ground zero in the value chain. True-to-type planting material underpins all label integrity claims. Healthy vines optimise production potential, while specifically selected clones can provide a competitive advantage in adaptation to climate conditions and/or the expression of desired characteristics.

Innovation, through breeding and selection, allows for continuous improvement in the choice of planting material. Australia has been fortunate in the past to have a world-leading research organization in the CSIRO to work in this area.

Although demand for vine planting material is currently low, it is critical that Australia maintain a foundation of healthy, best available and true-to-type planting material in order to:

- underpin the supply chain and ensure the integrity and quality of future vine plantings; and,
- Ensure innovation and continuous improvement in the development of best-suited clones for our environment and markets.

There are two types of grapevine foundation planting collections:

- Nuclear collections – an elite collection of carefully selected reference vines in current or likely future commercial demand;
- Germplasm collections – a genetically diverse repository or “library” of all reference material available in Australia.

The Australian wine industry is fortunate to have significant and diverse grapevine foundation assets. Currently the total number of different varieties and clones, including rootstocks, held within various collections around Australia, is estimated to be close to 900, with multiple clones of some varieties. They include reference vines of the most important commercial varieties and clones, with confirmed identity and high health status, original (mother) vines that have been imported into Australia, clones selected through local trials, old or little known varieties of possible research interest and heritage vines including pre-phylloxera material possibly unique to Australia.

The benefits to the wine industry of investment in our grapevine foundation assets are:

- Timely and cost-effective supply of in-demand clones and varieties;
- Greater assurance of varietal and hence label integrity on Australian wine products;
- Access to a diverse range of varieties and clones to enable breeding and innovation;
- Quicker access to best available material in the event of a major replanting requirement;
- Preservation of heritage and unique varieties and clones for future generations;
- A higher overall standard of planting material used in Australian vineyards (including health status and performance characteristics);
- Maintenance of our international reputation for innovation and best practice in supply chain management.

Whilst difficult to quantify, the following example gives an indication of the benefits associated with maintaining these assets.

Chardonnay clonal material planted in Australia up to the 1960s was notoriously fickle in regards to yield as the main clones being used suffered from millerandage or “Hen and chicken”. Although these clones produced good quality wine their low yields meant profitability was low. As demand for Chardonnay increased, growers turned to another Chardonnay clone, 10V1 which was widely available through vine improvement groups and therefore commercial nurseries. 10V1 was imported in 1969 from the UC Davis collection and is now the most widely planted clone in Australia. Assuming an average increase in yield of 10% as a result of half the Chardonnay area planted in Australia changing to the better clone, and an average price per tonne of $300 (which is well below the prices that were being paid during the 1990s), the effect of using the better clone can be valued at $4.5 million per year to grapegrowers.

A similar principle applies to Merlot clones, and indeed to the use of any rootstock that confers benefits in terms of salt or drought tolerance, nematode resistance for example. Small increases in productivity translate into considerable sums at the industry level.

Why do we need to take action?
This significant and valuable genetic resource is threatened, and without urgent attention, much of it will soon be lost or will deteriorate beyond rescue. This is as a result of three key issues relating to the collections:

- Lack of a secure funding source for maintaining collections that is independent of industry cycles;
- Reduced government support and restricted industry access to germplasm collections;
- Lack of strategic leadership and coordination to address problems, maximize efficiencies and protect assets for the future.

In the boom period of the 1990s and early 2000s, demand for improved planting material was so high that vine improvement organisations could barely keep up. There was enough money from cutting sales to pay for the administration of the regional and state vine improvement organisations and for the establishment of a national peak body – the Australian Vine Improvement Association (AVIA). Vine improvement organisations took a lead role in driving the continued supply of healthy, true-to-type planting material, regional trials to identify superior clones and liaison with government over maintenance of and access to germplasm collections. A national elite nuclear collection of specially selected, high health status vines was established in 2005/06 under the auspices of AVIA, with nearly $200,000 in government and industry funding.

Since then, the operating environment has changed dramatically. New plantings have been very low since 2007. This means very little money has been available for funding vine improvement operations.

The AVIA collection is a national asset but is unfunded, relying on the goodwill of the Victorian and Murray Valley Vine Improvement Scheme, the NSW Government and volunteer staff for basic maintenance and survival.

