

leadership

advocacy

support

**Pre-Budget  
Submission**

2013-14

**wfa**

Winemakers'  
Federation of  
Australia

## FROM THE CHIEF EXECUTIVE

For Australian winemakers, achieving sustainable profit levels throughout the value chain that support long-term investments in innovation, production and brand building remains the industry's key challenge.

Over recent years – and like the majority of local agrarian-based manufacturers – they have wrestled with the impact of a high Australian dollar, retail consolidation in the domestic market and the general downturn in global economic conditions.

But the industry is determined to secure its future and its contribution to the Australian economy, and recognises that recovery must be industry-led.

As part of the process, WFA – the national representative body for Australian winemakers – is closely monitoring the internal and external factors that impact on industry profitability in the current environment, with a particular focus on demand/supply dynamics and the appropriate responses to global and domestic challenges to promote recovery.

The Australian Government can best support this ongoing process by not increasing the total tax revenue from the sector over the coming Budget cycle and by progressing a number of proposals identified in this submission that support industry stability.

All are in line with the five pillars of productivity – regulatory reform, innovation, infrastructure, taxation reform, and skills and education – which the Government has identified as priorities for creating high-performing and productive workplaces.

The following submission provides an outline of what we see as the important priorities for the sector and makes only modest funding requests. We have attempted to identify saving opportunities to fund these requested commitments.

We look forward to the Government's ongoing support for an important export industry that has championed Brand Australia to the world for many years.



**Paul Evans**

**Chief Executive**

## EXECUTIVE SUMMARY OF RECOMMENDATIONS

### REGULATORY REFORM

#### Empowering 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 industry, 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; wine and health; labelling; urban encroachment / right to farm; routes to market; multi and bi-lateral trade arrangements; workplace flexibility; and liquor licensing.

**Budget Implication:** Nil.

#### Export support

**Budget Need:** Double the overall EMDG program allocation and re-open applications to those exporters who have exhausted their access to the program for specified target markets, including removal of the seven-year timeframe.

**Budget Implication:** \$150 million to double the overall scheme, available to all industries.

#### Protecting wine regions

**Budget Need:** Agricultural industry to be a key consideration when prioritising Infrastructure Australia investments.

**Budget Implication:** Nil.

### INNOVATION

#### R&D to meet industry needs

**Budget Need:** Re-establish the Land and Water RDC.

**Budget Implication:** Revenue neutral as funding should be re-allocated from and prioritised within Environment and Climate Change portfolios and from ARC/NHMRC.

### INNOVATION

#### Continued

**Budget Need:** Review existing Commonwealth PhD and tertiary funding arrangements and re-shape towards business needs.

**Budget implication:** Budget savings can be anticipated.

### INFRASTRUCTURE

#### Data and information services

**Budget Need:** Ongoing funding for 10 years to allow the ABS to continue to fund the annual wine statistic collections (wine grape crush, wine production, wine inventories and domestic wine sales).

Funding for the vineyard survey for 2014-15.

**Budget Implication:** \$300,000 per annum for the Vineyards Survey in 2014-15 and 2015-16.

\$250,000 a year for 10 years for ABS.

#### National germplasm collection

**Budget Need:** Support and fund the creation and maintenance of a single Australian grapevine germplasm collection.

**Budget Implication:** \$200,000 per year provided to CSIRO, with the potential for some cost recovery through service provision in later years.

### TAXATION REFORM

#### No increase in wine 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
- Continued monitoring of the WET Rebate to develop further options to remove unintended recipients and alleviate unintended consequences.

**Budget Implication:** Nil.

### TAXATION REFORM

#### 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.

**Budget Implication:** An estimated \$25 million a year in additional excise revenues.

### SKILLS AND EDUCATION

#### Supporting our workforce

**Budget Need:**

- Continue to review the *Fair Work Act* to ensure workplace flexibility
- Review DEEWR project funding for work systems trials and the role of Industry Skills Councils.

**Budget Implication:** Nil.

#### Achieving wine's tourism potential

**Budget Need:** Double, to \$20 million a year, funding for the TQUAL Grants program and prioritise wine and food tourism applications that meet the core objectives of the *National Tourism Strategy 2020* and the *National Wine & Food Tourism Strategy*.

**Budget Implication:** An additional \$10 million a year, ongoing.

#### Maintaining judging standards

**Budget Need:**

Support for the Len Evans Foundation's funding application to the Commonwealth.

**Budget Implication:** A one-off Government commitment of up to \$2 million, as per the application.

## 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 industry.

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 particular focus on industry profitability, wine and grape oversupply, taxation policy and meeting our social obligations as alcohol producers and our environmental obligations as land users.

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

We were a partner in developing the *Wine Australia: Directions to 2025 strategy* (2007) and subsequent *Wine Restructuring Action Agenda* (2009-10), and we continue to focus on the key issues that will ensure continuing sustainability and profitability for the nation's 2400+ wine businesses.

### Wine's contribution to the national economy

The wine industry began a significant growth phase in the 1980s when it recognised that future opportunities were in table wine and export markets. By 2010-11 wine was Australia's fourth largest rural export, with export sales of nearly \$2 billion.

Growth has slowed in recent years, but the industry remains a major economic contributor and a significant employer in regional areas. More than 22,000 people are directly employed in grape growing and winemaking activities, and that number doubles once allied industries, including tourism, are taken into account.

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

Wine is a true value-added Australian export. No other commodity export 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.

