AUSTRALIAN Grape & Wine

Trade & Market Access Strategy

APRIL 2022

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FOREWORD

After more than 20 years engaged directly in trade and market access issues, I have witnessed many changes in the international wine trade. Despite this, I am still amazed at the challenges and opportunities which present themselves as each season unfolds. It is a dynamic environment which demands continuous adaptation to new scenarios. A highly fluid geopolitical environment, and the Covid-19 pandemic have permanently changed the landscape we have become accustomed to.

Australian Grape & Wine released Vision 2050 in June 2020. Developed by Australian Grape & Wine, in collaboration with Wine Australia, Vision 2050 looks beyond the immediate and significant challenges of bushfires, smoke and COVID-19 and sets a range of ambitious targets to strive for by 2050. These include increasing growth in value to become a $15 billion industry, a net-zero emissions target, and expanding on our export success to become the number one valued product in each key market we operate in.

International exports are the key element to the sector's success. Today, more than ever, international wine trade is a vital barometer of the Australian grape and wine sector's health Trade success provides benefits across the supply-chain, from the growers who produce the grapes, to winemakers, and the broad range of industry suppliers who provide materials such as, for example, vineyard inputs, machinery, glass bottles, labels and professional advisory services. These benefits have significant flow-on effects, driving economic growth, investment and employment across rural and regional Australia, and particularly in our 65 wine regions and the communities they support.

The decision in 2021, by China's Ministry of Commerce (MOFCOM) to impose dumping and countervailing duties, equating to total duties of more than 218.4 per cent for some exporters, has brought the need to diversify Australia's wine export footprint into sharp focus.

To reach our targets we need to diversify our markets. Exports are key to the profitability of Australian grape and wine businesses.

Historically, Australia's ability to attract consumers around the world has been driven by our reputation for producing wines of the highest quality, our clean and green image, and our willingness to embrace innovation. But attracting consumers is only part of the story. Our work with the Australian Government over many years to improve market access outcomes through free trade agreements (FTAs), multilateral engagement and technical and regulatory cooperation, has underpinned the ability for businesses to invest in entering markets with confidence.

In working to diversify our exports it is critical that we take a long-term, strategic approach to improving market access. In key emerging markets, such as India, we need to increase collective effort to develop a business enabling regulatory and political environment as soon as possible.

However, impediments to trade remain in the forms of import tariffs and taxation, additional cost to transport to overseas markets, overly burdensome technical specifications, inconsistent compliance requirements, increasing customer and retailer expectations and growing fraud and corruption risks. These require a planned and well executed strategy to streamline trade. The key to resolving these issues is in working collaboratively with the Australian Government, overseas governments, industry organisations and international forums to build meaningful trade agreements and harmonise international trade regulations, laws, and standards, with our own.

As the sector's peak industry body, Australian Grape and Wine Incorporated (Australian Grape & Wine) has a leading role in working to reduce trade and market access barriers to make exporting easier for Australian wine businesses. Our role in trade is whatever it needs to be to facilitate Australian wine exports in the most cost-effective and harmonised manner possible, to provide the sector with the best opportunity to capitalise on the high demand for our wine.

This strategy provides the Australian wine sector with a clear roadmap for the long-term priorities in trade and market access to ensure we can continue to grow and build resilience in our sector's international wine trade.

Tony Battaglene

Chief Executive
Australian Grape and Wine Incorporated

INTRODUCTION

Australia's international wine trade dates back to the 19th century. During that time, it has changed dramatically in terms of the products exported, the markets, and of course the evolving and rapidly changing geopolitical environment.

This strategy recognises the dynamic trading environment and is designed to position the Australian grape and wine industry to take advantage of market opportunities and trends, while building our ability to respond to challenges in the future. In 2020, Australian Grape & Wine, in collaboration with Wine Australia, launched *Vision 2050*, a roadmap to guide the Australian grape and wine sector to a more prosperous and sustainable position by the middle of the century. It seeks to not only grow the value of our industry, but also to build resilience to help address the challenges posed by climate change, geopolitical tensions and other external crises. A diverse and appreciating export offering is part of the strategy, but this will depend on our ability to make sure that as many international markets as possible can access our wines with as little administrative cost burden as possible.

The Australian Grape & Wine *Trade and Market Access Strategy* and action plan will help achieve this vision.

Vision

To enable a profitable grape and wine sector through unfettered market access for Australian wine exports.

This Trade and Market Access Strategy documents the opportunities, barriers, and regulatory requirements for Australian wine success in international markets in the years ahead. This strategy will drive activity to remove barriers to trade, reduce export costs, and support the realisation *Vision 2050*'s key objective of growing Australian wine exports to $10 billion by 2050.

Aim

To ensure that the Australian grape and wine sector is equipped to respond to customer demand in export markets, by reducing trade barriers and realising substantial and meaningful improvements in market access around the globe.

Key Pillars

The key pillars of this strategy that will facilitate the aim are:

1. Ensure alignment of Australian Government and Australian Grape & Wine trade and market access strategy and priorities.
2. Engage in relevant international forums to pursue and advocate for positive Australian wine export market outcomes.
3. Identify and mitigate technical barriers to trade in wine.
4. Support the Australian Government's approach to strengthening the multilateral trading system and pursuing bilateral and plurilateral trade agreements.
5. Develop and support initiatives to promote sustainability, ethical production, mitigation of climate change and others and promote their acceptance in the international markets.
6. Identify and promote market opportunities in new and developing export markets.