Over the past 10–15 years, governments have withdrawn significant resources from extension, research, selection and education in grapevine improvement as well as from the active maintenance of the germplasm collections. The Tasmanian and Queensland state-owned collections have been removed or mothballed, the New South Wales and Victorian Governments have withdrawn from actively supporting germplasm collections, and there have been no new accessions to the SARDI collection for 15 years. In Victoria and South Australia, the number of FTE staff involved in research, trials, vine health and maintenance with government germplasm collections has reduced by more than 75% from 25 in 1986 to 3.5 in 2013.

Since 2009, the CSIRO and SARDI germplasm collections have been closed to industry after a variety sourced from the CSIRO collection was found not to be as identified (vines believed to be Albarino were found to be Savagnin Blanc). Although no legal action followed in this case, for governance and risk management reasons CSIRO responded by closing their collection to industry. Until this major issue can be resolved, both the CSIRO and SARDI collections (the largest and most diverse in the country) remain closed, and industry has no access to the material they contain – much of which is unique to these collections.

While increasing market access and demand is undoubtedly the top priority in the current industry climate, it is important to ensure that successful marketing efforts can be supported by a reliable, responsive supply of planting material.

If the government does not take active steps to protect and improve the foundations of its supply of grapevine material, it will see the gradual deterioration of this planting material and ultimately a decline in the health, integrity and productivity of Australia's vineyard asset base. Since 1991, the vineyard asset has tripled in size from 60,000 hectares to 170,000 hectares, and many of these vines are reaching an age where they will need to be replanted.

Australia's relatively healthy grapevines and planting source material are also an important competitive advantage that needs to be actively protected. The absence of phylloxera in most grape growing regions means that vines can be planted on their own roots, which limits the expression of viruses. However, as rootstocks are used increasingly to combat drought, nematodes or other issues, the industry's exposure to damaging viruses increases, as does the value of keeping them out of commercial vineyards. In South Africa, losses in production due to Grapevine Leafroll-Associated Virus type 3 in combination with vine mealybug are dramatic and uncontrollable. It is estimated that vineyards in South Africa need to be replanted every 10 years as a result of the damage done by this virus and the rapid spread of it due to the mealybug.

The following scenarios illustrate other potential consequences and costs of not having a source of high health, true-to-type planting material.

If Australia does not maintain its own collection of varieties and clones required in the future, it could theoretically re-import varieties however the costs would be large and time delays significant.

Importation of material from overseas requires up to two years in quarantine and an estimated cost (currently) of $5000, followed by at least three years to produce commercial quantities of cuttings – introducing a five year delay and a significant cost before commercial establishment can even begin – as well as the risk of the plants not surviving. There is also a risk that some overseas collections will deny future access – as happened recently with the Spanish collection. If just two vines per year were taken from a foundation collection held in Australia instead of having to be re-imported (assuming that was still possible), this would save the industry in immediate costs equivalent to maintaining the entire collection for 12 months, while the competitive value of responding up to five years sooner to consumer demands is unquantifiable.

In summary, the lack of national oversight of grapevine foundation resources will lead to:

- Continued deterioration in the integrity and high-health status of existing collections;
- No access to the major government-owned germplasm collections;
- Increasing risk of incorrect identification of material and consequent major losses to growers and wineries and risks to the label integrity program's objectives;
- Continuing reduction in government resourcing of grapevine breeding and selection programs as well as maintenance of germplasm repositories – leading to a decline in R&D and the possible closure of our major germplasm collections;
- Further fragmentation in bodies involved in grapevine propagation and distribution leading to variations in standards, confusion, duplication, loss of assurance of varietal names and origins and likely overall increases in costs to grapegrowers;
- Possible significant delays and costs in obtaining material to meet a future increase in vineyard development – if material has to be re-imported;
- Gradual deterioration in the integrity and health status of grapevine propagation material planted across Australia;
- Slower response to the next up-cycle in the industry as planting material will need to be built from a lower, neglected base;
- Reduced ability to respond quickly to new trends for varieties and clones; and
- Erosion of Australia's international competitive advantage due to its relatively clean planting material and ability to plant with ungrafted vines – as competitors invest more in the integrity and health status of their grapevine genetic assets.

