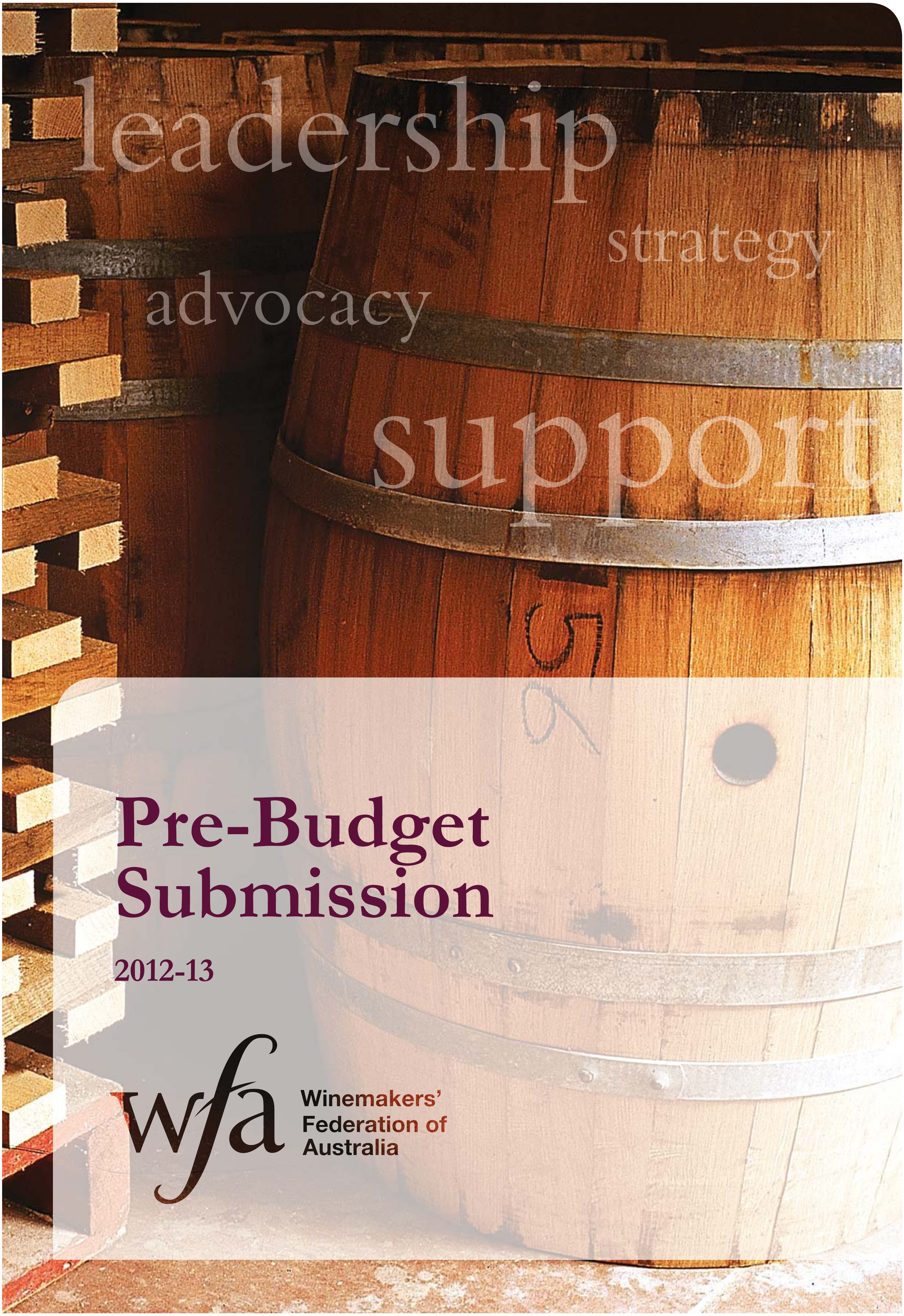

Pre-Budget Submission

2012-13

Winemakers' Federation of Australia

FROM THE PRESIDENT

The Winemakers' Federation of Australia's Federal Pre-Budget Submission identifies a number of priority areas where the Australian Government can assist the wine sector as it transitions within a complex Australian and global economy that itself is changing.

Given the range of challenges confronting Australia and the wine sector, a new paradigm, vision and spirit of entrepreneurism is required from industry and political leaders.

While there is evidence of some modest reforms, challenges remain for all Australian industries, notably the record high exchange rate. How those industries emerge from a period of economic upheaval will be determined by decisions made today.

WFA believes the Australian Government can assist by delivering opportunities, reducing barriers to access those opportunities, and partnering with industries to provide the best chance of long-term security.

The dangers of a two-speed economy remain. Now is the time to ensure Australia is supporting all of the important, viable industries that contribute to the nation's economic health.

Peter Schulz
President

INTRODUCTION

Who we are

The Winemakers' Federation of Australia (WFA) is the peak national body for Australia's winemakers and plays a significant role in the development of policy that directly and indirectly benefits the wine sector.

WFA works to create an environment for wine businesses to be sustainable and viable and to lift the profile of Australian wine. In the current environment this includes a particular focus on wine and grape oversupply, taxation policy, and meeting our social obligations as alcohol producers and our environmental obligations as land users.

WFA was a partner in developing the *Wine Australia: Directions to 2025* strategy for the sector's future (released in 2007) and with the subsequent and ongoing Wine Restructuring Action Agenda, which seeks to help wine businesses transition to new thinking and new business models.

The Federation's activities are diverse but centred around our core aims of providing leadership, strategy, advocacy and support for our members.

Wine's contribution to the national economy

The wine sector began a significant growth phase in the 1980s when it recognised that future opportunities were in table wine and export markets. The next two decades featured strong production and export growth, substantial investment, and high levels of innovation. By 2010-11 wine was Australia's fourth largest rural export, with export sales of nearly $2 billion.

The sector also has become a major employer, particularly in regional areas. ABS Census data indicate that direct employment in grape growing and wine making was close to 30,000 in 2006. Once allied industries, including tourism, are taken into account, this number doubles.

A snapshot of the Australian wine sector is included here. A more detailed analysis of its contribution to Australia is included as an addendum to this submission.