ROLES, RESPONSIBILITIES AND COLLABORATIONS

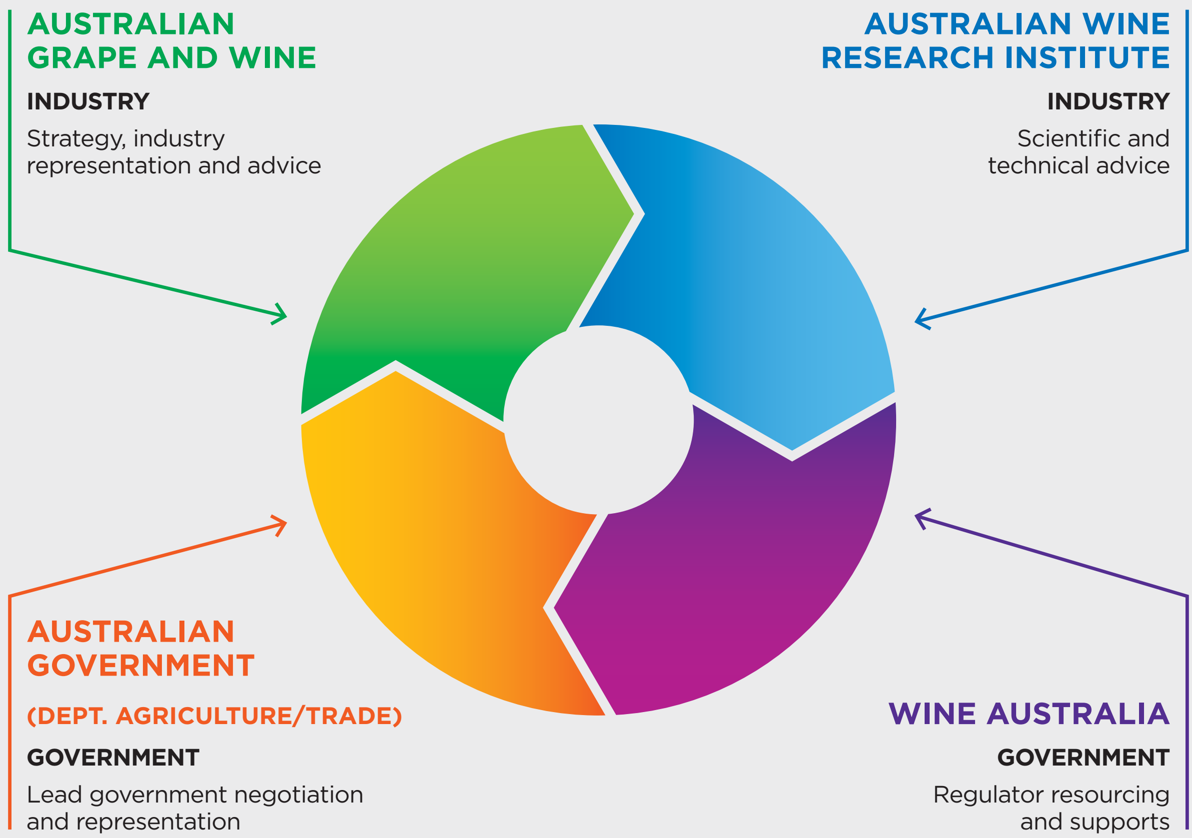
Australian Grape & Wine

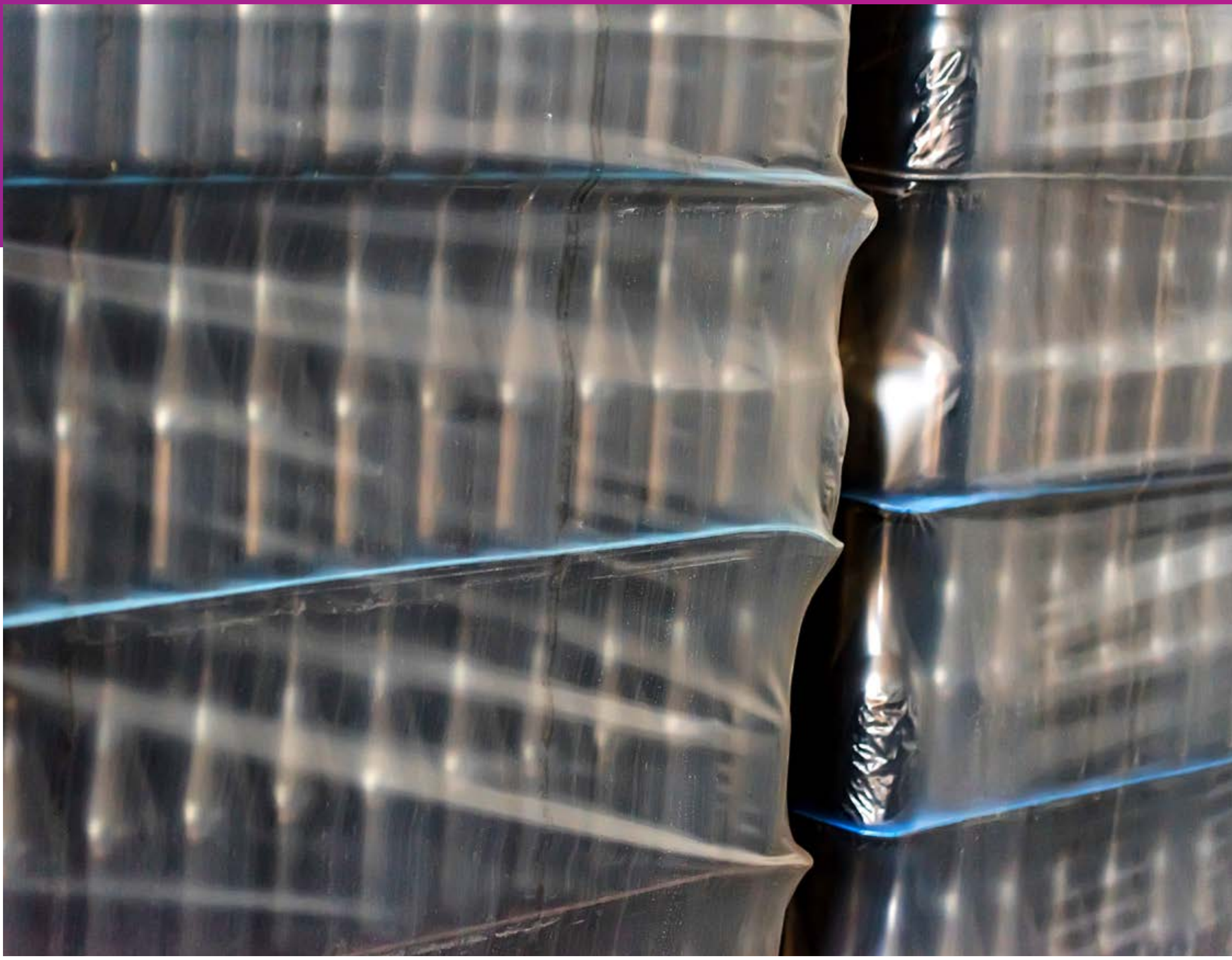
Australian Grape & Wine identifies emerging trade barriers, challenges them, seeks resolutions, advocates to governments on behalf of our sector and provides our members with guidance to adapt to the ever-changing international trading environment. We are committed to doing what we can to support and strengthen the multilateral rules-based trading system and we're proud of our long and productive history of engaging in various international fora. Australian Grape & Wine advocates for comprehensive, high-quality, mutually beneficial free trade agreements to provide certainty for exporters and allow countries to deepen their economic and trade ties.

Australian Grape & Wine has established strong and regular collaboration with domestic and international wine industry colleagues, to help underpin our ability to deliver effective market access outcomes. Over many years, we have established valued international contacts who we work with regularly, to understand and address trade opportunities and impediments. Effective trade relations and maintaining positive engagement with our key markets, is one of the most important aspects of our work.

Working effectively in collaboration with national wine and government organisations (refer to Figure 1) here in Australia will continue to be the key to ensuring the sector continues to excel in international trade.

Figure 1 - Roles of the key organisations, working collaboratively to improve trade and marker access for Australian wine.





Wine sector industry bodies and businesses

Australian Grape & Wine works collaboratively with and receives significant technical support from the Australian Wine Research Institute (AWRI) and Wine Australia.

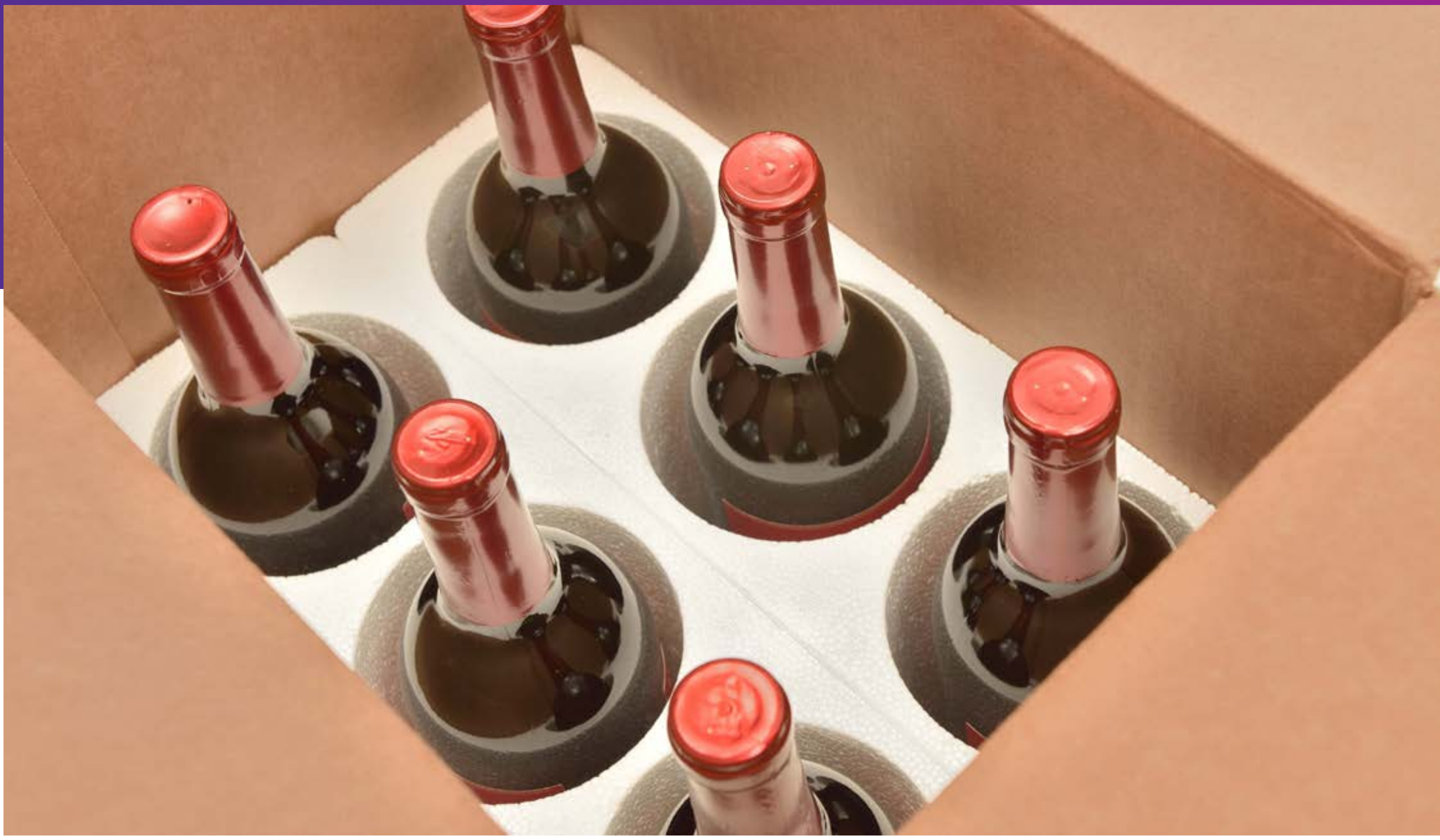
Wine Australia plays an important role as the government regulator of Australian wine exports. It also provides information on regulatory requirements in export markets to exporters, assists with technical advice to the lead Government agencies and alerts government to any problems in external markets notified by exporters.