Recommendations:

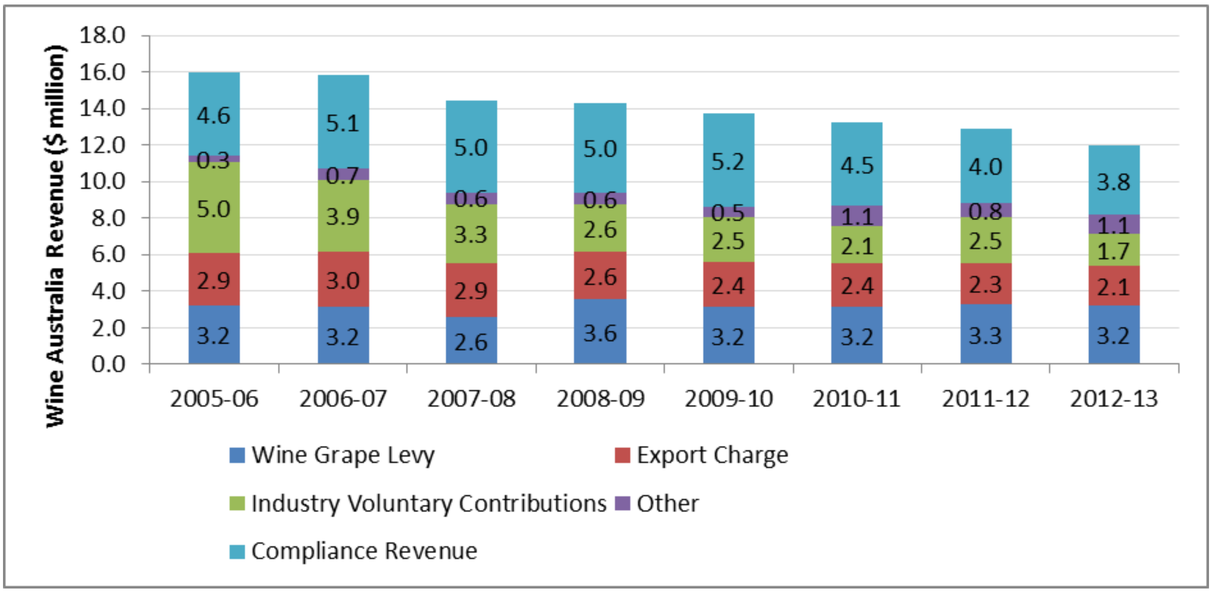
The Australian Government must allocate resources to maintain vital national germplasm collections. These collections should be available for the industry to access and innovate under certain conditions and are a national asset.

10. Accessing International Markets

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

Australian wine at all price points continues to be a globally competitive product and in this regard the sector is not looking for handouts or to restructure or retool. Our plan is about taking charge of our own future and continuing the considerable commitment of industry-sourced funding already in place to open and develop markets through AGWA which is funded by $12 million in annual industry levies, fees and contributions for marketing activities and overheads.

Since 2005/06 the industry-sourced revenue base of AGWA for marketing has been steadily eroded by $4 million per annum impacting both core operating capability (including staffing and offices in key overseas markets) and the reach and impact of our promotional activities aimed at influencing wine buyers, opinion leaders and consumers.



Following close consultation with AGWA and the broader industry, and consideration of the findings of an independent expert review of the competitive challenges the wine industry confronts in traditional and emerging markets (which are included in the attached Actions document), we believe a minimum of $2 million per annum is required over the next three years to supplement AGWA's operating budget. This short term assistance will provide AGWA with the means to restore core marketing capabilities and an appropriate level of global representation.

Global Marketing Activities

To enable AGWA to also undertake the specific in-market activities, a further $7.5 million in 2015/16 and $5.5m in 2016/17 will also be needed. While this support will see the annual marketing budget for AGWA in 2015/16 and 2016/17 exceeding previous levels, we believe this investment, along with the implementation of the other Actions by industry, will deliver uplift in performance and profitability. In turn, this will restore levels of industry contributions and enable the sector to once again meet its own marketing needs by the end of the current Budget cycle. A recent example of the success of this approach and how targeted one-off support can make a difference was the Australian Government's recent investment of $2 million to host Savour Australia 2013. WFA believes more must be done to build on the momentum created by this event.

It is also important to highlight that for many years the sector's marketing activities have been wholly industry funded with no on-going government support, unlike competitor countries in the EU who receive substantial funding for export promotion. The EU, under the Common Agriculture Policy, spent approximately €143 million on promoting wine exports in 2012 and another €171 million in 2013.