Snapshot of the Australian Wine Industry

Wine Producers			
Wineries		Value	% change over last 12 months
2010	number	2 477	2%
# Increase	number	57	
Wineries by Size of Crush (2010)			
< 500 tonnes	number	2,169	2%
500-4,999 tonnes	number	180	0%
5000-9,999 tonnes	number	22	5%
>=10,000	number	23	-4%
Unspecified	number	83	11%
Direct Employment (2006 & change from 2001)			
Grape Growing	number	11 000	-30%
Wine Making	number	16 955	17%
Viticulture			
No of Regions by Vineyard Area (2010)[1] (% increase between 2008 & 2010 data, 2009 n/a by region)			
>1000 Hectares	number	25	-4%
500-999 Hectares	number	15	-6%
<500 Hectares	number	51	2%
Winegrape Crush			
2010	'000 tonnes	1 603	-7%
Winegrape Price			
Australian average, all varieties (2010)	$	413	-11%
Environment			
Water Use (2007-08)			
Megalitres per hectare	ML	2.8	0%
Beverage Wine Production			
2010	million litres	1 142	-3%
Sales & Trade			
Domestic Sales - Volume			
2010-11	million litres	464	-1%
Domestic Sales - Value			
2009-10 (2010-11 not yet available)	$A million	2 123	8%
Imports - Volume			
2010-11	million litres	67	5%
Imports - Value			
2010-11	$A million	471	3%
Exports - Volume			
2010-11	million litres	727	-6%
Exports - Value			
2010-11	$A million	1957	-10%
Exports - Value per Litre			
2010-11	$/litre	$2.69	-4%
Exports as % of Total Farm Crop Exports (value)[2]			
2010-11	%	11%	
Wine Exports' Ranking in Value of Total Crop Exports[2]			
2010-11	ranking	2nd	
Australian Wine's Contribution to Value of World WineTrade (2010-11)			
Ranking	ranking	4th	
%	%	6%	
Tourism			
Wineries with Cellar Doors (2010)	number	1 693	3%
Visits to Wineries by International and Domestic Visitors (2009)	'000	4 765	
Consumption			
Wine Consumption Per Capita (litres)			
2009-10	litres	30.4	4%
Wine Consumed with Food			
Bottled table wine (2009)	% of respondents	90%	
Taxation			
Net Wine Equalisation Tax 2011	$A million	747	-<1%
Goods and Services Tax 2008	$A million	369	

Sources: *Australian & New Zealand Wine Industry Directory, ABS 2006 Census of Housing & Population, ABARE Commodity Statistics, Food & Wine Tourism 2009 - Tourism Research Australia, ABS Domestic Sales and Import statistics and AWBC Export Approval Database via AWBC Winefacts Statistics; ABS Catalogue No: 4307.0.55.001 Apparent Consumption of Alcohol, Wine Australia, Wine Intelligence 2009, Australian Government.*

1. Regions include the remainder of zones not covered by regional definitions

2. ABARES estimate

EXECUTIVE SUMMARY OF RECOMMENDATIONS

The Winemakers' Federation of Australia has identified nine priority areas that provide a pathway of partnership with the Government as the wine sector undergoes a period of transition.

Wine Restructuring Action Agenda

In November 2009, WFA and the other national wine organisations launched the Wine Restructuring Action Agenda (WRAA) to encourage and assist the sector to confront the reality of grape and wine oversupply. The key messages at that time were that:

- Structural surpluses of grapes and wine were damaging the industry by devaluing the Australian brand, entrenching discounting and eroding profitability.
- At least 20% of bearing vines were surplus to requirements and the problem was not restricted to specific regions, varieties or price points.
- Australia could not compete in the global commodity wine market and needed to change its product mix to focus on sales that earn viable margins.
- The sector's rapid growth in the 1990s had added some vineyards of questionable value and even undermined the integrity of some regions.

Two years later modest progress is being made. An estimated 14,000 hectares of bearing vines have been removed and the average price of Australian wine exports is increasing slowly. However this is not sufficient to suggest the "oversupply problem" has passed.

It must be noted that although the last vintage was one of the most disease-affected in more than a decade, it was still roughly equivalent to the crush of the previous year. Removals to date have not been sufficient in cool and temperate areas.

The wine sector accepts that many of the factors behind the present structural adjustment challenges are of its own doing and its responsibility to correct. That is the guiding rationale behind WRAA.

However, the most significant factor impacting industry fortunes is exchange rate appreciation, which is of course beyond industry's influence.

This submission argues for a range if targeted initiatives that, in large part, are designed to redress some of the debilitating impact of negative exchange rate movements on trade-focused industries such as wine.

TRADE

Export Market Development Grants

Budget Need:

A doubling of the overall EMDG program allocation and re-opening of applications to those exporters who have exhausted their access to the program for specified target markets, including removal of the seven-year timeframe.

Indicative Cost:

$150 million to double the overall scheme available to all industries.

Market development

Budget Need:

A Government commitment of $3 million per annum for three years, commencing July 2012, to match Wine Australia's contribution to new market development programs in emerging markets.

Indicative Cost:

$3 million per annum, paid for through identified savings in this Pre-Budget Submission.

ENVIRONMENTAL RESPONSIBILITY

Budget Need:

Underutilised or unexpended training funds earmarked for rural skills development within the Department of Education Employment and Workplace Relations be transferred to DAFF to ensure the FarmReady program has adequate funding to meet the breadth and scope of its objectives.

Indicative Cost:

Doubling of the $34.4million allocation to the FarmReady program.

DATA AND INFORMATION SERVICES

Budget Need:

Return ABS funding and resources to previous levels to allow it to continue to provide the foundation data that underpins much of the wine industry's key decision making.

Indicative Cost:

$750,000 annually for the wine sector foundation survey, funded though savings identified in this Pre-Budget Submission.

TAXATION

Budget Need:

An Australian Government commitment to:

- No overall increase in the total tax revenue from the wine sector.
- No use of tax or artificial minimum pricing measures as a lever for health reform.

Indicative Cost:

No additional cost.

Budget Need:

Redefine WET Rebate legislation to rule out multiple claims on blended wine.

Indicative Savings:

Estimated savings of $35 million, providing Government with the money required to support WFA's expenditure requests.

RESEARCH AND DEVELOPMENT

Budget Need:

Maintain dollar-for-dollar matched funding from the Commonwealth for wine sector R&D.

Indicative Cost:

No additional cost.

TOURISM

Online and direct marketing strategies

Budget Need:

In line with the objectives and goals of the *National Wine Tourism Strategy*, provide funding to assist small and medium winery tourism enterprises to develop and utilise relevant online marketing tools and programs in partnership with national and state tourism organisations and industry bodies.

Provide funding to develop and deliver tourism-ready programs for small and medium wineries with the capacity to offer packaged experiences.

Indicative Cost:

$50,000 per region, piloted in Australia's top five regions. Total $2.5 million.

Consumer trends and expectations

Budget Need:

Increase funding to Tourism Research Australia (TRA) for consumer research into wine and food tourism and include specific questions in the annual NVS and IVS surveys.

Consider the establishment of TRA as an independent body to increase partnership opportunities with State and Territory Governments and industry bodies.

Indicative Cost:

$200,000

Tourism accreditation

Budget Need:

Provide grant funding to the wine sector (and other tourism sector organisations) to develop appropriate accreditation programs that fit within the NTAF.