### Snapshot of the Australian Wine Industry

Wine Producers			
		Value	% change over last 12 months
Wineries			
2011	number	2 532	2.2%
# Increase	number	55	
Wineries by Size of Crush (2011)			
<500 tonnes	number	2,202	1.9%
500-4,999 tonnes	number	184	1.6%
5000-9,999 tonnes	number	18	-22.0%
>10,000	number	31	10.7%
Unspecified	number	97	9.4%
Direct Employment (2011) (% change from 2006)			
Grape Growing	number	7 568	-31%
Wine Making	number	14 815	-13%
Viticulture			
No of Regions by Vineyard Area (2010) <sup>1</sup> (% change from 2008)			
>1000 Hectares	number	25	-4%
500-999 Hectares	number	15	-6%
<500 Hectares	number	51	2%
Winegrape Crush			
2012	'000 tonnes	1 660	4%
Winegrape Price			
Australian average, all varieties (2012)	\$	458	11%
Environment			
Water Use (2011-12) (% change from 2007-08)			
Megalitres per hectare	ML	2.5	-10%
Beverage Wine Production			
2011	million litres	1 101	-2%
Sales & Trade			
Domestic Sales - Volume			
2011-12	million litres	455	-2%
Domestic Sales - Value			
2010-11 (2011-12 not yet available)	\$A million	2 331	10%
Imports - Volume			
2011-12	million litres	83	24%
Imports - Value			
2011-12	\$A million	547	16%
Exports - Volume			
2011-12	million litres	713	-2%
Exports - Value			
2011-12	\$A million	1 861	-5%
Exports - Value per Litre			
2011-12	\$/litre	\$2.61	-3%
Exports as % of Total Farm Crop Exports (value) <sup>2</sup>			
2011-12	%	9%	
Wine Exports' Ranking in Value of Total Crop Exports <sup>2</sup>			
2011-12	ranking	3rd	
Australian Wine's Contribution to Value of World WineTrade (2010-11)			
Ranking	ranking	4th	
%	%	5%	
Tourism			
International visitors to wineries (2012)	'000	664	1.4%
Domestic visitors to wineries (2012)	'000	4 298	7.3%
Consumption			
Wine Consumption Per Capita (litres)			
2010-11	litres	29.4	-3%
Taxation			
Net Wine Equalisation Tax 2011	\$A million	716	-4.1%
Goods and Services Tax 2011	\$A million	648	

Sources: Australian & New Zealand Wine Industry Directory, ABS 2011 Census of Housing & Population, ABARE Commodity Statistics, Food & Wine Tourism 2009 - Tourism Research Australia, ABS Domestic Sales and Import statistics and Wine Australia Export Approval Database via 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



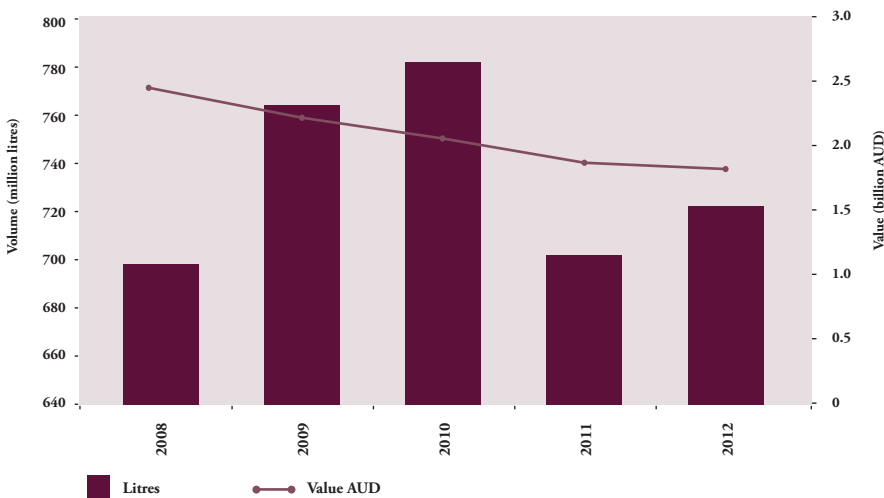
## REGULATORY REFORM

### Empowering industry

The Australian wine industry, in common with agricultural and food manufacturing industries generally, is going through a significant period of transition. Competitive pressures and demand/supply challenges are eroding previous successes and threatening the future viability of an industry now categorised as multinational, multi-regional, and totally through-chain in its value and supply.

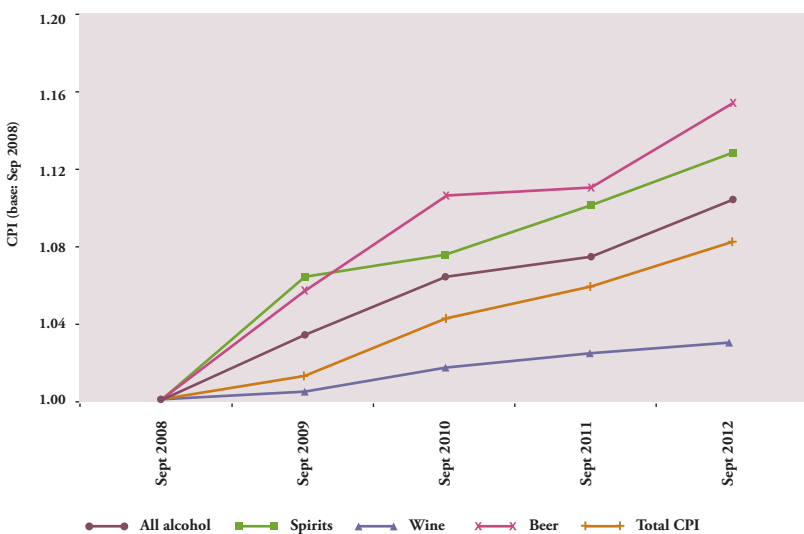
Internationally, high exchange rates and a relatively high cost base have seen a drop in both export volume and value.