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

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

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

1. Establishing a much stronger presence at key trade shows

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

2. Implementing the Food and Wine Strategy

Under its MOU with AGWA, Tourism Australia will invest dollar-for-dollar in activities developed from a jointly created food and wine strategy. The underlying consumer facing campaign (currently in development) seeks to establish a more premium perception of Australian wine and make our food and wine offering more compelling for travelers to and within Australia.

Additional market development investment needs to be channeled to this campaign in order to effectively target consumers in China, the US and the UK.

3. Greater investment in education in key markets

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

4. Visitors Program

The Visitors Program is important for changing the attitudes of international trade and media and establishing a greater understanding of the diversity of Australian wine regions, the quality of our wines and the people who make them. Greater investment in this program would allow us to reach more key influencers and provide a deeper immersion into our wine regions and better overall experiences. In addition, funds could be invested to support regions in up-skilling, and improving visitor experiences.

5. *Domestic wine tourism, social media and regionally-based initiatives*
WFA also supports increased investment in domestic marketplace initiatives and the development with trade of consumer events and activities in capital cities and regional centres. Building the Australian wine category in the domestic market and raising the awareness of wines and regional experiences available from our own backyard must remain a priority if we are to recover share from imports. Such programs could potentially link with other industries, including food and tourism and take full advantage of the recent decline in the Australian dollar against the currencies of importing countries.

WFA is also seeking support for AGWA to develop and execute two new industry-wide initiatives:

- A social media-based platform to promote Australian wine: While many cellar door operators already have successful web-based sales formats, research on the potential of social media and web-based sales platforms can provide WAC with a better understanding of the opportunity for the sector and how best to leverage the category offering online.
- Regional promotions: In partnership with progressive regions, AGWA with the support of the Australian Government to undertake regional promotions in key markets and with key channel customers. This would include getting wine into the hands of consumers with in-store tastings, by the glass promotions, strong branding and in store/on premise collateral.

6. *Savour Australia 2016*
The benefits of government support for staging key events has been evidenced by the success of the recent Savour Australia 2013 which had a significant impact on international demand for Australian wine. The event was a major success that leveraged a government grant with benefits flowing-back to industry and the regions that it supports.

Savour has galvanised the Australian wine industry and restored some much needed confidence. The industry has fed off the excitement generated by the event and is continuing to maintain the momentum. The industry's focus over the next 12 months will be to build on the Savour momentum and grow positive sentiment to get more quality Australian wines on the world's retail shelves and wine lists.

AGWA is building on the overwhelmingly positive feedback from Savour Australia 2013 through a global program of industry-funded educational initiatives, tastings, master classes, trade and consumer events and retail promotions in all our markets over the coming months including the Australia Day tasting in the UK, ProWein in Germany, Aussie Wine Month in Australia, the China National Food, Wine and Spirits Fair, the Wine Australia Trade Roadshow in the US and the in-store tastings with various liquor boards in Canada.

Re-launching Australian Wine in USA
WFA supports additional funding for AGWA to undertake a significant marketing campaign in the United States – a critical market for Australian wines. It is the world's biggest wine market with sales of 3 billion litres valued at US$39 billion in 2012. It has also been Australia's second biggest export market in volume behind the United Kingdom for the last 15 years and number one in value for the last five years.

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

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

Feedback from US distributers suggests that the best opportunity for Australia lies at $US15-$25 segment. Unlocking this opportunity is paramount and requires significant investment.

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

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

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

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

Technical market access

The Green Paper identifies a number of policy suggestions aimed in strengthening Australia's positioning in overseas markets. Maintaining international competitiveness through greater understanding and engagement with overseas markets and competitors is seen as critical to assist government in trade facilitation activities. Technical market access issues are now the key impediment to Australia's competitiveness and profitability on export markets.

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

The WFA strongly supports activity within APEC to reduce certification requirements, harmonise Maximum Residue Limits for agri-chemicals and improve regulatory coherence. In particular, APEC initiatives in the Standards and Conformance Sub Committee, Food Safety Cooperation Forum and Wine Regulatory Forum show tremendous promise and require adequate government support. To progress these initiatives, Australia is hosting a World Wine Trade Group meeting in conjunction with an APEC Wine Regulatory Forum in late 2015. This will require both industry and government support and participation.

The OIV makes non-binding recommendations on a range of viticulture, oenological and regulatory matters relevant to the wine industry. Six of Australia's 10 largest markets are members of the OIV. The OIV recommends international standards for the wine industry including law, regulation, processing aids and additives, Maximum Residue Levels and labelling. The thrust of OIV recommendations are often reflected in European wine law, which emphasises the impact the OIV can have on wine regulation and trade (EU countries produce over 70% of the world's wine).