The research arm of Wine Australia plays an important role in funding research both as a tactical response to market access issues and for strategic positioning of the Australian sector to respond to future issues. In addition, Wine Australia provides funding support to the AWRI, to undertake research and provide technical advice in support of the strategy.

The **Australian Wine Research Institute**, a not-for-profit, industry governed entity, established by the grape and wine sector and governed by an industry-elected Board. Sustained investment through industry levy funds administered by Wine Australia, its predecessor bodies and other funding agencies, has resulted in the development of world-class research, development, extension and adoption capacity (both people and infrastructure), specifically aligned to industry needs for addressing challenges and harnessing opportunities for the Australian grape and wine sector. Its analytical capabilities, technical input and research are vitally important to supporting the activities aimed at reducing technical market access issues in international forums.

In addition, sharing resources and information through our international network of industry contacts across the world, provides an early warning system on trade impediments, assists in providing information, as well as provides translations and interpretations of international regulations and trade barriers. It also allows for collective action and for our contacts in overseas wine associations to seek their country's support to work collaboratively to resolve a trade barrier.

Finally, our close contacts with the Australian and international wine businesses are also critical for providing early signals on commercial barriers, often before official government notifications are issued, which further helps us initiate pre-emptive resolutions to emerging issues



Australian and international governments

As an advocacy body, Australian Grape & Wine plays a vital role in developing the grape and wine sector's profile with the Australian Government. We maintain strong and productive working relationships with relevant ministers and shadow ministers, particularly in the trade and agriculture portfolios, along with government departments like the Department of Foreign Affairs and Trade (DFAT) and the Department of Agriculture, Water and the Environment (DAWE).

Our close association with Wine Australia helps ensure exporters are provided with the information they need to understand the regulatory requirements in international markets and the provision of technical advice to government agencies.

The Australian Government regularly consults with us on trade agreement negotiations, and our bi-annual Wine Industry Market Access Group meetings with key government stakeholders, including DFAT and DAWE, provide further opportunity to exchange information and updates.

Working in international bodies and forums

A key strategic priority involves maintaining a high level of engagement and influence within a number of key international forums. Australian Grape & Wine has for many years established itself as a leader across a range of international forums to ensure the sector's interests are protected and/or improved.

The following outlines the roles of the key international groups that will be prioritised through the strategy:

The **International Organisation of Vine and Wine (OIV)** is an intergovernmental organisation concerned with the scientific and technical aspects of oenology and viticulture. The organisation produces a series of technical recommendations. These are not binding on its 44 member countries, but are a key influence on global wine regulation.

The **World Wine Trade Group (WWTG)** is an informal association of both Government and industry representatives from wine producing countries interested in promoting improved access to international wine markets. It has negotiated two binding international treaties on wine production and labelling as well as a number of other useful Memorandums of Understandings and Principals between its membership. In recent times its priority activity has been sharing of information and understanding and addressing trade barriers through joint agreed action.

The **Asia-Pacific Economic Cooperation (APEC)** is a regional economic forum established in 1989 dedicated to improving regulatory cooperation and trade facilitation between the 21 Pacific Rim economies that comprise the Asia Pacific Economic Cooperation region. It has a number of forums including the Asia Pacific Economic Cooperation Wine Regulatory Forum (APEC WRF) which has a long history of utilising shared knowledge, technical experts and collaboration for resolving wine trade barriers throughout the APEC region. The APEC Food Safety Cooperation Forum is another key Codex forum of importance to wine. It was first established under the APEC Sub-Committee for Standards and Conformance (SCSC) in the Hunter Valley, Australia, April 2007.

The **World Trade Organization (WTO)** establishes a number of agreements that govern the world's trading rules. The objectives of these rules are to prevent the introduction of unilateral measures designed to impede trade and give the country imposing the regulation an unfair advantage. The WTO also provides a pivotal function of notification and engagement of measures implemented by members which may impact trade via its Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) notifications and committees. These notifications and committees managed by governments form a key mechanism to address global trade barriers under this strategy.

The **Codex Alimentarius Commission (Codex)** develops internationally adopted food standards. These food standards and related texts aim at protecting consumers' health and ensuring fair practices in the food trade. The publication of the Codex Alimentarius is intended to guide and promote the elaboration and establishment of definitions and requirements for foods to assist in their harmonization and in doing so to facilitate international trade. Codex is critically important as its decisions are often adopted or adapted when countries are designing and implementing their wine regulations and standards.

The **International Wine Technical Summit (IWTS)** is an informal gathering of wine technical experts from both government and industry, seeking to promote best practice in the use of science when developing regulatory systems.

International Organization of Legal Metrology (OIML) is an intergovernmental organisation established by treaty in 1995 to promote global harmonisation of legal metrology procedures and comprising Member States and Corresponding Members.

The **Organisation for Economic Co-operation and Development (OECD)** provides a platform in which Australia can promote the benefits of a free, rules-based multilateral trading system. This requires ongoing engagement and leadership from Australia, to drive an agenda that works in the interests of advancing the interests of a free and open market for agricultural trade.

COMMON TRADE BARRIERS

Trade barriers are generally categorised as tariff barriers or non-tariff barriers. Both impose time or cost barriers to trade and vary in their significance. This cost and time impost reduces competitiveness of global exports particularly when, in certain circumstances, more favourable conditions are applied to domestic or other international competitors. Therefore, a pivotal aspect of seeking to grow our exports across our key export markets, is to reduce or remove tariff barriers and non-tariff barriers as much as possible. This is done mainly through harmonisation of requirements, mutual acceptance or recognition and high-level trade agreements.

Tariff barriers

Tariff barriers are effectively in-market taxes on imported products which can make them less competitive. These import tariffs are imposed on a country-by-country basis and differ across all products. They can range from zero to hundreds of per cent. Typically, these tariffs can only be removed or reduced through trade agreements between trading partners. Import tariffs may be applied preferentially, without contravening international trading rules. As such, they can be used as leverage in negotiations or in trade disputes. In addition to import tariffs, countries may also impose additional taxes both nationally or by state as well as special taxes which can typically be justified on the grounds of social, health or environmental impacts of products.

When import tariff rates are high, they present a barrier to export due to the high costs they impose. In the case of lower tariff rates, they provide an unwanted additional cost, which may not be imposed on other competitors in the market.

Non-tariff barriers

For many of our markets, the application of many of the non-tariff barriers can be more significant than tariff barriers. Non-tariff barriers can arise from a requirement for different technical specifications on wine which often imposes additional cost burdens arising from extra compliance administration, or the development of new social, health or environmental prerequisites for wines, depending on which country it is being exported to.