Indicative Cost:

$175,000 per industry sector.

COMPETITIVENESS

Budget Need:

The Australian Government (and where necessary State Governments through COAG processes) to give full consideration to the current state and needs of the wine sector, and its importance to the Australian economy, when considering policy decisions that could impact on the viability of winemakers and grape growers.

Key issues include:

- The effect of the *Competition and Consumer Act* on the wine sector
- Labelling
- Urban encroachment / right to farm
- Route to market
- Workplace flexibility
- Liquor licensing

Indicative Savings:

Potential realised and prospective benefits to the Australian economy of over $1 billion (based on estimates from Productivity Commission December 2011 Discussion Draft of the *Impacts of COAG Reforms).*

PACKAGING

Budget Need:

WFA submits that the Australian Government should reject proposals for a national Container Deposit Scheme.

Indicative Saving:

The *Packaging Impacts Consultation Regulatory Impact Statement* on future packaging waste options (which was commissioned by all Australian governments) found the cost to the Australian community for a national CDL would be between $1.4 billion and $1.8 billion a year.

DUTY FREE CONCESSIONS

Budget Need:

Australia amends its Duty Free Concessions for alcohol to allow for one litre of spirits and 4.5 litres of wine or beer, in line with the most common international standards.

TRADE

Wine is Australia's fourth largest rural export, worth nearly $2 billion a year. It contributes in excess of $5.5 billion to the Australian economy and is responsible for more than 30,000 jobs directly and another 30,000 indirectly.

However, exports have fallen in recent years, in no small part because of competition from emerging New World producing nations that enjoy exchange rate and other economic advantages and strong support from their governments.

There are two specific initiatives that the Australian Government can support to help the Australian industry to reverse the sales trend and retain its position as a global leader.

Figure 1: Top producers of wine in the world, 2007

Country	Wine production (ML)1	% of world	% change from 2006
Italy	4,598	17.3	-11.6
France	4,567	17.2	-12.4
Spain	3,476	13.1	-8.9
USA	1,987	7.5	2.2
Argentina[1]	1,505	5.7	-2.2
China[1]	1,200	4.5	0.0
Germany	1,026	3.9	15.0
South Africa	978	3.7	4.1
Australia	962	3.6	-32.5
Chile	823	3.1	-2.6
Russia	728	2.7	15.9
Portugal	607	2.3	-16.5
WORLD	**26,599**		**-6.1**

Source: *OIV - Situation of the world viticultural sector in 2007* [(1)] *OIV estimate.*

Figure 2: Top exporters of wine in the world, 2007

Country	Wine exports (ML)	% of world	% change from 2006
Italy	1,851	20.7	0.6
France	1,525	17.0	3.6
Spain	1,508	16.9	5.2
Australia	786	8.8	3.4
Chile	610	6.8	28.7
USA	423	4.7	12.5
Argentina	360	4.0	22.8
Germany	354	4.0	10.7
Portugal	341	3.8	17.6
South Africa	313	3.5	14.9
WORLD	**8,945**		**6.8**

Source: *OIV - Situation of the world viticultural sector in 2007*

Export Market Development Grants

The successful Export Market Development Grants (EMDG) program offers clear and tangible returns to the Australian economy and warrants even greater support. Successive reports have found justification for it to be expanded and for many of the artificial "checks and balances" to be removed or streamlined.

The wine sector has been a major participant in the program, averaging around 250 recipients each year. Grants have allowed many small and medium winemakers to develop and promote their products, providing a direct return to the Australian economy valued at over $200 million each year.

In the 2008 Review of the Export Market Development Grants Scheme, Lateral Economics noted that: "The wine industry is a valuable export success story for Australia and doubtless there are many reasons for this, including the role played by the EMDG Scheme. … Indeed, in the 2006–07 grant year, there were 137 wine-related EMDG grant recipients in South Australia (involving some $4.7 million in grants); followed by 52 in Victoria ($1.8 million), 45 in Western Australia ($1.2 million) and 38 in New South Wales ($1.6 million)."

However, it must be recognised that it takes up to five years to grow a market to a sustainable level of profitability, meaning many winemakers exhaust their EMDG funding before being able to establish themselves in new markets. WFA believes it is time to re-think the criteria for EMDG funding to ensure its value is maximised.

Budget Need:

A doubling of the overall EMDG program allocation and re-opening of applications to those exporters who have exhausted their access to the program for specified target markets, including removal of the seven-year timeframe.

Indicative Cost:

$150 million to double the overall scheme available to all industries.

Market development

Extending our wine presence and reputation globally is the best way to recapture a price premium for Australian wine and ultimately ensure a sustainable future for the sector.

This will require increased investment in Australian category marketing; indeed it is an imperative, given the investments our competitors are making, with government support.

For example:

- The European Union will provide the equivalent of AU$1.1 billion to support European wine promotion over the next five years.
- The US provided the equivalent of AU$8.5 million in 2009 to help its exporters promote wine.
- SOPEXA (France), through government support, will invest more on wine promotions in one market – China – in the next 12 months than the total global Wine Australia investment.

In recent years Wine Australia has allocated $3 million from its annual levy funding from the sector to support market development and it will continue to do so, despite total levies falling as export sales fall. However, strategy development indicates that an investment of $6 million p.a. is required to be able to implement the program and activities appropriate for a renewed market development push.

The wine sector is thus seeking a commitment from the Australian Government to match its funding of $3 million p.a. for the first three years of the strategy. Over that period the sector will review methods to raise additional funding and, if appropriate, seek to raise statutory levies.

Budget Need:

A Government commitment of $3 million per annum for three years, commencing July 2012, to match Wine Australia's contribution to new market development programs in emerging markets.

Indicative Cost:

$3 million per annum, paid for through identified savings in this Pre-Budget Submission.

ENVIRONMENTAL RESPONSIBILITY

WFA has developed Entwine Australia, a voluntary national environmental assurance scheme that allows winemakers and grape growers to receive formal certification of their practices according to recognised standards. Accreditation ensures a winery's energy efficiency and carbon footprint are monitored effectively, with as little electricity, water and waste generated as possible.

Entwine signifies to consumers across the world that Australians are leading the world in producing sustainable wine and being wholly accountable for their actions. It also assists importers in making responsible decisions as part of their corporate social responsibility.

Entwine has attracted more than 400 members since its launch in December 2009 and continues to expand. However, a key to its success has been grower access to the FarmReady training program administered by the Department of Agriculture Forestry and Fisheries (DAFF).

The previous funding cycle was extinguished three months into the financial year, denying the opportunity for other businesses to participate. It is essential for the FarmReady program to be funded to a level that meets demand.

The agricultural sector is presently a poor user of the complex, metro-focussed and unwieldy VET system, yet has strong demand for short-course intense training as provided by State DPIs and DAFF.