### Volume and value of Australian wine exports



Domestically, wine has experienced price deflation and significant downward pressure on margins and profitability as consumption levels have remained flat.

### Wine price increases lag cost increases and other alcohol beverages



WFA welcomes the Australian Government's view that a market-based policy approach is the best way to support Australian businesses and applauds the vision it has outlined in the COAG Reform Agenda and key strategy papers such as *Australia in the Asian Century*<sup>1</sup>; *National Food Plan*<sup>2</sup>; *Powering Ideas*<sup>3</sup>; *Trading our way to more jobs and prosperity*<sup>4</sup>; *Clean Energy Future*<sup>5</sup>, and *Tourism 2020*<sup>6</sup>.

However, for the wine industry to be able to take up the opportunities envisaged in these white papers it is important for Canberra to take a whole-of-government approach to priority setting, budgets and its legislative agenda, and to commit to minimising regulatory roadblocks that inhibit success. In this context, we note the prospective benefits to the Australian economy outlined in the Productivity Commission's December 2011 *Discussion Draft of the Impacts of COAG Reforms*.

The wine industry has also spent the last several years inwardly focussed on defending potential threats to its viability through various proposed Government interventions. Many of these are ongoing and include:

- The proposal for a minimum retail price for alcohol
- Cuts to key Government services including the ABS, ABARES, and the Bureau of Meteorology
- Proposals to introduce a National Container Deposit Scheme
- Proposals to treat alcohol in a similar way to tobacco from some government-supported NGOs whose stated policies are to ban alcohol advertising and sponsorship and introduce graphic warning labels
- Additional compliance burdens with green and red tape (acknowledging that this is not only an Australian Government issue)

<sup>1</sup> Australia in the Asian Century White Paper. Australian Government, October 2012

<sup>2</sup> National Food Plan Green Paper. Australian Government, July 2012

<sup>3</sup> Powering Ideas: An Innovation Agenda for the 21st Century. Australian Government, May 2009

<sup>4</sup> Gillard Government Trade Policy Statement: Trading our way to more jobs and prosperity. Australian Government, April 2011

<sup>5</sup> Securing a clean energy future—The Australian Government's climate change plan. Australian Government, July 2011

<sup>6</sup> Tourism 2020: an update to the National Long-Term Tourism Strategy, Australian Government, December 2011

- Reductions in workplace flexibility that have threatened the viability of cellar-door operations at weekends
- Losing cost-competitiveness from rising labour costs.

Most importantly, industry needs a co-ordinated policy framework that reflects the Government's understanding of the pressures businesses are facing in the current environment and gives them the best chance to build on their strengths. The *National Food Plan Green Paper* highlights (Figure 3.3, p47) that some 15 portfolios have a say in Australia's food system. This can only create inefficiencies and duplication, and take the focus away from core issues.

A shift in Government emphasis that puts the Trade, Industry and Agriculture portfolios as priority portfolios in all policy, operational and regulatory matters is crucial if industry is to coordinate the take up of the opportunities outlined in a number of Government strategy documents. As recognised by governments in the U.S. and across food-producing Europe, these portfolios carry considerable influence, reflective of the importance they play in their national economies.

#### **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 industry, 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; wine and health; labelling; urban encroachment / right to farm; routes to market; multi and bi-lateral trade arrangements; workplace flexibility; and liquor licensing.

#### **Budget Implication:**

Nil.

#### **Export support**

With Government support, Australia has grown to become the world's fourth largest wine exporter. However, we remain at a disadvantage compared with countries that choose to erect protective barriers at home and take a more "aggressive" approach than Australia to opening up new markets.

This includes signing Free Trade Agreements with concrete outcomes for their wine sectors. For example, both New Zealand and Chile have signed FTAs in China – the world's fastest growing wine market – that give them a real competitive advantage. The Australia-China FTA is far from completion.

It also includes significant Government marketing and promotion support. For example, SOPEXA (France) will invest more on wine promotions in China in the next 12 months than the total global Australian investment in wine promotion.

WFA is not arguing for a return to protectionism or subsidies and is not seeking handouts. However, we believe there are opportunities for the Government to provide a hand-up to industries competing on global markets.

A good example is the Export Market Development Grants (EMDG) program. Successive reports have found justification for it to be expanded and for many of the artificial "checks and balances" to be removed or streamlined, yet it is forever being questioned in Budget cycles, with talk of funding cuts or abolition.

The wine industry 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.

#### **Budget Need:**

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

#### **Budget Implication:**

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



#### **Protecting wine regions**

Many of Australia's recognised wine regions are under pressure from urban encroachment and minerals access. This is a problem for many rural industries, but is particularly damaging for winemakers as their product and branding are closely linked to a sense of place and environment.

The "Geographical Indications" that specify the particulars of individual regions are internationally recognised and provide marketing cachet and value to the wine produced. Winemakers need greater protection from conflicting forms of land use, and planning laws that provide certainty for the future.

#### **Budget Need:**

Agricultural industry to be a key consideration when prioritising Infrastructure Australia investments.

#### **Budget Implication:**

Nil.