The World Wine Trade Group This is a group of industry and government representatives with a mutual interest in facilitating international trade in wine and avoiding the application of trade obstacles. Members include Argentina, Australia, Canada, Chile, Georgia, New Zealand, South Africa, and United States of America (with Brazil and Mexico participating as an observer). Key medium-term issues are:

- Consideration of bilateral arrangements between WWTG as a group and a particular market such as China as a means of encouraging deeper engagement on regulatory issues;
- Review and adoption of common principles of good regulatory practice including for methods of analysis;
- Establishment of a MRL working group to feed into APEC work on harmonising agri-chemical MRLs in the APEC region;
- A watching brief and collective action if required on the EU project to measure environmental performance of products and organisations using a lifecycle assessment approach;
- Preparation of material to contribute to the debate on ingredient and energy labelling; coordination of positions in the Codex Alimentarius Commission; and discussion on a possible agreement with China to combat counterfeiting.

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

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

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

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

Government support for industry overseas positions

An interesting suggestion in the Green Paper is for Government to support industry's overseas positions to enhance market access and develop national promotion efforts to increase marketing efficiencies. The wine sector funds collaborative marketing activities with industry levies. This provides some in-market promotional support but suffers from a lack of funding.

In addition, WFA is very active in the market access space. We are active in a number of international forums and work closely with Agricultural Counsellors internationally, and the Department of Agriculture and the Department of Foreign Affairs to reduce technical barriers to trade. However, our ability to deliver in these areas is restricted because of resource constraints. Government assistance to support international industry positions could significantly enhance our capacity and assist our government representatives.

We recognize that the fortunes of the Australian wine sector are inextricably linked to future exports. The ability to compete internationally depends on the cost of production, quality of the wine, brand strength and marketing, and ability to access markets in a competitive and timely fashion. The wine sector is diverse and internationally there are significant variations in the regulation of winemaking and labelling which can create impediments to trade.

In the wine sector, national regulations, the international network of trade agreements, treaties, inter-governmental organisations and industry organisations all contribute to the regulatory framework affecting wine. This forms an intricate and often bewildering matrix that determines domestic regulations for trade in wine.

International agreements often serve as a catalyst and reference point for the formation of regional and national regulations, and often help solve trade disputes between member countries.

Bilateral and multilateral agreements also play a significant role in global regulatory framework of wine. These include: Free Trade Agreements; Commodity specific agreements such as World Wine Trade Group Mutual Acceptance Agreement on Oenological Practices, Bilateral wine trade agreements negotiated between European Union and principal trading partners.

However, many approaches to wine regulation are deeply entrenched in the culture of the sector and the country. Others may be part of a wider set of regulations directed at consumer information or health and safety.

In recent years significant progress has been made in addressing regulatory differences through a number of international agreements including:

- World Trade Organisation agreements;
- European Union's Common Market Organisation for Wine;
- Bi-lateral agreements between EU and non-EU countries;
- World Wine Trade Group agreements; and
- Free Trade agreements.

Specific activities undertaken as part of the wine sector international trade strategy include:

- Monitoring trade issues and barriers;
- Negotiating arrangements to improve market access and streamline importing requirements;
- Harmonising technical requirements to facilitate trade;
- Providing advice and information to relevant Australian Government departments including support for free trade agreement and other negotiations;
- Building relationships with regulators in our key export markets and making representations as necessary;

- Building coalitions with other wine industry associations internationally and coordinating market access activities
- Providing a response capability in the event of adverse developments arising;
- Developing a comprehensive understanding of the regulatory requirements in key export markets; and
- Assisting exporters to resolve specific market access issues.
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Such activities are pre-competitive often requiring collaborative international action with benefits accruing to the whole Australian wine industry. Our aim is to ensure the Australian wine industry is able to respond unimpeded to customer demand for quality Australian wine exports where possible by delivering substantial and meaningful improvements to market access. We work to achieve significant new market opportunities by reducing trade distortions in the global markets.

Roles and Responsibilities

The Department of Foreign Affairs and Trade is tasked with leading negotiations on market access and trade issues by the Australian government. This includes leading the delegation on the World Wine Trade Group (WWTG); coordinating input into the TBT and SPS Committee of the World Trade organisation (WTO); leading Free Trade Agreement (FTA) negotiations on agriculture; and leading multilateral negotiations in the WTO.