Examples of technical barriers:

- Differences in inputs permitted between markets;
- Differences in allowable winemaking processes;
- Differing labelling requirements, (e.g. health warnings, allergens, ingredients list, nutritional advice, etc);
- Differing Maximum Residue Limits (MRLs); and
- Country/regional protection of terms including Geographical Indicators (GIs), varietal styles and IP.

Examples of social licence and customer driven barriers:

- Differing requirements for organic status;
- Differing environmental standards, sustainability etc; and
- Specific retailer requirements.

Examples of market structure and disruptions:

- United States' three-tier alcohol distribution system;
- Unbalanced market power created by retail monopolies;
- Transport, freight, shipping, and logistical disruptions;
- Corruption and fraud;
- Political disputes threatening, slowing or halting of trade;
- Adapting to changing technology (e.g. digital certificates); and
- Biosecurity concerns (e.g. BSMB – restricting access to barrels/supplies from certain countries).

Variation in Standards and harmonisation

Differing standards are a key cause of technical barriers to trade. At the national level, government standards, which are often called technical regulations, are developed and promulgated by Federal, State, and local agencies to address health and safety concerns. Technical regulations differentiate from the rest, as they are by law mandatory.

International standards are developed and disseminated by international governmental and non-governmental standards development organisations, such as International Standardisation Organisation, International Electrotechnical Commission, the International Telecommunication Union or Codex Alimentarius.

These international standards are voluntary standards. At the international, regional or sub-regional level, harmonisation of standards is done through regional standards bodies or sub-regional standards organisations. These international standards can then become part of the solution.

Industry / private / buyer standards, however, are a growing concern and require different strategies. They can be broken down into three categories:

1. Consortia standards – which are often developed by a sector-specific consortium (i.e. GlobalGAP).
2. Civil society standards – established as an initiative by a non-profit organisation usually as a response to concerns over social and environmental conditions (e.g. Forest Stewardship Council).
3. Company-specific standards – which are developed internally and apply to the whole supply chain of a company (i.e. codes of conduct).[1]

While private sector firms and consortia have often been the driving force behind the formulation of management and product standards in industrialised countries for more than a century, there is an emerging sense that the multitude of private standards and retailer requirements have a growing impact on developing country firms' ability to participate in global production and supply chains, essentially acting as defacto barrier to entry.

The building of health and safety concerns in industrialised countries (such as food safety, use of chemicals, working conditions, etc.) have resulted in an environment where not only the government regulations have become stricter, but the retailers/supermarket chains have started to drive the trend for stringent standards due to consumer awareness. Reputation and brand protection, global sourcing, differentiation in the marketplace, and control and rationalisation of supply have been important drivers for private standards.

1 Private standards | UNIDO: https://www.unido.org/our-focus/advancing-economic-competitiveness/meeting-standards/private-standards

RATIONALE FOR AUSTRALIAN GRAPE & WINE TO FOCUS ON TRADE BARRIERS

By 2050, Australian Grape & Wine's vision is for the sector to show 3 per cent compound annual growth in unit value ($15 billion industry) with a total wine sector and associated tourism contribution to the Australian economy of over $100 billion. In the aftermath of China's trade-prohibitive import duties, our short-term objective has now shifted to reallocating the wine that would have gone to China into new or existing markets without cannibalising the price or market share of Australian wine.

The only options to achieve these objectives are to grow existing markets and develop new markets. This is likely to include developing new products targeted at different market segments as well as market diversification.

Exports are key to the profitability of Australian grape and wine businesses. Historically, our ability to attract consumers around the world has been driven by our reputation for producing wines of the highest quality, our clean and green image, and our willingness to embrace innovation. But attracting consumers is only part of the story. Our work with the Australian Government over many years to improve market access outcomes through free trade agreements (FTAs), multilateral engagement and technical and regulatory cooperation, has underpinned the ability for businesses to invest in entering markets with confidence. Unlike many of our key competitors, Australia's export success story has not been driven by subsidies, or a comparatively lower cost base. Science, innovation, and collaboration have driven our rise to becoming the world's fifth largest wine exporting nation. Market diversification may be geographic or demographic and requires new strategies that lead to understandingconsumer drivers, identification of opportunities, product development and improved access to markets.

Reducing international trade barriers delivers economic benefits not just to Australian wine exporters, but right across the supply chain and through to those regional communities that rely on our sector for their prosperity. Case studies where Australian Grape & Wine's leadership has delivered positive outcomes for Australian wine exporters, are outlined on the Australian Grape & Wine growing our exports page (agw.org.au/policy-and-issues/growing-our-exports).

Some examples of previous work that have reduced trade barriers and improved trade conditions include:

- **Free Trade agreements** – Free Trade Agreements (FTA) have yielded significant benefits for Australian grape and wine producers. They vary in their impacts but the main gains from these involve improved competitiveness and reduced cost of export as a result of removal or reduction of tariffs or technical barriers to trade. This can often be followed by surges in export market growth as Australian wines become more competitive in that market.
  - One key example of such growth driven by an FTA is The China-Australia Free Trade Agreement (ChAFTA) – signed in December 2015. It reduced tariffs and supported agreement on regulatory cooperation on wine. The Agreement sparked a surge of investment that grew a $400million export market to around $1.2billion in under five years.
- **Technical Agreements** – Australia has signed a number of treaty level agreements that have provided significant benefits to the Australian grape and wine sector. These have included:
  - The World Wine Trade Group Mutual Acceptance Agreement on Oenological Practices (MAA) and Labelling Agreement, which allow for mutual acceptance of practices between all WWTG member countries, allowing for easier trade.
  - Australian & the European Community Agreement on Trade in Wine (the Wine Agreement) – This agreement was first agreed in 1994 and subsequently amended and implemented in September 2010. It provides rules for the trade in wine between Australia and the European Union which in turn improves access for Australian wine producers to the European export markets. The Wine Agreement has since supported the market's export growth which saw a doubling of the export market in size and helped grow the United Kingdom (now outside of EU) to Australia's largest export market.

- **WTO trade dispute resolution** – The WTO provides a crucial mechanism for resolving long standing disputes that impact the sectors' ability to trade wine.
    - A recent example includes the Australian Government's challenge of Canada on a range of discriminatory measures impeding Australian wine sales in Canada. The outcome of this challenge is still delivering changes to regulation federally and across the provinces of Ontario, Quebec and Nova Scotia. These measures will improve competitiveness in the market as they seek to create parity with local wine for imported products.
    - More recently, the WTO's Dispute Settlement Body (DSB) agreed at its meeting on 26 October 2021 to establish a dispute panel to examine China's imposition of anti-dumping and countervailing duties on imported wine from Australia.
- **Engagement and cooperation** – There are many examples of how bilateral engagement and cooperation on trade has improved trading conditions for Australian wine. This has technical and regulatory cooperation to support regulatory changes or agreement to cooperate and streamline processes. It typically involves close collaboration between industry and government to deliver an outcome.
    - One example is the Australian Grape & Wine application for approval of common Australian wine additives in Vietnam. This process spanned many years and involved applications, provision of technical information and ongoing development and engagement between Vietnamese regulators. The outcome was the successful approval of 17 wine additives, for use in wine sold in Vietnam, which were previously not permissible in wines being exported to that market. This in turn has made production of wine destined for Vietnam easier by allowing producers to use a broader suite of additives.

Trade outcomes can take a long-time to deliver. It is apparent that when they are realised, they can have a significant impact on our export market competitiveness and are a key feature of growing export markets. Growing export markets is critical as the sector adapts to changing global conditions. Trade and market access success is intrinsically linked to this ability to expand and diversify our export markets.