## INNOVATION

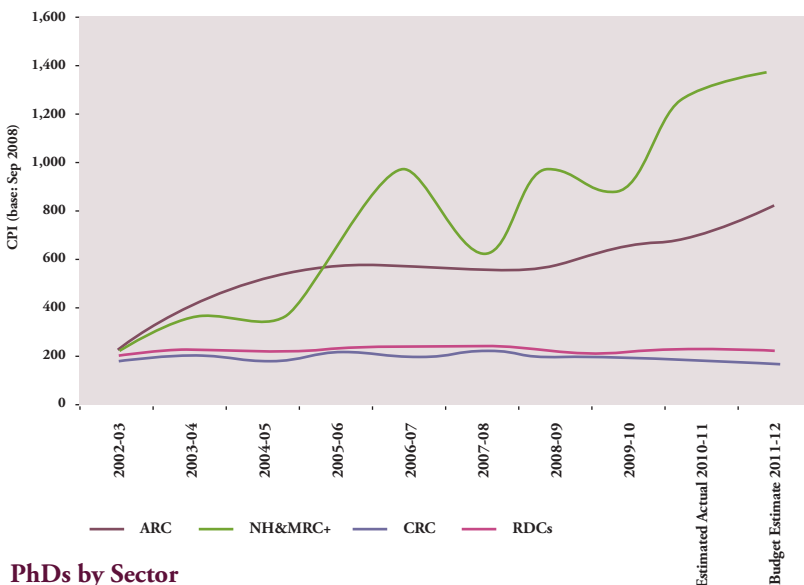
### R&D to meet industry needs

R&D and efficiency gains through new technologies and new farm management practices have allowed Australia's agricultural industries to remain competitive against declining terms of trade and provided an important advantage in a global market in which Australia has lowered its barriers and tariffs in food production but the rest of the world has not. However, there are a number of areas of concern.

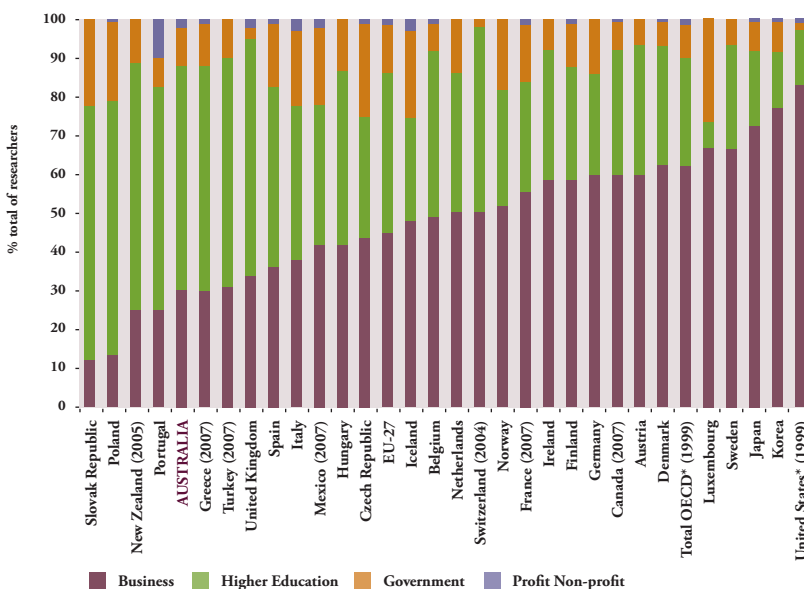
The most important is a skewing of Government funding towards R&D that is not productivity enhancing or driven by industry needs. This is highlighted in the two graphs below, which show that funding for CRCs and RDCs has languished behind that for the ARC and NHMRC, and that Australia fares badly in international comparisons for funding provided to business researchers rather than higher education researchers.

While not denying the importance of continuing some "blue sky" research, we believe national productivity will be improved if there is a greater emphasis on tying Commonwealth funding support for R&D more closely to industry and/or community priorities.

### Australian Research Programs



### PhDs by Sector



In a similar vein, WFA submits that the abolition of the Land and Water RDC and a reduction in support for the CSIRO and CRCs has weighed against the stated desires of a number of Australian Government strategic plans and white papers that have emphasised the need to increase R&D funding as productivity levels continue to decline.

WFA's priority is to ensure that returns from R&D activities are maximised and driven by industry needs and we encourage a high level of industry participation in setting the R&D agenda. Largely, this is a responsibility for industry to get right, but the settings applied on R&D bodies by Government are crucial in the delivery.

WFA supports the *Rural Research and Development Policy Statement* released by the Minister for Agriculture, Fisheries and Forestry in July 2012 and recognises that the Government is seeking a greater input from industry in directing research priorities and assessing performance of research spending.

We also strongly support the national RDC model, which is world leading and reflects the unique nature of much of Australia's agriculture and value-added businesses. However, it is imperative that RDC planning and operational management of RDCs themselves is flexible and attuned to the needs of the industry. Specific areas deserving a greater share of investment are:

- Benchmarking all aspects of the value chain as a means of driving quality and cost improvement
- Product offer innovation, including packaging as a means of differentiation
- Production systems and processes, whole-of-supply chain approaches to reduce capital and operating costs whilst enhancing quality potentials
- Route to market alternatives, including logistics, acknowledging distributor and retail consolidation.
- Market access, market intelligence, and country competitor analysis, as a means of targeting marketing activity

- The policy framework around “risky” consumption, specifically the relationship between patterns and population based policy measures and the respective impacts at community, demographic and specific risk category level. Furthermore, specific analysis of the role of wine in these broader contexts is required to inform industry and government strategy and policy to promote moderate alcohol consumption
- Product integrity that aligns to the increasing trend towards traceability of inputs, driven by governments, consumers and retailers.

