

Australian Grape and Wine Incorporated

BOARD COMMUNIQUÉ – 22 February 2022

The Board of Australian Grape and Wine Incorporated (Australian Grape & Wine) held a Strategy session on 21 February, followed by a Board meeting on 22 February. The Board then met informally with the Board of the Australian Wine Research Institute (AWRI) and Martin Cole (CEO) and Justin Brown (Board Member of Wine Australia) on the evening of 22 February. John Hart and Tony Battaglione presented to the full Board of Wine Australia on 23 February. Despite travel restrictions from the ongoing COVID-19 pandemic and vintage, the Australian Grape & Wine meetings were held in-person.

It is no surprise that the current market situation dominated proceedings at both the Strategy Day and Board meeting.

As we progress through vintage 2022, Australia isn't reallocating premium wine fast enough to compensate for the China market closure. While export diversification is critical moving forward, the process is slow and difficult, exacerbated by global freight and logistics problems and the ongoing issues caused by COVID-19. These issues mean it will be another challenging year for the grape and wine sector and the advocacy of Australian Grape & Wine will be critical in working with government/s to get behind the sector in these tough times.

The finances of Australian Grape & Wine continue to be healthy. Despite running a planned deficit in 2020-21 due to the defence of the China Countervailing Duties Investigation and the Anti-Dumping Investigation, equity remains strong. Pleasingly, membership numbers also continue to grow despite the tough economic conditions for the industry.

Election 2022

The Federal election is likely to be held on 7, 14 or 21 May. Although the result is difficult to forecast, most commentators believe there is a probability of a change in government, albeit the possibility that independent candidates could result in a minority government. Australian Grape & Wine remains highly regarded by both sides of politics and no matter the result, we are well positioned to continue the strong relationships we currently enjoy. However, it is important we use this opportunity to seek government initiatives that will support the sector through the next few difficult years.

Our annual Pre-Budget Submission outlines a number of these initiatives, but no single initiative will turn the dial and provide relief to those growers and winemakers currently under pressure. We must grow demand for Australian wine, and this must be both in export markets and domestically. For example, at the Board meeting it was recognised that the Export Market Development Grant (EMDG) program is an excellent way of enabling exporters to sell more wine. Australian Grape & Wine is advocating the opening up of the EMDG programs to those wine exporters who are no longer eligible (due to being a previous recipient of grants) coupled with a raising of the income threshold. This simple proposal would permit experienced exporters to rapidly grow demand in developing markets.

We are seeing pricing pressure, exacerbated by high freight and labour costs which further impacts domestic producers. The downward price pressure on grape prices is acute and coupled with high stocks in tank it is likely that we will see many grapegrowers under pressure. The stock to sales ratios indicates that even with a vintage at the long-term average (1.7-18 million tonnes), red grapes will be in oversupply this year.



All sides of Federal politics are well briefed on the supply demand situation and its impacts, but the reality is that government support will be limited. Subsidies are not the answer, but support for market diversification, domestic tourism, continuation of asset write-offs are all part of our strategy.

Freight and labour arrangements are not going to be solved in the short-term and we must plan for slow recovery in these areas.

Coordinated action

It has never been more important for the Australian grape and wine sector to work together to overcome the economic pressures we are facing. We are very conscious of the need to ensure R&D focuses on commercial outcomes and that priorities are set by industry to ensure commercial outcomes. This does not mean an abandonment of tradition research, but a greater integration of industry into the process. The Board is committed to working with Wine Australia and AWRI to enhance our existing processes.

Marketing is in a similar position. Wine Australia are entrusted with industry levy funds, and we are committed to working with them to ensure that we can get best bag for our buck. The search for a new General Manager - Marketing is underway and we need someone to hit the ground running. Our grant obtained through the Federal Government's Agribusiness Grant is enabling us to put bodies on the ground in South Korea and Japan, and we are looking at ways to ensure this resource becomes available to States and Regions and integrates with Wine Australia.

Australia's international brand image

It is critical that Australia's international brand image for wine is improved, with sustainability a critical issue facing the Australian wine industry. Actions to achieve net zero emissions and waste are of the highest priority. Sustainable Winegrowing Australia - Australia's sustainability program - needs to be accepted by major retailers, and other stakeholders, as meeting Environmental, Social and Governance (ESG) objectives.

Market access

Market diversification needs to be looked at as a long-term strategy. There are several key developments underway that were discussed around the Board table.