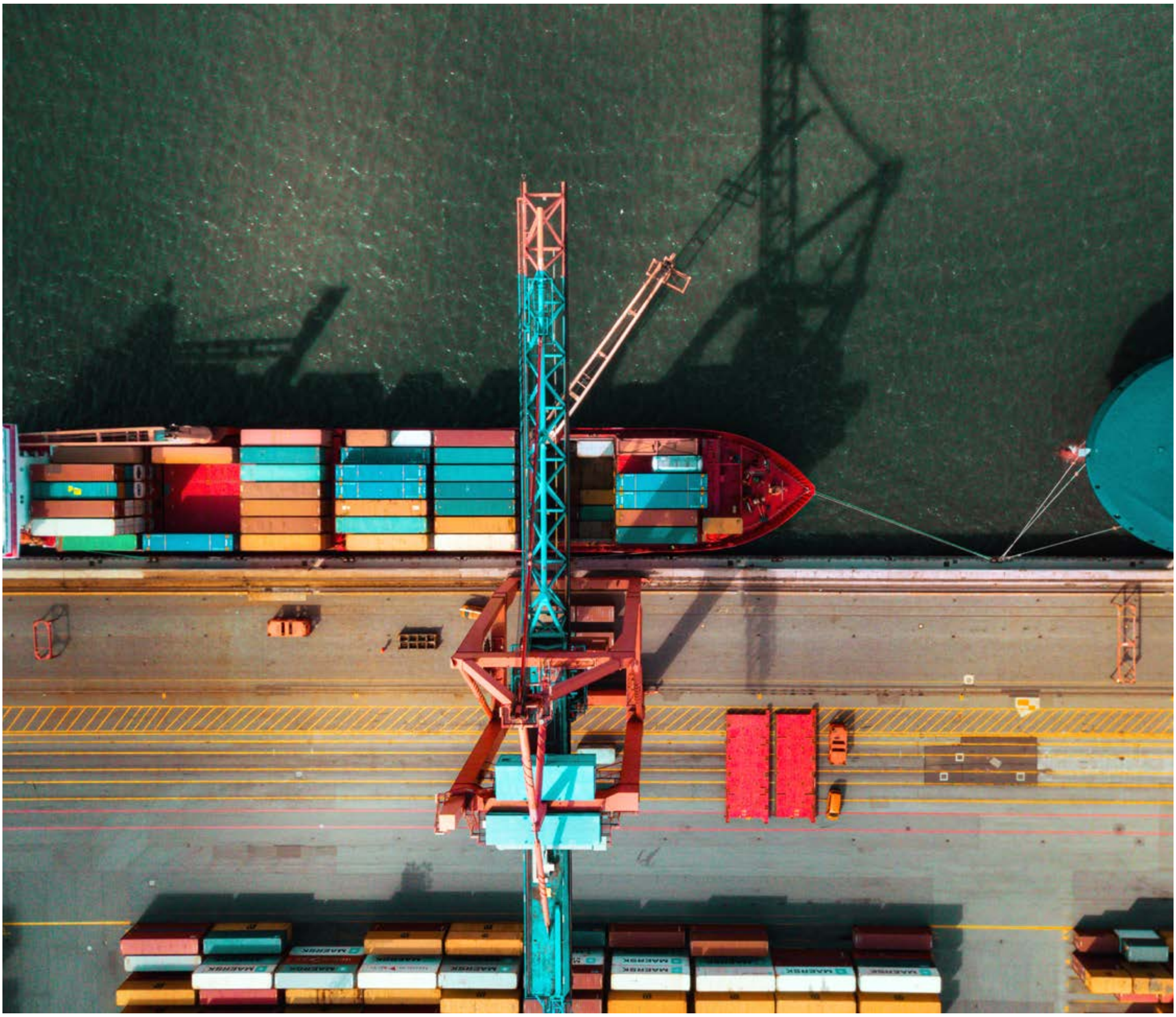
AUSTRALIAN WINE EXPORT TARGET MARKETS

Australian wine is exported to more than 100 markets around the world each year, but three quarters of the value of the wine we send internationally is exported to just a handful of markets: the United Kingdom; the United States; Hong Kong; and Canada.

All markets for wine can be categorised by their 'maturity' with regards to how much wine is already consumed, what wine knowledge already exists and what the perceptions around wine (if any) are.

New markets tend to be those where wine is a relatively new beverage category for consumers. However, there is considerable potential for consumers of alcohol to move from other categories to wine, as economic and other market factors shift.

Appendix 1 of this strategy outlines some opportunities, challenges and recommendations, across a number of existing and opportunistic global markets for Australian wine.



PRIORITY ACTIVITY SUMMARY

Activities

Specific activities undertaken as part of the strategy include:

- Monitoring and responding to trade issues and barriers;
- Negotiating arrangements to improve market access and streamline importing requirements;
- Harmonising technical requirements to facilitate trade;
- Providing advice and information to relevant Australian Government departments including support for free trade agreement and other negotiations;
- Building relationships with regulators in our key export markets and making representations as necessary;
- Building coalitions with other wine industry associations internationally and coordinating market access activities;
- Working within international organisations to further the interests of the Australian wine sector;
- Providing a response capability in the event of adverse developments arising;
- Developing a comprehensive understanding of the regulatory requirements in key export markets; and
- Assisting exporters to resolve specific market access issues.

Such activities are pre-competitive often requiring collaborative international action with benefits accruing to the whole Australian wine industry.

Australian Grape & Wine has produced a comprehensive Trade and Market Access Strategy Action Plan (2022-2024) linked to this strategy document. The action plan details key trade activity and barriers of strategic importance to the sector and recommended action to address market access and trade barriers. The action plan focuses on key activity in the medium to long-term that supports broad liberalisation of wine trade to support growth of our export markets. The action plan is also summarised in a priority activity table. The following sections broadly summarise the key market access issues and outlook for 2022-2024 which are addressed under the key pillars of Trade and Market Access Strategy Action Plan.

KEY MARKET ACCESS ISSUES 2022-24

COVID-19 impacts on economies, logistics, labour, distribution and sales channels which all combine to negatively affect our global wine trade. Implementing strategies to adapt to these conditions will be a key priority for the sector's wine trade during 2022–24.

Another emerging trend following the pandemic is commentary around protectionist behaviour which is leading traditionally free-trade leaning economies to reconsider international trade policy. These policies discourage imports and their adoption by countries in response to COVID-19. In addition, highly subsidised production and exports from key wine producing countries in the European Union is likely to distort the international marketplace. Critical to the Australian wine industry's success is ensuring that bilateral negotiations between governments expands, rather than restricts, Australian producers' market opportunities.

The most significant impact on Australian wine exports has arisen from China's imposition of anti-dumping duties on most Australian bottled wine exports. China is a major export market for Australian wine and these new duties have essentially shut down this market for the foreseeable future. While Australian Grape & Wine strenuously rejects China's dumping claims, the organisation is now focused on growing demand for Australian wine in other global markets.

Should market conditions improve, we would expect China to re-emerge as an important market for Australian producers, although the recent actions have undoubtedly changed the risk profile of the market for many businesses. However, even at the most optimistic end of the spectrum, the Chinese market will be closed to Australian exports of bottled still-wine for a minimum of three to five years. Over this same period, we have continued to export to more than 115 markets globally and remain a key provider of wines across a broad range of traditional wine markets, particularly in North America and the United Kingdom, Europe and North Asia. The domestic market in Australia has also been a key focus, retaining its position as the single largest market for sales of Australian wine. However, growth in these markets has been incremental at best.

We know there is no single market, or collection of markets, that will "fill the China gap", but that diversification of markets will be critical to the sector's growth in the future. It is critical that government and industry investment is targeted and coordinated to ensure we get maximum benefit from market diversification activities.

This requires a clear overarching strategy that addresses the key issues around where to target market promotion and marketing and where we invest in medium-to-long-term market-access efforts which aim to improve the regulatory environment for businesses in established and emerging markets. Finally, businesses have a clear role to play in working with government to design and implement market diversification strategies. Put simply, Government cannot do it alone, businesses cannot do it alone, and a coordinated and strategic approach will be required. With the China market likely to be unviable in the short-medium term, it is incumbent on the grape and wine industry to work closely with the Australian Government to co-invest in expanding our export footprint. To be clear, we recognise that there is no other market, or grouping of markets, that currently offer the same growth as seen in China in recent years. But there is opportunity for strong incremental growth, across a range of traditional and emerging wine markets on which we can capitalise.