WFA has two other areas of concern.

The first is that our research capability is declining in some fields. In plant industries, for example, declining industry profitability in recent years has seen the reallocation

of research funds and research activity into other areas. Unless this short-term switching of research funds is addressed, declining research capability will translate into a decline in innovation and efficiency. This is particularly the case in viticulture, where there is a genuine skills shortage, and in areas dealing with biosecurity, urgent remedial action is required.

The second is heightened consumer expectations around environmental care that place increasing obligations on land holders to better understand and manage the land, water and biodiversity assets for all Australians. While supporting this trend, we submit that additional funding to support relevant R&D must come from taxpayers rather than growers or producers. Australian farmers already contribute \$244 million<sup>7</sup> over and above the \$218million co-contribution required through the RDC model.

#### **Budget Need:**

Re-establish the Land and Water RDC.

#### **Budget Implication:**

Revenue neutral as funding should be re-allocated from and prioritised within Environment and Climate Change portfolios and from ARC/NHMRC.

#### **Budget Need:**

Review existing Commonwealth PhD and tertiary funding arrangements and re-shape towards business needs.

#### **Budget Implication:**

Budget savings can be anticipated.

<sup>7</sup> DAFF June 2010, Submission to the Productivity Commission Inquiry into Australian Government Rural R&DC Model

## INFRASTRUCTURE

### **Data and information services**

The Australian wine industry has traditionally had access to world-class information, statistics and analysis that is made freely available to all winemakers, grape growers and industry organisations to help guide policy development, industry planning and individual business decision making. This information has been vital to the industry’s ongoing success and sustainability.

The ABS is the main collection agency, primarily through the GWRDC-funded Vineyards Survey and the Government-funded annual wine statistics collections that provide data on wine grape crush, wine production, domestic sales and wine inventories. Export shipment data has been provided as a by-product of Wine Australia’s Export Approval System (which is no longer operational) and Wine Australia has funded individual data reports and analysis on overseas markets.

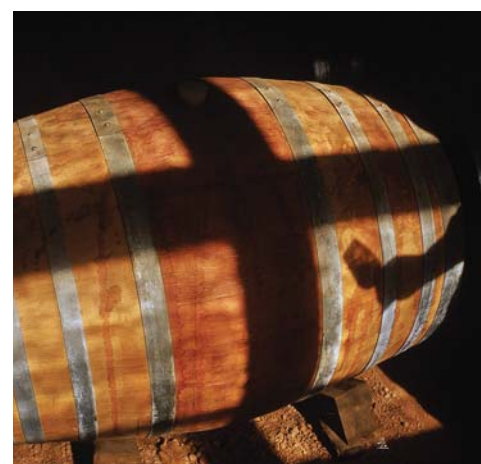
However, responsibility for funding the collection of this foundation data has always been unclear. It is neither an explicit objective/function of Wine Australia

nor covered in the *Wine Australia Act*. GWRDC has supported funding collections within the definitions of the *PIERD Act*, but the importance of a national, coordinated collection is evident.

Of greater concern is that the collection and availability of all foundation data sets is at serious risk.

The Australian Government has advised that it will only continue to support the annual wine statistics collections until 2013-14 and funding pressures have forced the ABS to increase costs and/or reduce the content of its collections. As a result, the cost of the annual Vineyards Survey has risen to \$700,000 and the GWRDC has indicated it cannot support this expenditure beyond 2012.

In the 2012 Budget, the Government allocated \$425,000 to maintain the collections in 2012-13 and 2013-14, but no commitments have been made beyond that. WFA is seeking funding in the current Budget to ensure continuity for data collection for the next decade, while the industry attempts to raise additional funding to maintain the data collections.



#### **Budget Need:**

Ongoing funding for 10 years to allow the ABS to continue to fund the annual wine statistic collections (wine grape crush, wine production, wine inventories and domestic wine sales).

Funding for the vineyard survey for 2014-15.

#### **Budget Implication:**

\$300,000 per annum for the Vineyards Survey in 2014-15 and 2015-16.

\$250,000 a year for 10 years for ABS.



### National germplasm collection

Grapevine germplasm collections are a vital resource for the Australian grape industries. The CSIRO and SARDI collections are the largest and most important operated and controlled by government agencies in Australia, but others exist at state and regional levels.

However, rapid changes – including the advent of objective procedures based on DNA profiling for variety identification, the issue of costs, risks, liabilities and responsibilities associated with managing such collections, and a tightened focus by government research agencies on

core strengths and business – have highlighted the importance of bringing the collections under a single umbrella to create an “Australian” grapevine germplasm collection.

This collection would be unique and distinguished from other collections in that it would move towards being a verified collection with respect to varietal identity. This would provide numerous benefits, including support for Wine Australia’s label integrity program.

A curator would be appointed to manage the Australian collection, guided by a management committee comprised

of CSIRO, SARDI and industry representation, and would provide external services that would provide funding to offset maintenance costs.

#### Budget Need:

Support and fund the creation and maintenance of a single Australian grapevine germplasm collection.

#### Budget Implication:

\$200,000 per year provided to CSIRO, with the potential for some cost recovery through service provision in later years.

## TAXATION REFORM

### No increase in wine taxation

WFA welcomes the Government’s recent legislative changes designed to remove unintended use of the Wine Equalisation Tax (WET) Rebate. We worked closely with the ATO and Treasury on this initiative and believe it will go a long way towards ensuring the integrity of the Rebate. It will be important to continue to monitor the situation to ensure the system is operating as intended and to the advantage of genuine Australian wine businesses.