Budget Need:

Underutilised or unexpended training funds earmarked for rural skills development within the Department of Education Employment and Workplace Relations be transferred to DAFF to ensure the FarmReady program has adequate funding to meet the breadth and scope of its objectives.

Indicative Cost:

Doubling of the $34.4million allocation to the FarmReady program.

DATA AND INFORMATION SERVICES

The industry's ability to affect an ordered and informed restructure is under threat due to reduced funding of the Australian Bureau of Statistics (ABS), which provides a number of data collections to the sector on a user-pays basis.

Already the monthly domestic sales collection has become quarterly and the important foundation data set, the annual vineyard survey, is again under threat.

The wine industry has relied on this foundation data for more than 40 years and to lose it now would have a serious impact on planning capability, risking misaligned investment outcomes.

WFA understand that the ABS faces its own pressures to meet growing demand within budget restraints, but there is no other source of this data because the ABS is the only national agency with the legislative power to ensure survey responses and thus provide comprehensive and reliable information.

The full range of ABS statistics (wine grape crush, wine production, domestic sales, and wine inventories) is used for planning, benchmarking, forecasting and decision-making by winemakers, grape growers, state and regional associations, industry analysts, the financial community, research organisations, Government departments and the media.

Budget Need:

Return ABS funding and resources to previous levels to allow it to continue to provide the foundation data that underpins much of the wine industry's key decision making.

Indicative Cost:

$750,000 annually for the wine sector foundation survey, funded though savings identified in this Pre-Budget Submission.

TAXATION

There are strong economic and social policy arguments against increased taxation of wine. It would be counterproductive as a revenue raiser and ineffective as a weapon against alcohol abuse.

Australia already pays the highest domestic wine taxes of any wine producing nation and further increases would penalise and directly inhibit the sustainability of a $2 billion export industry that directly and indirectly employs up to 60,000 people, mainly in regional Australia.

In particular, higher taxes would limit the ability of struggling businesses to make the restructuring and investment commitments needed to deal with an ongoing oversupply of wine and grapes that is depressing prices and damaging Australia's international reputation.

The sector acknowledges concerns around excessive alcohol consumption in Australia, but emphasises that there is no evidence to support claims that increased taxation and other pricing measures, such as minimum pricing, would help address this.

The WFA taxation position is:

- No overall increase in the total tax revenue from the wine sector.
- Reform of the WET Rebate to remove unintended recipients and alleviate unintended consequences of the system that are distorting supply decisions.
- No use of tax or artificial minimum pricing measures as a lever for health reform, as non-price measures better target hazardous consumption.
- Maintenance of the differential tax rates for wine, beer and spirits (ie, no "equivalency") to reflect the significant differences between wine and other forms of alcohol.

In line with the second point above, WFA has successfully worked with the Australian Taxation Office to ensure only legitimate activities and businesses have access to the Rebate.

According to the Australian National Audit Office[1], activities undertaken by the ATO (at the urging of WFA) to address anomalies that were undermining the integrity of the WET Rebate have saved "tens of millions of dollars". In addition, significantly larger compliance activity increased tax liabilities by $8.3 million in 2009-10.

From ANAO figures, WFA estimates that its work with the ATO on compliance and the identification of illegitimate activities resulting in Tax Rulings have provided Government savings of over $35 million in the last two and half years.

Budget Need:

An Australian Government commitment to:

- No overall increase in the total tax revenue from the wine sector.
- No use of tax or artificial minimum pricing measures as a lever for health reform.

Indicative Cost:

No additional cost.

Budget Need:

Redefine WET Rebate legislation to rule out multiple claims on blended wine.

Indicative Savings:

Estimated savings of $35 million, providing Government with the money required to support WFA's expenditure requests.

RESEARCH AND DEVELOPMENT

WFA believes research and development will play a critical role in the wine industry's future, particularly in the areas of viticulture, oenology and market development.

Our priority is to ensure that returns from R&D activities are maximised and driven by industry needs. In partnership with Wine Grape Growers Australia (WGGA), we have established the Innovation Policy Committee to ensure R&D, especially that funded by industry levies, delivers cost-effective outcomes.

As with other agricultural industries, the wine sector is characterised by a large number of small operators. It was recognition of their inability to undertake significant R&D on an individual basis that motivated the government to establish the RDC model and to establish the dollar-for-dollar matching principle.

Budget Need:

Maintain dollar-for-dollar matched funding from the Commonwealth for wine sector R&D.

Indicative Cost:

No additional cost.

[1] Administration of the Wine Equalisation Tax 2010-11, Performance Audit Report No.20. Australian National Audit Office, 14 December 2010

TOURISM

Wine and food tourism continues to grow strongly as domestic and international visitors recognise the range and quality of Australia's wine and produce, but Australia has yet to establish itself as a global culinary tourism destination.

That is the primary aim of the *National Wine Tourism Strategy* released by WFA in August 2011. The strategy, entitled *Harnessing the tourism potential of wine and food in Australia 2020*, was the result of a major industry project supported by the Australian Government through a TQUAL Grant.

The strategy acknowledges the importance and potential of tourism for many Australian wineries, but also highlights the need for new skills and a new approach. In particular, wineries need to develop experiences that can be marketed effectively to broader consumer segments.

WFA encourages the Government to:

- Prioritise wine and food tourism TQUAL Grant applications that meet the core objectives of the *National Tourism Strategy 2020* and the *National Wine & Food Tourism Strategy.*
- Establish Commonwealth-state-local partnerships to develop DMPs for key national destinations, ensuring they work across portfolios and levels of government.

In this Budget, there are three specific initiatives that warrant support.

Online and direct marketing strategies

The *National Wine Tourism Strategy* notes that wineries are under-represented in online marketing platforms and their uptake of digital technology for effective visitor engagement is fairly poor.

As global consumer preferences shift increasingly to the use of online search, social media, online bookings and mobile applications, education to maximise this channel is vital. Very few wineries participate fully in the tourism distribution channel due to a lack of knowledge on product packaging and bundling.

Budget Need:

In line with the objectives and goals of the *National Wine Tourism Strategy,* provide funding to assist small and medium winery tourism enterprises to develop and utilise relevant online marketing tools and programs in partnership with national and state tourism organisations and industry bodies.

Provide funding to develop and deliver tourism-ready programs for small and medium wineries with the capacity to offer packaged experiences.

Indicative Cost:

$50,000 per region, piloted in Australia's top five regions. Total $2.5 million.

Consumer trends and expectations

Key to developing relevant tourism experiences is a thorough understanding of visitor expectations by market segment and a mechanism to evaluate satisfaction levels, value and visitor composition in key wine tourism regions. *The National Visitor Survey* (NVS) and *International Visitor Survey* (IVS) have the capacity to provide this information.

Budget Need:

Increase funding to Tourism Research Australia (TRA) for consumer research into wine and food tourism and include specific questions in the annual NVS and IVS surveys.