Neither wine businesses, nor governments, can drive this growth alone. We must reinvigorate our efforts to improve the export environment, through targeted funding for marketing and promotional activities in the short-term and improving market access in the medium to long term. If we do not make this effort to mitigate the negative impacts of the disruption we're experiencing in the China market, the likely ramifications for Australian grape and wine businesses will be felt for generations. The potential for a return to structural oversupply is real, with a high likelihood that we would see grape prices dropping to the point of becoming uneconomic. For some wine businesses, the likely flood of wines on the domestic market will make an already competitive market unviable, potentially forcing the closure of a significant number of wine businesses. If this eventuates, the flow on impacts across regional Australia are potentially disastrous, with widespread job-losses, a reduction in regional tourism stemming from fewer wineries to visit, and a resultant drop in expenditure in the hotels, restaurants, cafes and other businesses reliant on wine-tourism for their survival.

Market diversification may be geographic or demographic and requires new strategies that leads to understanding of consumer drivers, identification of opportunities, product development and improved access to markets. While there is a short-term imperative, a long-term strategy is essential.

The sector requires investment in growing markets, not in support.

The clear gap in the strategy that needs to be filled is to look at market activations in new developing markets, market access initiatives to drive medium- and long-term market access, but above all tailoring strategies to meet the new environment created by a COVID-19 impacted world. This will include e-commerce platforms, digital engagement with consumers and businesses, collaboration with Australian exporters of other food and beverage products and a sophisticated innovation program. It is clear that business as usual is not sufficient and our proposal is for a radical rethink and implementation of our business strategies around market diversification. These will build a sustainable future for the sector and a resilient industry that can survive external shocks that arise from geopolitical considerations, exchange rate shifts, climatic impacts, and economic shocks.

It is critical that government and industry investment is targeted and coordinated to ensure we get maximum benefit from market diversification activities. This requires a clear overarching strategy that addresses the key issues around where to target market promotion and marketing and where we invest in medium-to-long-term market-access efforts which aim to improve the regulatory environment for businesses in established and emerging markets.

Finally, businesses have a clear role to play in working with government to design and implement market diversification strategies. Put simply, Government cannot do it alone, businesses cannot do it alone, and a coordinated and strategic approach will be required.

Australian Grape & Wine will continue to provide a central point to link the grass roots industry via State and Regional Associations with Austrade, Wine Australia and State governments. In order to deliver efficient market intelligence back to the sector and then inform programs being developed by stakeholders requires regular communication.

International trade remains of vital importance to the Australian wine sector, both grape growers and winemakers, exporters and non-exporters and regional communities. Around 65 per cent of wine produced in Australia is exported, highlighting the wine sector's reliance on exports and the importance of Free Trade Agreements (FTAs).

The domestic market remains our largest single market, and is therefore critically important to most producers. However, it is not large enough, growing strongly enough, and does not have the potential to grow significantly enough, to maintain an industry of our size on its own.

The bipartisan belief in the benefits of free trade and liberal economic decision-making is under pressure from growing protectionist sentiment globally, including in Australia. It is therefore imperative that we do what we can to support government efforts to maintain its commitment to pursuing trade and market access wins for Australian exporters. We can do this by communicating how FTAs have brought real and immediate benefits to Australian wine businesses. We can also talk about how the benefits accrued from FTAs flow onto rural and regional economies, which is particularly important at a time when drought, water shortages and climate-change are challenging the sustainable profitability of many people in agriculture.

Major domestic support schemes amongst our competitors are also distorting international markets and undercutting Australia's competitiveness, putting pressure on the sector's sustainability. For example, the European Union (EU) is the largest wine producer in the world and the European wine sector is heavily subsidised by the EU. The rationale for their wine subsidies through the national support programmes is to "provide a stable, sustainably produced supply of safe food at affordable prices for Europeans, while also ensuring a decent standard of living for farmers and agricultural workers". Furthermore, many European politicians believe farmers should be paid by the government to improve biodiversity, rural landscapes and various other outcomes that have little to do with commercial considerations or productivity gains.

The 2008 wine Common Market Organisation (CMO) reform included initially 13 measures. It introduced as a new measure innovation in the wine sector aiming at the development of new products, processes and technologies concerning the wine products. Furthermore, it expands promotion measures in EU countries, with a view to informing consumers about the responsible consumption of wine and about the EU systems covering designations of origin and geographical indications. It also extended the restructuring and conversion of vineyards to replanting of vineyards where it is necessary following mandatory grubbing up for health or phytosanitary reasons.

KEY MARKET ACCESS ISSUES 2022-24 CONTINUED

Subsidies are increasingly directed to the promotion of European wines with the aim of improving their competitiveness abroad. Over €1000 million per annum is earmarked for promotion measures. The major wine producing countries Spain, Italy and France receive the lion's share of the subsidies. The following promotional activities are eligible for support, whereby EU contributions cover up to 50 per cent of expenditures: (a) Public relations, promotion or advertisement measures; (b) participation at events, fairs or exhibitions of international importance; (c) information campaigns; (d) studies of new markets, necessary for the expansion of market outlets; (e) studies to evaluate the results of the information and promotion.

In response to the COVID-19 pandemic these support measures have been increased and extended until at least October 2022. These measures include:

The exceptional measures for wine include:

- EU countries can continue to amend their national support programmes at any time, normally this can only be done twice a year (by 1 March and 30 June of each year respectively);
- For promotion and information activities, restructuring and conversion of vineyards, green harvesting and investments, the possibility to grant a higher contribution from the EU budget is prolonged until 15 October 2022;
- EU budget contribution to harvest insurance has been increased from 70 per cent to 80 per cent until 15 October 2022;
- EU support to cover costs for setting up mutual funds were doubled, from: 10 per cent, 8 per cent and 4 per cent in the first, second and third year of its implementation to 20 per cent, 16 per cent and 8 per cent; and
- An extension of the flexibilities granted for wine programme measures until 15 October 2022.

Despite the subsidies provided to many of our competitors, successive Australian Governments have reduced Australian agricultural support measures with the aim of boosting competition, innovation, productivity and competitiveness. The OECD's benchmark survey for direct government support to agricultural producers, the Producer Support Estimate, places Australia as one of the lowest providers of financial support to agricultural producers.[2]

Australian agricultural policy makers wear this low level of support as a badge of honour, and we should not expect a future appetite for change to this approach in the coming years. Given this, for Australia to compete with this highly subsidised European wine sector, we must ensure efficiency in production and marketing, and that we invest in working to reduce barriers to trade internationally.

Long term-market access work is critical

In working to diversify our exports it will be critical that we take a long-term, strategic approach to improving market access. In key emerging markets, such as India, we need to increase collective effort to develop a business enabling regulatory and political environment as soon as possible. This will require a sustained investment from both Government and industry, and a commitment to a 'team Australia' approach in which industry and governments (Commonwealth, State and Territory) work to coordinate efforts as effectively as possible. There is also opportunity for the Australian wine industry to work more closely with burgeoning wine industries in emerging economies. By engaging in technical cooperation and information exchanges, for example, we open new lines of dialogue, gain a better understanding of local industry concerns (and how this manifests politically), and share our experience in production, innovation, sales and marketing, to improve the reputation of the local industry and hopefully grow the size of the wine market in the process. This strategy may be particularly important in our effort to reopen the China market.

Trade Agreements remain a key driver of growth in trade. Australian Grape & Wine is a strong advocate of comprehensive, high-quality, mutually beneficial free trade agreements. These agreements provide certainty for exporters and allow countries to deepen their economic and trade ties, opening up opportunities for trade and other forms of cooperation. We are particularly supportive of efforts to fast-track the proposed agreements with the United Kingdom, India and the European Union. We are also supportive of work to contemplate the potential expansion of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to incorporate new members such as the US, the UK, Taiwan and other economies that meet the standards and philosophical commitment to free and open trade required by CPTPP. In saying this, it is also critical that the Australian Government continues to stand-up for the rights of Australian producers to use long-standing, internationally recognised grape variety names such as Prosecco, Montepulciano and others. We will actively oppose a trade agreement with the EU that does not protect these interests.

2 OECD, https://read.oecd-ilibrary.org/agriculture-and-food/agricultural-policy-monitoring-and-evaluation-2018_agr_pol-2018-en#page108, Page 107.