The industry is unanimous in rejecting any increase in total tax take from wine, or any proposed changes to the taxation system to achieve social policy objectives. 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 \$4 billion industry that directly and indirectly employs up to 45,000 people, mainly in regional Australia.

When specific alcohol taxes and relevant value-added taxes (GST in Australia) are combined, Australian wine has the highest tax incidence of wine-producing nations as outlined in the following table<sup>8</sup>:

	Still Wine Excise Per Hecto Litre (USD \$)	VAT %	Tax Incidence Ratio (Excise & VAT % of RSP)
Australia	179.62	10.00%	32.05%
New Zealand	159.60	15.00%	27.37%
Chile	25.70	19.00%	22.44%
South Africa	44.09	14.00%	22.36%
Argentina	42.49	21.00%	21.84%
Italy	0.00	21.00%	17.36%
France	3.28	19.60%	16.91%
Germany	0.00	19.00%	15.97%
Spain	0.00	18.00%	15.25%
United States	46.00	10.00%	12.84%
Portugal	0.00	13.00%	11.50%
Average	45.52	15.51%	19.63%

Unfortunately, the debate on alcohol taxes in Australia has not adequately considered concerns over international competitiveness (a 12.42% negative differential against the global average tax incidence ratio) and is more focussed on the differences with domestic beer and spirit categories and the arguments of the public health lobby.

While the Henry Review argued the need for company taxes in Australia to be globally competitive – and this has been supported by both sides of politics, with policies or proposals to lower the company tax rate – the wine industry seeks a similar recognition that wine is comparatively highly taxed and that this is impeding our global market potential and competitiveness.

At the same time, the wine industry 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. Heavy drinkers are not price sensitive but moderate drinkers are; thus those who contribute negligible social costs would be unfairly penalised.

Professor Sijbren Cnossen, who was engaged by the Australian Government to look at excise taxes as part of the Henry Review, stated that: “The excise taxation of alcohol is a fairly blunt instrument, causing welfare losses to non-harmful users while at the same time not adequately controlling the drinking of harmful users.”

The introduction of a broad-based consumption tax (the GST) should have led to the abolition of revenue-raising inelastic alcohol taxes. In the very least, the Australian domestic wine taxation levels need to be brought into closer alignment with our competitor nations. This better reflects the intent of a number of Government strategic plans and white papers.

#### 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
- Continued monitoring of the WET Rebate to develop further options to remove unintended recipients and alleviate unintended consequences.

#### Budget Implication:

Nil.

<sup>8</sup> International Benchmarking of South Africa’s Tax Incidence - Alcoholic Beverages. SABIA, October 2012

### Duty free concessions

Australia's beer and spirits sectors are largely foreign owned or controlled and have negligible export markets. Conversely, nearly all wine businesses are Australian owned and the industry is a major exporter.

Every bottle of wine that leaves Australia's shores is promoting Australia, so it is hard to understand why Australia breaks with international conventions<sup>9</sup> (to which it is a signatory) by allowing up to 2.25 litres of any alcohol to be purchased duty free, rather than setting specific limits for wine, beer and spirits. Invariably, consumers purchase spirits, and this contributes to the generally poor wine offerings at duty-free stores catering to Australians and overseas visitors.

WFA recommends that the current duty-free regime be reviewed and advocates returning to the previous New Zealand scheme that allowed for the purchase of one litre of spirits and 4.5 litres of wine (6 bottles) or beer (12 cans). It is estimated such a change would deliver the Government approximately \$25 million a year in additional excise revenues.

It would also assist in Tourism Australia's strategy for "our food and wine offering needs to be played up in telling the Australian story"<sup>10</sup> and match the desire of the Australian Government, which wants "to see our [wine] market reach grow"<sup>11</sup>.

#### 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.

#### Budget Implication:

An estimated \$25 million a year in additional excise revenues.

## SKILLS AND EDUCATION

### Supporting our workforce

Government has a crucial role to play in ensuring that workforce and training provisions are in tune with the needs of Australia's modern, open, international economy.

In particular, current awards and the *Fair Work Act* have a significant impact on an industry that operates seven days a week and, at key times of the year, 24 hours a day. Employment conditions must reflect the reality that the weather may require grapes to be picked at night and that cellar doors cannot afford to open on a Sunday if they must pay \$50+/hour for counter staff.

More broadly, the desire to require foreign maritime vessels to pay Australian wage rates while in our waters means Australia is at a cost-disadvantage in route-to-export market.

Similarly, WFA recommends a cost-benefit analysis of the current Government commitments to fund trials of innovative work systems through DEEWR and support a number of Industry Skills Councils (ISCs). As the vast majority of trials do not develop into programs and the performance of ISCs is highly variable, it is worth exploring whether industry representative bodies may be better delivery-vehicles.

#### Budget Need:

- Continue to review the *Fair Work Act* to ensure workplace flexibility
- Review DEEWR project funding for work systems trials and the role of Industry Skills Councils.

#### Budget Implication:

Nil.

### Achieving wine's tourism potential

Tourism Australia research<sup>12</sup> indicates that wine and food is now rated as Australia's "number one attraction" and Tourism Australia and Wine Australia last year signed a three-year Memorandum of Understanding to jointly promote wine and tourism in key international markets such as China, the US, the UK and Canada, as well as in Australia.

However, Australia has yet to establish itself as a true global culinary tourism destination and that is the primary aim of the *National Wine Tourism Strategy* released by WFA in August 2011. The strategy acknowledges the value and potential of tourism for many Australian wineries, but also highlights the need for new skills and a new approach.