Consider the establishment of TRA as an independent body to increase partnership opportunities with State and Territory Governments and industry bodies.

Indicative Cost:

$200,000

Tourism accreditation

WFA acknowledges the importance of the *National Tourism Accreditation Framework* (NTAF) and the validity of a national TQUAL logo to identify quality tourism operators. Wineries have traditionally had low representation in tourism accreditation programs, but the NTAF may provide a framework for the wine industry to develop a relevant structure in conjunction with existing accreditation programs to encourage uptake and streamline administration.

Budget Need:

Provide grant funding to the wine sector (and other tourism sector organisations) to develop appropriate accreditation programs that fit within the NTAF.

Indicative Cost:

$175,000 per industry sector.

COMPETITIVENESS

WFA is concerned that a number of current issues and policy discussions could have a detrimental impact on the wine sector's future viability.

The effect of the *Competition and Consumer Act 2010* on the wine sector

WFA views diversity of ownership in the wine marketing and distribution industry as in the best interests of consumers.

However, retail competition is dominated by the two major retailers, Woolworths and Coles, which continue to expand their ownership of total liquor sales. It is estimated they now control over 70% of the wine sales market and both have indicated plans to expand the "big-box" stores concept (First Choice and Dan Murphy's) over the coming decade.

In addition, Woolworths last year acquired the successful online wine retailer Cellarmasters, delivering it full vertical ownership through the wine supply and value chain. The purchase included the ownership of Dorrien Estate (Australia's largest small-batch winery) and Vinpac (bottling, packaging, storage, filtration and testing services) amongst many other logistic and marketing businesses.

Coupled with this expansion, the major retailers have significantly increased their penetration, promotion and in-store display of private home brands, carrying a variety of labels and names and using the wine sector's intellectual property and capital.

The *Trade Practices Act 1974 (Cth)* originally contained Australia's "anti-competition" provisions. These are now provided in the *Competition and Consumer Act 2010 (Cth).*

Historically the bringing of successful action under the Act has been problematic in the Australian context. To ensure appropriate balance is maintained in oligopoly markets, the principles other countries have taken may be worthy of further Government analysis and consideration.

Labelling

Labelling Logic, a report on food labelling law and policy, was released last year by Dr Neal Blewett AC. It contained a series of recommendations that would significantly impact the alcohol sector, including:

- Pregnancy warnings (Recommendation 25)
- Energy content to be mandated (Recommendation 26)
- Warnings as part of broader health campaigns (Recommendations 22 & 24)
- Minimum Font Size, Contrast Levels and Boldness for warning messages and allergens etc. (Recommendations 44-47)
- A clear "Made in Australia" terminology and existing label compliance (Recommendations 42 & 47)

A detailed response to the report's recommendations submitted to the Government by the National Alcohol Beverage Industries Council (NABIC) contested these recommendations, based on the evidence that it would not result in behavioural change.

In addition to critiquing several of the recommendations made by the report, the NABIC[5] response suggested the Government focus on engaging directly with consumers regarding their behaviour, by providing targeted interventions for high-risk sub-groups. It also recommended that the Government:

- Build on the existing DrinkWise investment and achievement and create a true partnership between government and industry by providing support and increased funding.
- Devise a government-sponsored package to promote understanding of standard drinks as a core part of an education strategy.
- Explore extended barcode labelling as an efficient means of providing additional information to consumers.
- Develop a few specific "greenfield" ideas to target at-risk behaviour that are
  - in the National Drug Strategy
  - supported by public opinion as shown in the National Drug Survey and Preventative Health Agency Report.

Amongst these we would consider a focus on brief interventions by GPs and reducing recidivism amongst drink drivers.

- Leave on-premise signage as a state-based issue, and not part of this response.
- Publicly release the FSANZ 2009 report provided to the Blewett Review and Food Regulation Ministerial Council.

It was concerning to see such an influential and important document as the Blewett Review call for the introduction of warning labels on alcoholic beverages, yet at the same time claim that more research needs to be conducted to determine whether labelling is an effective intervention measure. This echoes the continuous calls from public health groups to introduce large graphic warning labels without any sound evidence. Such a move would do little to change behaviour, yet would impose significant burdens on producers to include additional information on increasingly space-constrained labels.

Urban encroachment / right to farm

Highlighted most recently in the Barossa Valley and McLaren Vale, but also contentious in the Hunter Valley, Margaret River, Orange and Mudgee wine regions, the expansion of residential areas or minerals extraction into land used for traditional agricultural industries creates conflict.

Some of Australia's key wine tourism regions are currently under threat from residential or mining interests, through proposed developments or operating mines that divert the local labour force and absorb tourism accommodation stock which impedes visitors from staying overnight.

Route to market

There are a number of pressing issues in relation to route to market.

- The potential exists for heavy vehicle freight charges to significantly penalise rural industries.
- Degradation of rural infrastructure and its inter-connectedness to city is creating inefficiency in supply chain logistics.

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[5] www.wfa.org.au/resources/1/Submissions/Blewett_Review_submission.pdf

COMPETITIVENESS continued

- The ability of our wharves to efficiently cope with exports, especially in light of the minerals boom, is compromising export delivery orders.
- Different rules and regulations on weight limits and truck carrying capacity across states impacts on productivity.

Workplace flexibility

Rigid employment conditions impact on employability levels in a weekend-focussed, cellar-door business and midnight picking of grapes.

Wine tourism contributes significantly to local economies, providing jobs for local people and attracting visitors to regions who spend money within the community. Labour supply and skills development are key priorities for the sector as pressure from other industries threatens to erode the labour base and increases in wage loadings for weekend workers affect a winery's ability to employ and retain skilled staff.

There have been ongoing issues of concern arising from the award modernisation process. Many small businesses in hospitality and tourism are now captured by awards and conditions not suited to their operations, which has increased their labour costs. The award modernisation phase-in time has helped, but is not sufficient to alleviate the full additional cost impact. In a 24/7 industry, many businesses have seen significant increases in penalty rates, which magnify any increases in the minimum wage.

It is essential the review of the *Fair Work Act* finds ways of accommodating the flexibility required in hospitality and tourism sectors, whilst maintaining both sustainable businesses and reasonable wages and conditions.

Liquor licensing

In the Australian Government response to the *Productivity Commission Annual Review of Regulatory Burdens on Business: Business and Consumer Services*, the Government accepted in principle that "the Council of Australian Governments should develop and implement mutual recognition arrangements in respect of Responsible Service of Alcohol training as soon as possible".

Variations in Responsible Service of Alcohol certification between states are an encumbrance to wineries at interstate trade and promotional events.

The frequent mobility of winery and hospitality personnel to undertake their jobs requires that RSA certification received in any state should be recognised nationally.