EU-Australia Free Trade Agreement negotiations are scheduled to recommence soon after a period in hiatus. These negotiations have potential benefits, but also high risks associated with them. The aggressive demands from the EU to restrict our use of grape variety names, their attempts to limit our use of wine additives and processing aids and restrictive labelling requirements are all high on our agenda. Fortunately, the government supports our active participation in the negotiations to ensure we get the balance right.

India is no silver bullet. But, in September 2021, India and Australia agreed to conclude the long-pending free trade agreement by the end of 2022 and an early harvest trade deal by as early as December. The decision to expedite negotiations for India-Australia Comprehensive Economic Cooperation Agreement (CECA) between the two countries was taken at a meeting between Commerce Minister, Piyush Goyal, and Australian Minister for Trade, Tourism and Investment, Dan Tehan.

However, to put this in context, the only FTA signed by India over the past seven years has been with the 10-member Association of Southeast Asian Nations (ASEAN) in 2015 - and the two sides had already completed most of the groundwork before Modi took office.

In November 2019, India walked out of negotiations on the Regional Comprehensive Economic Partnership (RCEP), leaving a collective of the 10 ASEAN states, China, Japan, South Korea, Australia, and New Zealand to sign on without New Delhi. The RCEP is the world's largest trade deal and came into effect in January.

There has been a flurry of activity in January and February with negotiators meeting regularly, and several Ministerial meetings over the possible Free Trade Agreement. One of the key objectives of the Australian Government is to seek improved access for Australian wine and reduced import tariffs. We are working closely with the Trade Minister and the Department of Foreign Affairs and Trade on this issue. It is a difficult negotiation, but the potential rewards are high.

The UK-Australia Free Trade Agreement finalised in December 2022 brings major benefits to the Australian grape and wine sector. Its speedy ratification and introduction become even more critical when we consider the United Kingdom's review of alcohol taxation will see duty increase for 70% of all wine, for 80% of still wine, over 95% of red wine and 100% of fortified wine. Our FTA will put us on a level playing field with some of our competitors and ahead of many. On the technical front, we are proposing to recommence discussions with the UK, in the context of the FTA, in May 2022.

The UK's review of alcohol duties has proposed a new regime, under which wine and sparkling wine between 8.5% ABV and 22% ABV would be taxed at £25.88/litre pure alcohol. We are supportive of simplification of the tax system and believe that a taxation system providing incentives for low alcohol beverages and encouraging reducing alcohol content is appropriate. The UK Government is currently consulting over the proposals. Australian Grape & Wine, working closely with our companies and other exporters to the UK, supplied submissions to the UK government. Both Minister Tehan and the Minister for Agriculture and Northern Australia, The Hon. David Littleproud MP are supporting the industry. The disproportionate impact of the proposed duty increases on wine and the system proposed cause us significant concerns. We will continue to engage with the UK government over the coming months to try and seek a better outcome.

Domestic Regulation

The domestic regulatory front remains contentious.

Mandatory energy labelling of alcoholic beverages is coming. In response to a request from food ministers, Food Standards Australia-New Zealand (FSANZ) conducted an analysis of regulatory and non-regulatory options for energy labelling of packaged alcoholic beverages to identify a preferred approach. This included targeted consultation with industry, public health, consumer, and jurisdictional stakeholders. The key outcomes were:

- on-label energy content information is the best option to address the problem and is generally supported by stakeholders as the preferred option;
- a shortened nutrition information panel (NIP), containing average energy content only, was preferred by most stakeholders; and
- a mandatory approach would provide greater coverage and consistency for consumers and provide regulatory certainty and a level playing field for the alcohol industry.

Based on the findings of this work, FSANZ is preparing a proposal to consider changing the Australia and New Zealand Food Standards Code to include energy labelling of alcoholic beverages. Work on the proposal is expected to commence in early 2022.

The Australian Consumer and Competition Commission (ACCC) continues to monitor progress on improving commercial practices in the grape and wine sector. The current vintage conditions make it even more vital that buyers and sellers of grapes operate ethically and honestly.

The ACCC has noted the efforts of Australian Grape & Wine to improve the coverage and strength of the voluntary industry code. However, they believe more work is needed to improve price transparency and shorten payment terms. They single out that their recommendation is for a best practice standard of payment within 30 to 60 days of grape delivery, where many winemakers have not significantly reduced the length of their payment terms.

They also note that growers still have challenges getting access to timely and accurate price information.

The ACCC is not recommending a mandatory industry code, or any similar regulation be introduced at this time. They will continue to monitor developments in the sector to ensure gains are realised and progress continues.

They conclude that they will consider recommending or taking further regulatory action if improvements are not made on price transparency and lengthy payment terms.