An important source of funding for wineries and wine regions to develop the necessary products, infrastructure and marketing to underpin major growth in this area is the Australian Government's TQUAL Grants program. Many wine-related applications have been approved in recent years, and this has provided a major boost to the industry.

WFA strongly encourages the Government to continue to support this program and to note its importance to the wine industry. Current funding of \$10 million a year (\$40 million over four years) should be doubled.

#### Budget Need:

Double, to \$20 million a year, funding for the TQUAL Grants program and prioritise wine and food tourism applications that meet the core objectives of the *National Tourism Strategy 2020* and the *National Wine & Food Tourism Strategy*.

#### Budget Implication:

An additional \$10 million a year, ongoing.

### Maintaining judging standards

The Australian wine show system has been widely credited with Australia's move from international obscurity in 1985 to the fourth largest exporter of wine (by value) in the world. Central to this has been the expertise of our judges.

In 2000 the Len Evans Foundation was established to fund an annual tutorial designed specifically to provide selected wine industry personnel with high-level training and a pathway to judging at capital city wine shows.

To date the Foundation's funding has come primarily from the donations of a benefactor. However the Trustees are now seeking to secure a capital sum sufficient to generate investment income to underwrite the annual running cost and ensure the tutorial's future.

The Foundation recently submitted a grant application to the Commonwealth seeking such funding support. WFA strongly endorses this application, and the ongoing importance of the Len Evans Tutorial to the wine industry.

#### Budget Need:

Support for the Len Evans Foundation's funding application to the Commonwealth.

**Budget Implication:** A one-off Government commitment of up to \$2 million, as per the application.

<sup>9</sup> World Customs Organisation International Convention on the Simplification and Harmonisation of Customs Procedures.

<sup>10</sup> [www.tourism.australia.com/en-au/news/6609\\_6934.aspx](http://www.tourism.australia.com/en-au/news/6609_6934.aspx)

<sup>11</sup> [www.maff.gov.au/media\\_office/media\\_releases/media\\_releases/2012/december/wine-tourism-partnership](http://www.maff.gov.au/media_office/media_releases/media_releases/2012/december/wine-tourism-partnership)

<sup>12</sup> Consumer Demand Research in 11 key tourism markets. Tourism Australia, 2012.

## ADDENDUM: ECONOMIC CONTRIBUTION OF THE AUSTRALIAN WINE SECTOR

### Economic contribution of the Australian wine sector

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

The Australian wine industry 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 industry 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 industry.

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 \$716 million (2011-12) to Government revenue.

### Global competitiveness of the Australian wine sector

The Australian wine industry 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 \$1.9 billion in 2011-12, having reached \$3 billion in 2006-07. The decline in value since 2006-07 has principally been due to a significant increase in wine exported in bulk containers. More than half of Australian exports in 2011-12 were shipped in bulk.

### Value of Australian Exports

Financial Year	A \$Mill
1999-00	\$ 1 343
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
2011-12	\$ 1 861

Source: Wine Australia Export Approval Database.

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 16 in 2011-12. The total number of export markets for Australian wine has almost doubled from 66 to 124, 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
2011-12	16	17	91	124

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

Source: Wine Australia Export Approval Database.

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%
<b>Australia</b>	<b>8%</b>	<b>8%</b>
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 2011-12. 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%	46%
2011-12	61%	NA

Source: Wine Australia's Export Approval Database.

Note: Australian wine only.

## Australian Wine Sales

### Australian market

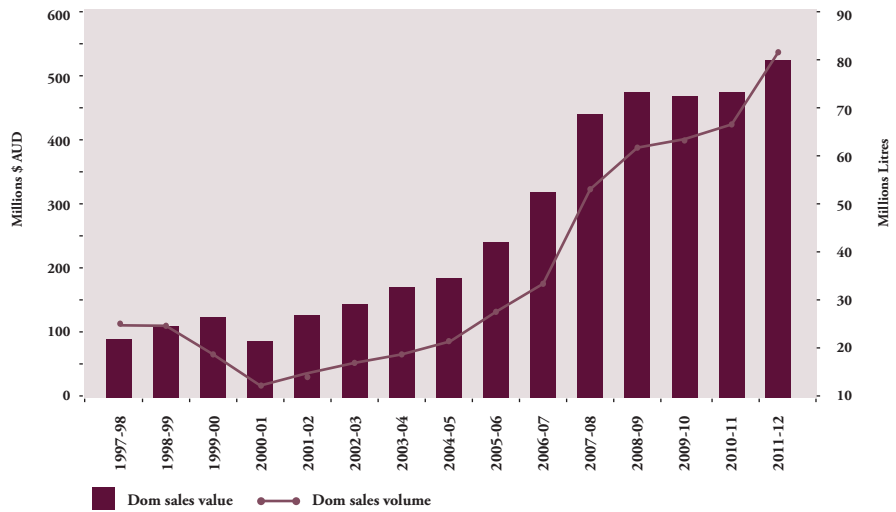
The volume of wine consumption has steadily increased over the last decade but shows a decrease in the last financial year which was driven by a fall in domestic sales, with the decrease being partially offset by an increase in imports. Wine available for consumption (domestic sales + import sales) has 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.

During 2011-12 imports of wine increased by 15.5 million litres, and by 29 million litres over the last five years. Most of this increase over the five years came from New Zealand.

Imports have significantly increased their market penetration in Australia, from 3% in 2000-01 to 15% in 2011-12.