The issue of universal acceptance should be resolved quickly to avoid the current cost impediments and unnecessary red tape encountered by industry.

Budget Need:

The Australian Government (and where necessary State Governments through COAG processes) to give full consideration to the current state and needs of the wine sector, and its importance to the Australian economy, when considering policy decisions that could impact on the viability of winemakers and grape growers.

Indicative Savings:

Potential realised and prospective benefits to the Australian economy of over $1 billion (based on estimates from Productivity Commission December 2011 Discussion Draft of the *Impacts of COAG Reforms).*

PACKAGING

A national Container Deposit Scheme is being considered by the Environment Protection and Heritage Council[2]. WFA submits that the Government should reject such a proposal, in line with evidence already presented to the Ministerial Council.

A deposit on glass beverage containers has the potential to dampen sales, and thus business income, while having little impact on the waste stream.

KESAB (Keep South Australia Beautiful) statistics[3] show that beverage containers contribute just 2.58% to the waste stream nationally. In the most recent KESAB Wave Report, of the 1.331m^3 volume of litter collected from the 151 sites, glass items accounted for 0.054m^3 in estimated litter volume and wine and spirits glass 0.003m^3, down from 0.007m^3 in the previous report – a miniscule amount accounting for only 0.02% of the total volume of litter collected.

Against this, ACIL[4] estimates that:

- 767-1695 direct jobs would be lost as a result of any national container deposit scheme
- retail prices would increase by 12-28 cents per litre, generating a volume hit of 3.48-8.07% for wine beverages.

Over 66% of wine is produced by companies that are signatories to the *National Packaging Covenant* (NPC) and so report annually against the goals, targets and KPIs of the Covenant and submit their own aims and achievements.

Budget Need:

WFA submits that the Australian Government should reject proposals for a national Container Deposit Scheme.

Indicative Saving:

The *Packaging Impacts Consultation Regulatory Impact Statement* on future packaging waste options (which was commissioned by all Australian governments) found the cost to the Australian community for a national CDL would be between $1.4 billion and $1.8 billion a year.

[2] 18th Meeting of EPHC Communiqué

[3] KESAB Wave 46 Litter Stats Report (Sept 2009) and Wave 45 Litter Stats Report (June 2009)

[4] National Container Deposit Scheme Impacts: Projected changes in Australian retail volumes and associated employment impacts by beverage category, ACIL Tasman, September 2011

DUTY FREE CONCESSIONS

In 2009, the Government closed a loophole that allowed pre-mixed spirits (commonly known as alcopops) to avoid paying the normal taxation for spirit-based products. WFA submits that another tax loophole was created in 2005 when the Duty Free Concession was increased from 1.125 litres to 2.25 litres of alcohol, and that this too should be reviewed.

The change was budgeted by Treasury to increase foregone revenue by $17 million a year in 2005 dollars. With biannual CPI increases in spirit excise and growth in Australian and international travel[6], the figure in current dollars could fairly be estimated at a significant $25 million a year. Just as significant are:

- the impact of lost sales by hotels and bottle shops in Australia due to people buying duty free
- the inequality of allowing tax concessions to business travellers and high income earners who can afford to travel regularly, while lower income earners do not have the same opportunity.

New Zealand followed Australia's lead in 2007 to remain competitive. However, WFA submits that both countries would be better served by returning to New Zealand's previous regime, which allowed for the purchase of one litre of spirits and 4.5 litres of wine (six bottles) or beer (12 cans). [Under the Australia New Zealand Closer Economic Agreement the two countries must match as closely as possible quarantine, customs, transport, regulatory and product standards and business law issues.]

Such a change would support major Australian and New Zealand export industries – wine and to a lesser extent beer – while returning to the concession for spirits that exists in most countries (see comparisons in the table below).

Country	Spirits Concession
Bali	1 Ltr
Canada	1.14 Ltrs
China	2x 750ml
France	1 Ltr
Hong Kong	1 Ltr
India	950ml
Indonesia	1 Ltr
Italy	1 Ltr
Korea	1 Ltr
Malaysia	1 Ltr
Singapore	1 Ltr
South Africa	1 Ltr
Thailand	1 Ltr
UK	1 Ltr
USA	1.14 Ltrs

The previous New Zealand model also complies more closely with international conventions. Australia is a signatory (since 2000) to the *World Customs Organisation International Convention on the Simplification and Harmonisation of Customs Procedures*, which states that "Customs should permit not less than **2 litres of wine** or **1 litre of spirits** to be imported free of import duties and taxes by travellers". [Our emphasis]

Some bodies[7] suggest reducing the alcohol concession would impact on the competitiveness of Australia's tourist shopping regime. However, WFA submits that reducing the spirit concession while increasing the wine concession would make Australia's tourist shopping regime more internationally competitive, as most countries have adopted the international protocol of one litre of spirits. Instead of promoting "Scottish whiskey", "Russian vodka", and "Kentucky Bourbon", duty-free stores would be more enthusiastic about promoting and featuring Australian wine.

WFA submits that the savings from a tightened Duty Free Concession on spirits could be directed towards expanding the Export Market Development Program and matching funding support for the Australian wine sector's collective push into developing international markets.

Budget Need:

Australia amends its Duty Free Concessions for alcohol to allow for one litre of spirits and 4.5 litres of wine or beer, in line with the most common international standards.

[6] Ferguson MP, Martin & Senator Sherry, Nick, *International Visitors and Spending Up*. Australian Government, 8 December 2010

[7] Broderick, G, *Improving Australia's System of Alcohol Taxation – Second Instalment, Second Submission to AFTS Review Panel*. Distilled Spirits Industry Council, June 2009, Section 6.3

ADDENDUM: ECONOMIC CONTRIBUTION OF THE AUSTRALIAN WINE SECTOR

The Australian wine sector makes a substantial contribution to Australia's national economic prosperity.

The Australian wine sector has the features of agricultural production, of elaborately transformed manufacturing and of the fast moving consumer goods sector (FMCG). Grape growing is hostage to seasonal weather fluctuations; winemaking requires much technical expertise and sophisticated capital equipment; and wine sales performance calls for considerable marketing expertise.

The complexity of the wine production process and its end stage as a high value consumer good entails a high degree of value adding, and hence results in a greater economic contribution than most agricultural commodity industries. This high level of wine sector value adding is provided, in part, by a substantial network of suppliers whose economic contribution generally is not measured nor adequately acknowledged as part of the wine sector.

The wine industry contributes its corresponding share of corporate, personal and transactional taxes but in addition contributes, through the wine industry specific Wine Equalisation Tax (WET), a further $722 million (2010-11) to Government revenue.

Global competitiveness of the Australian wine sector

The Australian wine sector has demonstrated its global competitiveness with exports as the driver of growth and with its transition from a reliance on the domestic market to becoming a major player in international markets.