The Department of Agriculture (DA) through its Market Access Group inputs to multilateral and bilateral negotiations; and via its Wine Policy Unit actively participates in activities such as WWTG, OIV and bilateral negotiations with the European Commission and develops legislation and regulation when required. DA wine policy is the coordinating body for liaising with Australian posts abroad when issues arise with wine shipments.

The Department of Industry is playing a key role in furthering Australia's wine agenda in the APEC region through its leadership on the Standards and Conformance Sub-Committee. It also has responsibility for activities concerning the International Organisation of Legal Metrology (OIML).

AGWA plays an important role in providing information on regulatory requirements in export markets to exporters; assisting with technical advice to the lead government agencies; alerting DA to any problems in external markets notified by exporters; preparing submissions on FTAs and participating in negotiations as required.

AGWA also plays an important role in funding research both as a tactical response to market access issues and for strategic positioning of the Australian sector to respond to future opportunities and emerging issues.

WFA is responsible for developing industry policy across all these areas and ensuring the industry position is represented by government. WFA also plays a key role in liaison with other economy industry groups and governments to ensure sectorial support for trade and market access initiatives. There is a key technical aspect to this, where WFA provides technical input to the Codex Alimentarius Commission, International Organisation of Wine and the Vine (OIV), Asia Pacific Economic Cooperation (APEC) and World Wine Trade Group (WWTG). WFA also liaises with other commodity groups in Australia to develop, where possible, consistent positions. WFA has also developed an early warning system and monitors forthcoming legislative developments in key markets; coordinates inputs to the World Trade Organisation sanitary and phytosanitary and technical barriers to trade notifications between like-minded countries and bilaterally seeks to lower barriers concerning, in particular, oenological practices and MRLs.

Industry and government are working closely together to try and reduce market access barriers to enhance export opportunities for Australian wine. For the Australian wine sector to return to sustained profitability, it is essential we have a level playing field in major markets.

Major initiatives are under way to harmonise technical barriers that impact on trade including labelling, oenological practices, certification requirements and maximum residue limits. In addition, WFA is very active in the key international fora that determine the shape of international regulations.

WFA would support increased resourcing to address international market access issues and supports the idea that industry bodies are well placed to provide some of this support to our network of Agricultural Counsellors. The technical expertise of industry can and should be used more broadly.

Recommendations:

Critical to the success of Australian agriculture is lifting demand for our produce in key overseas markets and improving market access through a reduction in trade barriers.

For the wine sector, we believe a minimum of $2 million per annum is required over the next three years to supplement AGWA's operating budget. This short-term assistance will provide AGWA with the means to restore core marketing capabilities and an appropriate level of global representation.

To enable AGWA to also undertake the specific in-market activities required to grow demand, a further $7.5 million in 2015/16 and $5.5 million in 2016/17 is needed. In turn, this will restore levels of industry contributions and enable the sector to once again meet its own marketing needs by the end of the current Budget cycle. A further $6 million is required in 2015/16 to deliver a signature and comprehensive marketing campaign to re-launch the Australian category in the key U.S. market.

Technical market access issues are now the key impediment to Australia's competitiveness and profitability on export markets. WFA will continue to support government initiatives in this area. Australia's interests in technical market access issues are best served through strong representation on multilateral bodies, including APEC, Codex Alimentarius Commission, the Organisation de la Vigne et du Vin (OIV) and the World Wine Trade Group.

In particular the opportunity to host regulators from major markets such as Australia hosting the WWTG and APEC Wine Regulatory Forum meetings in 2015/16 is a major opportunity for Australian agriculture to demonstrate the strength of our regulatory system and we should encourage this activity. Again, this is a good example of where other parts of the agriculture sector could follow suit.

An example of where Government support can be of assistance to industry is the current work on Maximum Residue Limits (MRLs) under the APEC Food Safety Cooperation Forum. A pilot project, involving wine as a case study, has been initiated for the purpose of promoting greater harmonisation of pesticide MRL standards. This project can have major benefits for agriculture as a whole.

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

On the issue of Government support for market access, WFA would welcome increased resourcing to address international market access issues and we support the idea that industry bodies are well placed to provide some of this support to our network of Agricultural Counsellors. The technical expertise of industry can and should be used more broadly.