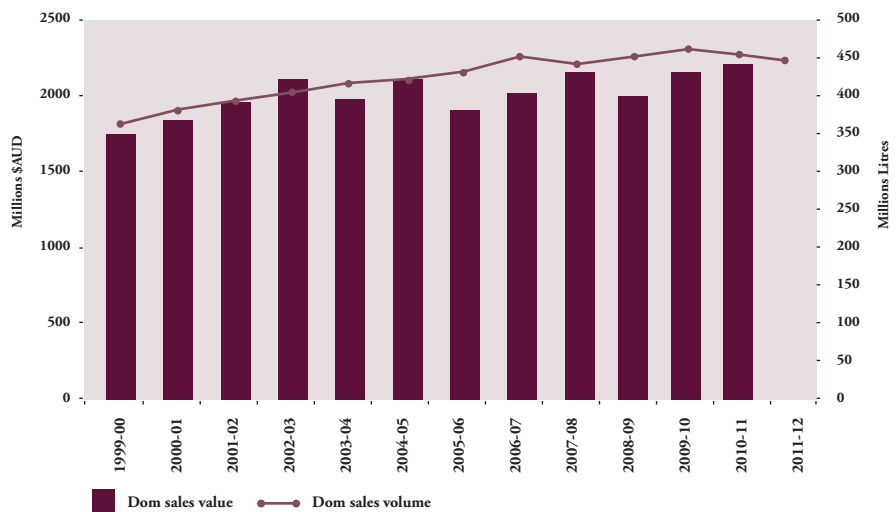
Total wine sales to Australian consumers have maintained a modest growth trend but imports are maintaining their share of the market.

### 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

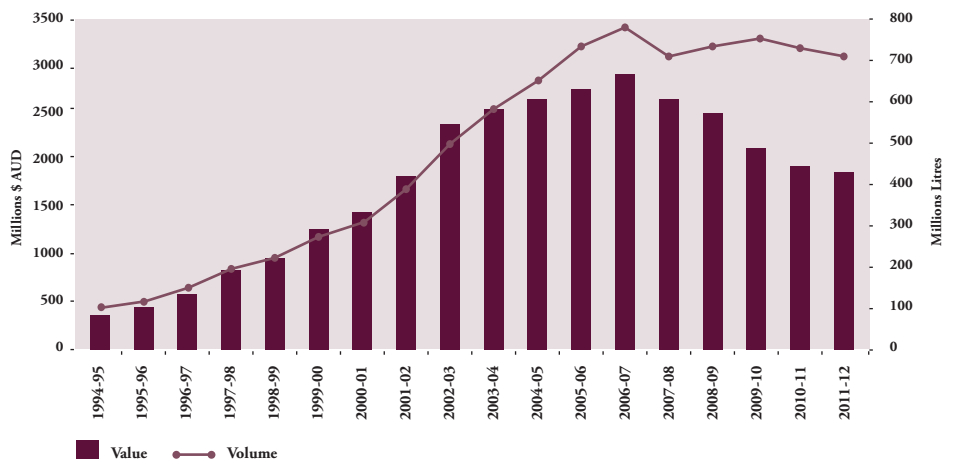


Source: ABS Cat No. 8504.0 Shipments of Australian Wine & Brandy in Australia by Australian Winemakers and Importers via Wine Australia's Winefacts Statistics.

### Export market

The volume of Australian wine exports decreased in 2011-12 by 2% and the value of exports declined by 5%. The average value per litre of exports declined by 3%. The value per litre has been declining almost continually since 2001-02 due mainly to increase of bulk wine in the export mix.

### Value and Volume of Australian Wine Exports



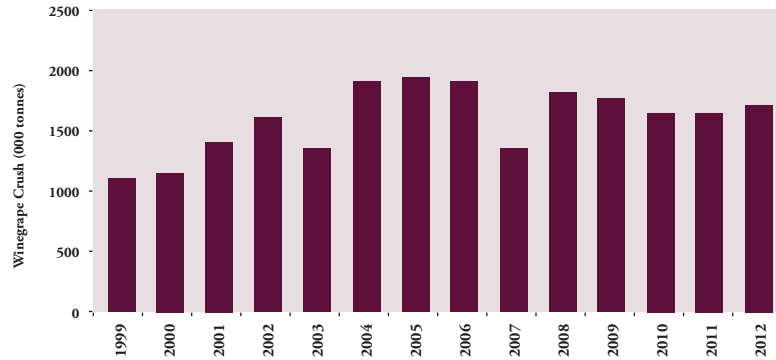
Source: Wine Australia Export Approval Database via Wine Australia Winefacts Statistics

### Australian grape production

Since peaking in 2005, total wine grape production has declined but with a high seasonable variation. Much of the annual fluctuation is attributable to seasonal yield variations. However, the national vineyard area has declined, with net removals for five successive seasons. Australian wine stock levels have consequently fallen over last few years, down to an estimated 1.66 billion litres at June 2011. This is well below the peak of almost 2.4 billion litres in 2005-06

Much of the growth in Australian grape production to 2006 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.

### Wine production over time



Source: ABS Vineyard Survey

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.

However, since 2000 real average grape prices have steadily declined and the price paid in 2012 was below the 1991 price.

### Contribution to regional economies

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

As of 2012 there are 2532 wineries operating in Australia. Victoria has the highest number of wineries at 750, followed by South Australia with 695. New South Wales and the Australian Capital Territory have a combined total of 474, Western Australia has 394, Tasmania has 112, while Queensland has 107. 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 winegrape growing is undertaken at a significant scale (more than 500 hectares under vine). There are a further 51 wine areas where winegrape 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 industry’s contribution to regional economies is more transformational than most other rural industries due to:

- 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 industry 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 industry 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.