The OECD will continue to provide a platform in which Australia can promote the benefits of a free, rules-based multilateral trading system. This will require ongoing engagement and leadership from Australia, to drive an agenda that works in the interests of advancing the interests of a free and open market for agricultural trade. Critically, the issues Australian grape and wine producers face in export markets are not confined to our sector. There are a variety of common concerns, barriers and complexities that wine exporters share with the broader Australian agriculture sector. Australian Grape & Wine will continue to work closely with counterparts across other agricultural industry groups to ensure the Australian Government has a clear understanding of the priorities from not only a grape and wine perspective, but across the pan-agriculture community.

The Australian Government is assisting market expansion through a suite of activities under its Agri-Business Expansion Initiative. The Australian Government's Agricultural Trade and Market Access Cooperation (ATMAC) program is helping mitigate the impact of the $1.2 billion gap left by the effective closure of the China market to Australian wine. Australian wine exports to China equated to around 10 per cent of Australia's annual wine production, or 123 million litres of wine. This will help Australian Grape & Wine work with a range of stakeholders including Wine Australia, and Australian Government Departments, to expand export volumes in markets such as, North American, Japan and Korea, South-East Asia and the United Kingdom, as well as develop new export opportunities in alternative markets such India, which have potential for medium-long term growth.

The Codex Committee on Food Import and Export Inspection and Certification Systems (CCFICS) addresses food fraud. It is expected that Australian Grape & Wine will seek to increase engagement in these activities, and consider the broader wine industry strategy to address food fraud. Linked to these efforts, the copycat issue is another major priority for the coming year with ongoing concern about reports of products exported from Australia that are potentially in breach of trademark law.

One initiative to help mitigate this risk, before wine leaves Australian shores, was the introduction of a searchable database/register to allow IP rights holders to search the database to identify possible breaches. As such, legislative changes were introduced to enable the launch of the Export Label Image Search System (ELISS) on 1 July 2021, through Wine Australia's export licence approval system. The public can access ELISS to search for labels legitimately exported from Australia. This initiative was implemented to strengthen the integrity of Australian wine labels and make it easier for brand owners to detect potential breaches of their intellectual property rights. This program will be reviewed in 2022-23.

Broader protection of Australia Wine Geographic Indications (GIs) is also a key focus for the coming year. The closure of the China market has left trademarks and Geographic Indications at risk of piracy in this market. We are exploring the opportunity to register Australian GIs in China, in addition to the ongoing monitoring and objection activities. This work is currently underway and pilot GI region protections are being tested.

KEY MARKET ACCESS ISSUES 2022-24 CONTINUED

With respect to trademarks, one risk to established brands in China relates to extinction of a trademark for 'non-use'. If a producer does have a brand in China, and if and when the market is re-opened, it would be unfortunate if the brand has been pirated. There are a couple of issues to think about with respect to this issue. It is three consecutive years of non-use that would need to be defended against. This requires random sales of a few wines to China and (at least) copies of emails with Chinese contacts to demonstrate commercial dealings as that provides the evidentiary base of where to start 'non-use'.

We will continue to protect our rights to use grape variety names, including Prosecco. The legal action underway in Singapore is a key plank in this strategy.

One of the issues on the European agenda is the ongoing FTA negotiations between Australia and the European Union (EU). There has been a strong Italian led push from the EU to prevent Australian producers using the grape variety Prosecco on Australian product labels. The issue is not restricted to Prosecco but extends to other Italian grape varieties including Nero d'Avola, Montepulciano, Vermentino, Fiano, Dolcetto and Barbera to name just a few. The issue affects our domestic market as well as export markets, with a number of EU trade negotiations in key markets focused on protecting terms which are grape varieties. Australian Grape & Wine will continue to provide advice and support to the Government and negotiators to ensure that Australian wine producers are not unfairly disadvantaged in Australia-EU negotiations. We will also continue to advocate for a strategic approach to protecting Australian Wine intellectual property (IP) rights, GIs and varietal use rights through Australian regulation and trade negotiations.

The COVID-19 pandemic has ushered in a new wave of international protectionism. Trade rules generally deal with preventing restrictions on imports, but trade controls on exports are currently growing. Their impacts on global supply chains are critical. High profile examples of export controls include: Indonesian export restrictions on thermal coal, which have resulted in higher energy prices in Asia, especially China. Global grain growers are increasingly feeling the impact of China's decision to restrict exports of phosphate fertilisers; China's controls on exports of urea may also impact fuel additive supplies in Australia and eventually threaten truck transport in many parts of the world. Farmers have also been affected by reduced supply of ammonium nitrate fertilisers, manufactured with a heavy reliance on Russian gas that has been hit by export restrictions. Environmental goods are impacted by a range of export controls.

Constraints have been felt both up and down supply chains, contributing to economic slowdowns and labour shortages, and demonstrate the degree to which global consumers, farmers and manufacturers have become reliant on distant partners for the supply of critical inputs. Coupled with disruption to the physical movement of goods – shortages of containers, pallets, ship space and berths – export controls are impacting a range of products. The common thread among these measures is growing nationalism, driven by fear and uncertainty around essential products and inputs. Governments around the world are increasingly choosing a short-term focus on their own interests. This has sparked stockpiling and domestic manufacturing efforts in countries that had previously relied on global exporters for these goods.

2 OECD, https://read.oecd-ilibrary.org/agriculture-and-food/agricultural-policy-monitoring-and-evaluation-2018_agr_pol-2018-en#page108, Page 107.

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Total Australian wine production in the 2020–21 financial year is estimated to have been just under 1.5 billion litres, or 165 million 9-litre case equivalents, a 34 per cent year-on-year increase after near-perfect growing and ripening conditions in most states and regions delivered a record 2021 vintage crush of 2.03 million tonnes.

Production of red wine from the 2021 vintage was 854 million litres or 95 million 9-litre cases, making up 58 per cent of production and increasing its share by one percentage point since 2020. White wine production was 628 million litres (70 million cases).

Australian wine exports have been impacted by the tariffs imposed on Australian wine to mainland China in November 2020 and the freight issue. The combination of these factors caused exports to decline by 5 per cent over the 2020–21 financial year and have led to national wine inventory levels at their highest since 2005–06 at the end of June 2021.

Total sales volume of Australian wine in the 2020–21 financial year is estimated to have decreased by 4 per cent compared to 2019–20 to 1.17 billion litres or 130 million cases, with both exports and domestic sales declining. Australia's domestic market remains the single largest market for Australian wine, with Australians purchasing 40 per cent of domestic production each year. Within the domestic market, we are seeing a gradual long-term decline in the volume of wine consumption that is in line with other mature markets globally, combined with short-term COVID-related disruptions and some competition from imported wine. The depleted stocks from the three smaller vintages were replenished and most producers have plenty of wine to sell in 2021.

This is likely to remain the case for the foreseeable future, with most wine markets forecast growth rates are relatively flat.

The concentrated retail market environment in Australia has brought a high level of competition to the marketplace, and the growth of the direct-to-consumer offerings have changed the dynamics of the domestic market for many producers and consumers. COVID-19 has accelerated the DTC channel and those established players have continued to grow, with the myriad of small offerings crowding the space.

In the past 12 months, domestic off-premise and cellar door sales were high in a COVID-19 environment, with internet and mail order sales increasing dramatically. White wine and sparkling wine demand remains high and more good news is expected as the domestic on-premise market will gradually come online in 2022.

The tourism experience at cellar doors is a key driver of sales, creating loyalty to regions, winemakers, and brands. The ease with which customers can purchase wines online and have it delivered helps to retain this consumer loyalty and subsequent visits to these regions. Fostering tourism in regional Australia, particularly as we move into the COVID-19 recovery phase helps drive jobs in the wine sector, hospitality, and transport sectors, with positive flow-on effects across the broader community.

Global Market Dynamics

It is important to note that grape prices are closely linked to broader international market dynamics, with a strong correlation between international supply and grape purchase prices in the inland regions.

Global production

According to the latest statistics from the OIV, in 2021 world wine production volume is expected to be at a level similar to 2017. This would be the third consecutive year showing declining production below average yields.

European Union

Globally, we know that some key competitor nations have had below average vintages in 2021. The European Commission harvest estimate is 147.7 million hectolitres, 22.9 Mhl less than the 170.6 of the previous year, with a decrease of 13.4 per cent. Only the 2017–18 harvest with 144.02 Mhl is below in the present century.