Australian wine has recorded remarkable export sales growth, from $289 million in 1992-93 to $2.0 billion in 2010-11, having reached $3 billion in 2006-07.

Value of Australian Exports

Financial Year	A $Mill
1999-00	$ 1,347
2000-01	$ 1,614
2001-02	$ 1,968
2002-03	$ 2,386
2003-04	$ 2,545
2004-05	$ 2,748
2005-06	$ 2,800
2006-07	$ 2,990
2007-08	$ 2,683
2008-09	$ 2,429
2009-10	$ 2,164
2010-11	$ 1,957

Source: *Wine Australia Export Approval database via Winefacts Statistics.*

Moreover this growth has been broadly based, with the number of major export markets penetrated increasing from 6 to 19 at the peak of export sales, declining to 15 in 2010-11. The total number of export markets for Australian wine has almost doubled from 66 to 123. This is down from 131 in 2008-09.

Australian Export Markets by Size

Financial Year	Large	Medium	Small	Total
1992-93	6	9	51	66
1993-94	6	9	55	70
1994-95	6	9	59	74
1995-96	7	11	54	72
1996-97	6	15	58	79
1997-98	9	12	56	77
1998-99	10	12	61	83
1999-00	11	11	62	84
2000-01	13	12	71	96
2001-02	15	13	79	107
2002-03	17	11	84	112
2003-04	17	15	89	121
2004-05	17	16	97	130
2005-06	17	18	95	130
2006-07	19	15	95	129
2007-08	17	18	95	130
2008-09	16	16	99	131
2009-10	16	17	94	127
2010-11	15	19	89	123

Note: *Large = >$15M, Medium = $2M - $15M, Small = < $2M*

Source: *Wine Australia Export Approval database via AWBC Winefacts Statistics.*

This performance is not attributable purely to growth in the global wine industry.

Australian wine achieved its growth in this period by improving its market share against other country competitors in the early to mid 2000s. However since then the strong Australian dollar, repressed prices in overseas markets and increasing competition has seen the Australian wine share of world wine trade value decrease from 9% in 2006 to 8% in 2011.

Share of Value of World Exports – Australia & Competitors

Country	2010	2011
France	33%	40%
Italy	20%	24%
Spain	11%	12%
Australia	**8%**	**8%**
Chile	6%	7%
Germany	5%	5%
USA	4%	5%
New Zealand	3%	4%
Portugal	3%	4%
United Kingdom	2%	3%
Argentina	3%	3%
South Africa	3%	3%

Source: *GTIS Global Trade Atlas*

As a consequence of the Australian wine industry performance in global markets, the domestic market has declined from a dominant 64% of Australian sales volume in 1997-98 to only 39% in 2010-11. This demonstrates the transformation of Australian wine into a globally focused business sector that is therefore particularly sensitive to all of the factors, especially taxation and regulation, that impact on the Australian business climate and hence international competitiveness.

Australian Exports as a % of Total Australian Sales

Year	Volume	Value
1999-00	44%	44%
2000-01	47%	47%
2001-02	52%	50%
2002-03	56%	53%
2003-04	58%	56%
2004-05	61%	57%
2005-06	63%	60%
2006-07	64%	60%
2007-08	62%	56%
2008-09	63%	55%
2009-10	62%	50%
2010-11	61%	NA

Source: *Wine Australia Export Approval Database and ABS Cat No. 8504.0 via Winefacts Statistics*
Note: *Australian wine only.*

Australian wine aales

Australian market

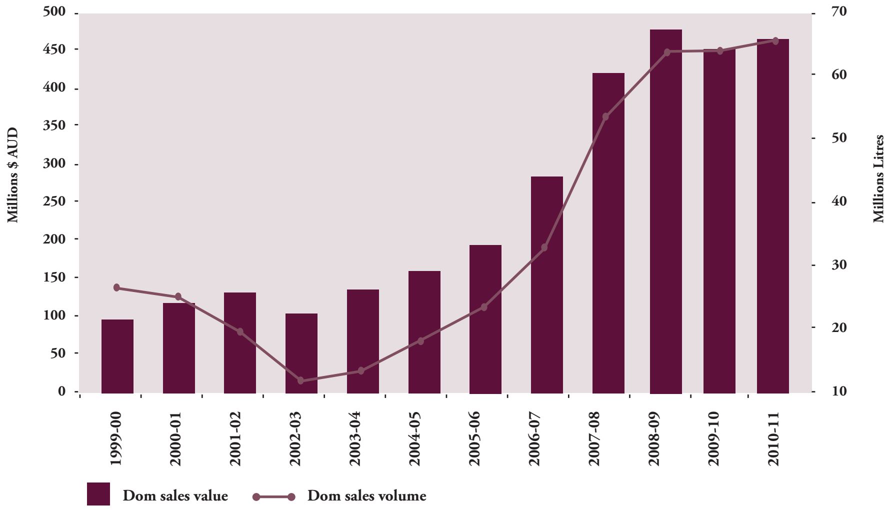
The volume of wine consumption has steadily increased over the last decade but shows a decrease in the last financial year which was driven by a fall in domestic sales, with the decrease being partially offset by an increase in imports. Wine available for consumption (domestic sales + import sales) has increased at a higher rate than production, with a 3% compound annual growth rate over the 5 years ending 2010-11, compared with a decrease of 4.5% for wine production, with a 3% decrease in inventories.

Imports of wine increased by 2.7 million litres during 2010-11, and by 33 million litres over the last 5 years. Most of this increase came from New Zealand which accounted for an astonishing 97% of the 5 year increase.

Imports have significantly increased their market penetration in Australia from 3% in 2000-01 to 13% in 2009-10.

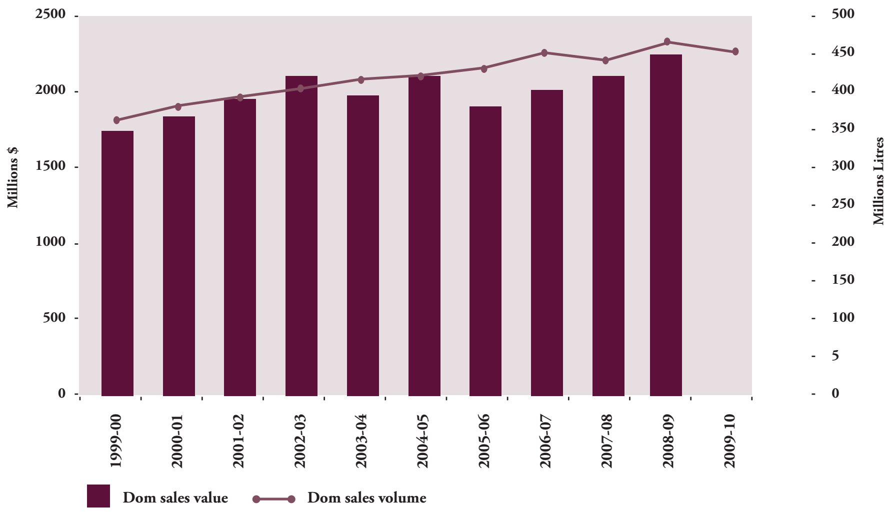
Total wine sales to Australian consumers have maintained a modest growth trend but imports are maintaining their share of the market.