We believe we can address many of the issues around price transparency by means of a \$5m grant program aimed at improving market transparency in perishable agricultural goods industries. In the lead up to this grant program opening, Australian Grape & Wine, Wine Australia and members of the Inland Wine Regions alliance all attended a number of workshops aimed at developing proposals for these grants. We are working collaboratively on a proposal for up to \$1m to deliver better information by Wine Australia.

Container Deposit Schemes

Australian Grape & Wine has been concerned about potential national impacts of changes to the South Australian Container Deposit Scheme (CDS). These changes would add approximately 40 cents per bottle to winemakers' costs - a significant additional financial impost in the context of current challenges; with the proposal forecasting a negligible increase in glass recovery rates (from 77% to 78% of containers), and no evidence-based link to improve rates of recycling of glass. If SA expands the scope to include wine bottles in its CDS, it is highly likely that other states and territories will follow, further increasing costs for wine businesses and potentially leading to significant regulatory divergence across jurisdictions.

Australian Grape & Wine remains concerned about the implications of the proposals but is also sensitive to the need to maintain the sustainability credentials of our sector. This means looking at all available options that can improve recycling and minimising waste, while not cost shifting onto the production sector. It was noted the excellent job in promoting the interests of South Australia producers by the South Australian Wine Industry Association.

Biosecurity

With the National Phylloxera Management Protocols (NPMP) now being over ten years old, it is well recognised and accepted that the current management approach requires review. The NPMPs exist to guide State legislation relating to movement conditions. They also contain guidelines for rezoning of areas thought to be infested or at risk of being infested.

On 22 October 2021 Australian Grape & Wine convened a meeting with the Australian Chief Plant Protection Officer, the Chief Plant Health Officers from each State, as well as representatives from State and commonwealth agriculture departments and Vinehealth Australia. At that meeting it was confirmed that a more modern approach is warranted. Phylloxera management should be guided by a pest risk assessment and any documented management guide should recognise the role of industry and businesses. A scope of work proposal will be put to all viticulture industries and state and federal government for consideration before being presented to the Plant Health Committee for endorsement.

State and Regional forum

The State and Regional stakeholder forum was held on 9-10 February in Adelaide. This forum was highly successful and provided a good opportunity to hear and understand key issues affecting the sector. We are looking at how to continue this and ensure we can represent all stakeholders more effectively.

Other issues

Diversity, equality and inclusion in the sector remain critical to our long-term success as an industry. Expanding the scope of our work beyond gender is also a priority. The Board agreed that the expanded scope beyond gender would include BIPOC (Black, Indigenous and People of Colour) and people with disabilities.

The role of the Diversity Equality and Inclusion in Wine Charter and its associated framework and action plan (DEIW) in the Australian wine sector is that of thought leadership - to enable positive cultural change in all workplaces, in all regions of the Australian wine sector. DEIW will act as the driver to seize opportunities and tackle challenges in the Australian wine sector. DEIW will set the strategy and will aim to enable mechanisms for others in the sector to move the dial. The framework for DEIW is currently being developed and will be presented to the Board at the next Board meeting.

A number of international developments are of interest and have potential implications for the Australian grape and wine sector.

EU developments on cancer

In December 2021, the European Parliament's (EP) Special Committee on Beating Cancer (BECA) approved its final report on how to strengthen the EU's role in the fight against cancer. The report stated that there is "no safe level of alcohol consumption" and asked the European Commission (EC) to consider health warning labels and higher alcohol taxes. Amendments to the Bill have replaced the original language in the original BECA report stating that "alcohol consumption" is a risk factor for many cancers with "harmful consumption" instead. However, it is not clear whether health warning statements will be required.

New genome technologies in the European Union (NGTs)

On 29 April 2021, the European Commission published a study regarding the status of New Genomic Techniques under Union law. The study defines NGTs as 'techniques capable of changing the genetic material of an organism and that have emerged or have been developed since 2001', that is, after the existing EU legislation on genetically modified organisms is adopted. The main conclusions of the study point to 'limitations as to the capacity of the legislation to keep pace with scientific developments,' stating that this causes implementation challenges and legal uncertainties. An impact assessment will underpin this initiative and assess the policy options and their impacts. The impact assessment will consider the evidence base and data collection outlined below, and the feedback received during the consultation process. This consultation will take place in 2022, with proposed implementation in the second quarter of 2023.

There were many other issues discussed at both the Strategy day and Board meeting. However, the emphasis was on how to grow demand and ensure profitability across the supply chain. There are no easy answers, but Australian Grape & Wine will focus on this over the coming months.

Tony Battaglione
28 February 2022