Volume and Value of Wine Imports



Source: *ABS Special Report via Wine Australia Winefacts Statistics.* ***Note:*** *excludes must and brandy.*

Volume and Value of Domestic Sales of Australian Wine

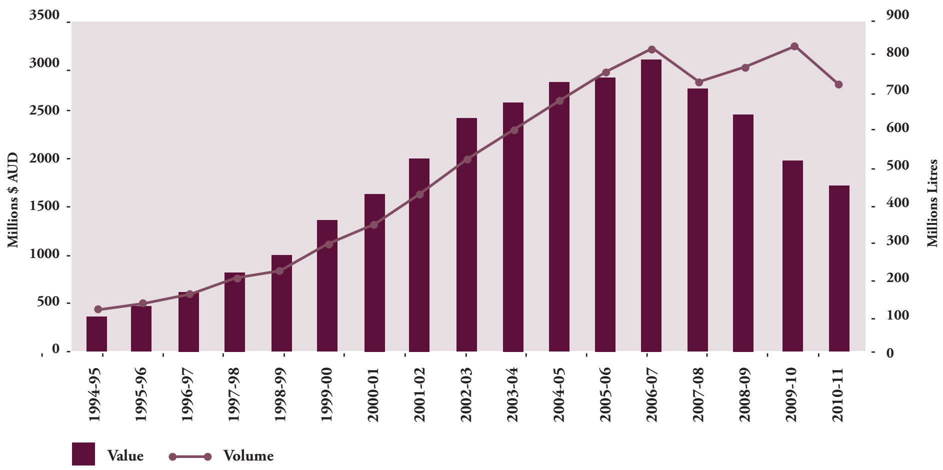


Source: *ABS Cat No. 8504.0*

Export market

The volume of Australian wine exports decreased in 2010-11 by 6% and the value of exports declined by 10%. The value per litre of exports declined by 4%. The value per litre has been declining almost continually since 2001-02.

Value and Volume of Australian Wine Exports



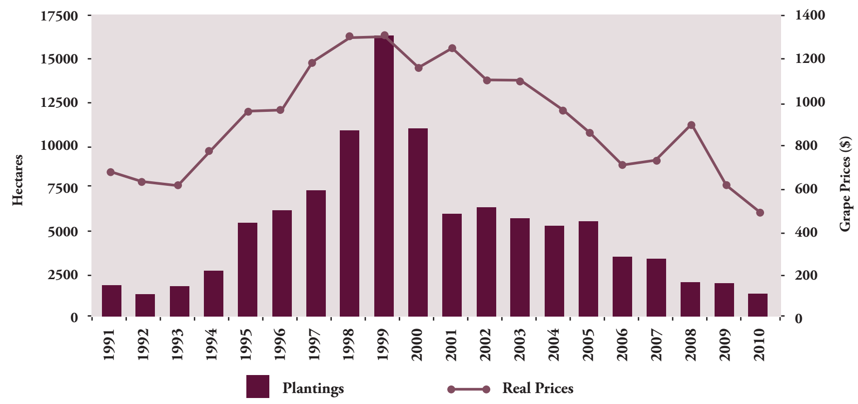
Source: *Wine Australia Export Approval Database via Wine Australia Winefacts Statistics*

Australian grape production

Total wine grape production has shown an increase between 2000-01 and 2010-11 of 10%, but with a high seasonable variation. Much of the annual fluctuation is attributable to seasonal yield variations.

Much of the growth in Australian grape production was driven by the surge in plantings in the late 1990s, which was in turn stimulated by high grape prices. However, it is important to note that a significant proportion of the new plantings were "speculative", and not necessarily backed by a winery contract.

Real Grape Prices and Plantings



Source: ABS Vineyard Survey via Wine Australia Winefacts Statistics *Note: Real prices calculated at 2010 base.*

Between 1993 and 1999, real average grape prices more than doubled to around $1,250 per tonne. In reaction to this price growth, annual vineyard plantings increased from less than 3,000 hectares per year up to 1994, to almost 17,000ha in 1999 – equivalent to an increase in wine capacity in 1999 alone of up to 145 million litres or 16 million cases. In 2009-10 real average grape prices were below the 1991 price.

Contribution to regional economies

Regional communities have been revitalised by the growth of the wine sector and for many regional economies the sector's performance will determine their future viability.

As of 2010 there are 2477 wineries operating in Australia. Victoria has the highest number of wineries at 738, followed by South Australia with 667. New South Wales and the Australian Capital Territory have a combined total of 475, Western Australia has 382, Queensland has 111, while Tasmania has 104. The Northern Territory is the only state/territory where the wine industry is not a major employer in regional areas.

Wine grape growing contributes to the economy in 91 wine areas throughout Australia (including zone areas outside of regional boundaries). There are 25 wine areas which have more than 1000 hectares under vine, contributing substantially to the local economy. There are an additional 15 wine areas where wine grape growing is undertaken at a significant scale (more than 500 hectares under vine). There are a further 51 wine areas where wine grape growing is undertaken on a small scale (less than 500 hectares under vine). These include grapes grown in zones but not in defined regions.

The wine sector's contribution to regional economies is more transformational than most other rural industries.

- High degree of local value adding
  - o Wine production is characterised by a high incidence of processing within the grape growing region and the degree of processing extending much higher up the value chain.
- Supplier demand creates a critical mass of infrastructure and business services
  - o The wine sector, through its supplier demand in a region, creates the critical mass of infrastructure, skills and suppliers necessary to attract and support complementary food processing and hospitality businesses.
- Connects the region directly to specific international markets
  - o The marketing process for wine entails wine producer visits to, and personal relationships in, export markets as well as inbound visits by trade and media from those markets.
- Business leadership
  - o The McKinsey report *Lead Local, Compete Global* (1994) emphasised the importance of local business leadership in fostering development of a regional economy. The wine industry, for the regions in which it operates, is an important source of prominent, well educated business leaders.
- Skills base
  - o Wine businesses employ high level technical, financial, marketing and management skills and thereby add to the diversity and to the professional qualifications in a region's skills base.
- Tourism attractions and infrastructure
  - o The wine sector creates marketing assets for regions. It creates or contributes to a regional image; it creates visitor experiences that constitute a destination attraction; it generates publicity; and by sponsoring high value trade visitors it enables investment in tourism accommodation and hospitality infrastructure.