To support the sector, during the COVID-19 pandemic, the European Commission adopted extraordinary measures including crisis distillation, aid for emergency storage, flexibility in green harvesting, advance payments to member countries, European contributions at 70 per cent, greater flexibility in market support programs. The measures taken at EU level were implemented at national level, facilitating the use of resources of member countries. Promotion is the cornerstone of the support measures and underpins the success of EU wine exports to Third Countries.

The crisis storage aid controlled the quantity of wine put on the market and supported companies in terms of cash flow. Not all Member States implemented it. With 22.1 million euros, crisis storage aid has absorbed only a small part of the EU budget.

Support measures for European producers remain high in 2021. For example, within Spain, the Ministry of Agriculture has begun a public consultation on a proposal to modify the regulations that regulate the Support Program for the Spanish Wine Sector (PASVE) to mitigate the effects of Covid-19 in this sector. This program distributes just over €202 million per year to winegrowers, wineries, and other wine operators in Spain.

The highly subsidized European wine sector is well placed and despite the lower vintage, ready with high stocks to flood key markets with wine. The ability of substitution for Australian wine on the China market, leaving opportunities elsewhere for our exports is also limited as in China, wine imports have been declining since 2018, but in 2020 the drop in value was dramatic: -26.7 per cent. The country was the first to emerge from the emergency, but consumption is slowly recovering. The recent moves by the government to crack down on behaviour contrary to 'societal values' is also sending a cautionary note to alcohol exporters to China. This has included public statements like 'China should reduce business drinking and replace it with "correct values," from the Chinese Communist Party's anti-corruption watchdog.

New Zealand

A combination of wet weather during flowering, frosts and hot dry weather during ripening has resulted in a drop of 19 per cent on New Zealand's previous vintage to 370,000 tonnes, the lowest yield since 2015. Central Otago was the only region to buck the trend with an increase of 21 per cent over last year. New Zealand exports significant amounts of wine (predominantly sauvignon blanc) to Australia. While the oversupply problem in Australia is centred around red wine, there is significant opportunity to recapture market share in Australia of the white wine segment and allow grape growers and winemakers to improve returns in this category.

China

China's Ministry of Commerce (MofCom) made its final determinations on the Countervailing Duties Investigation and the Anti-Dumping Investigation on 26 March 2021. The impact of the duties on Australian bottled wine exports to China is high and adjustment will be gradual, with smaller volumes of wine likely to be redirected to alternative markets in the short term. In the medium term, altered production decisions and diversion to other markets will lessen the impact of China's duties.

ABARES estimates that in 2025, 60 per cent of Australia's wine exports that would originally have been destined for China that year – the equivalent of $720 million in 2020 dollars – will be diverted to alternative markets. The negative impact on export value is likely to be more significant than on export volume. Their modelling shows total Australian wine export value (which included both bottled and unpackaged or bulk wine) would be around $480 million lower in 2025 (in 2020 dollars) than would be the case without the duties.

Some commentators have suggested that the impact of the closure of the China market on the premium wine segment will be short-lived and less severe due to the volume of wine involved (around 100-120 million litres of red wine). Unfortunately, while the latest export statistics suggest around 40 per cent of wine has found a new home, there is plenty of high margin red wine that hasn't. The impact on red grape prices in regions without strong brand cachet will also be high.

The World Trade Organization (WTO) dispute action, initiated by Australia, was announced in June 2021, and welcomed by the sector. The panel is now being established. The sector understands that WTO dispute actions typically take around 3+ years to run. Even if there is a good result without a substantial change in the political landscape in China, this market is unlikely to see any relief in the next five years and it may be longer. We need to plan for a future without exports of wine to China. Even for those categories faced with high tariffs, such as bulk wine, we are seeing continual rejections at the border and slow clearances for that wine that does get through.

As we near the end of 2021, Australia isn't reallocating premium wine fast enough to compensate for the market closure. Within the premium segment (>$50/litre) Australia exported around $400m to China pre tariffs vs. around $3million (cf $96million in 2020) annualised in the Sept-21 quarter. Of the ~$93m in lost China wine exports in the September quarter at prices >$50/litre, other markets took up ~$43m (mainly Hong Kong and Singapore) suggesting ~50 per cent of lost China value has been reallocated. Exports to Hong Kong and Singapore at >$50/litre grew ~98 per cent and ~725 per cent, year on year, respectively in the Sept-21 quarter. (I would note that Singapore is used as a 'trading hub' and not all this wine is consumed in Singapore, and worryingly, Hong Kong may be used on the grey trade for movement of wine into China.)

The latest export report from October shows a 24 per cent fall in exports sales in the 12 months to 30 September 2021. Obviously, the main contributor to this was China with a 62 per cent fall in the value of sales. The big move upwards was South Korea moving to 8 on the Australian leader board with sales of $49m. While there are promising signs in some markets, the growth is not enough to offset the loss of the Chinese market. The largest non-China markets are the US, the UK and Canada. To offset China, all non-China markets would need to grow by around 55 per cent.

United Kingdom

Australia signed its Free Trade Agreement (FTA) negotiations with the United Kingdom (UK) in December 2021. While the removal of all wine tariffs is included in the FTA, the recent announcement by the UK Chancellor of the Exchequer to overhaul the excise tax system for alcohol is likely to negate many of the market advantages the FTA would have brought. While details are still unclear it is understood that the proposed changes would benefit lower alcohol product (including sparkling wine) and significantly impact higher alcohol ones. It could mean that a bottle of 9.5 per cent alc/vol wine would be 47p cheaper, factoring in VAT, while an 11 per cent alc/vol bottle would rise by 12p, a 15 per cent alc/vol bottle would be 81p more expensive and a bottle of port at 20 per cent alc/vol would be £1.09 higher. If implemented the planned reforms are expected to come into effect in 2023 and will make red wine significantly more expensive on the UK market.

OUTLOOK 2022-24 CONTINUED

India

An interim agreement, the Australia-India Economic Cooperation and Trade Agreement was signed by Ministers Tehan and Goyal on 2 April 2022. Under AI ECTA, tariffs on Australian wine with a cost, insurance and freight (CIF) value of over US$5 per 750ml bottle will decrease from 150 per cent to 100 per cent upon entry into force, with a further phased reduction of 5 per cent per year for 10 years down to 50 per cent. Tariffs on Australian wine with a CIF value of over US$15 per 750ml bottle will decrease to 75 per cent upon entry into force, with a further phased reduction of 5 per cent per year for 10 years down to 25 per cent. This is a good agreement for Australia, with long term implications. Although some producers have been very negative about the deal, due to the lack of benefits for current exporters and entry price points, this will clearly open up the market to new exporters of high value wine in the future.

One of the most valuable aspects for Australian wine which Australian Grape & Wine has advocated hard for inclusion in the agreement was provision of a "most favoured nation" treatment for Australian wine. This outcome was achieved via a side letter which forms part of the AI ECTA. These side letters have treaty status and are part of the formal agreement.

The most favoured nation treatment specifically provided for Australian wine in the agreement means that any preferential tariff treatment which afforded to other countries in FTA negotiations with India will also be applied to Australian wine. For example, if a larger trading partner like the EU manages to negotiate a better deal on wine import tariffs, this will be provided equally to Australian wine also. This means that Australian wine will always have better, or at least parity of import tariffs with any other wine importing country to India. This is particularly important given that the UK, Canada and the European Union are all negotiating with India.

The interim agreement not only addresses aspects of tariff reduction but also establishes the beginning of technical cooperation aimed at removal of wine technical barriers to trade and harmonisation of regulations. The inclusion of another wine specific side letter on Trade and Production of Wine is another major step that will create an opportunity to remove some of the non-tariff barriers for Australian wine and make it more cost effective and timely to export Australian wine to India.

Issues

Vintage 2022 has suffered due to a number of weather events. There is a concern about the volume of wine carryover stock sitting in tank and the ability to sell this before the grape intake from 2022 commences. Wineries have long red inventories and will be limited as to their intake of red fruit next year.

Following on from the big vintage in 2021 real price pressure on grapes has occurred in 2022. Large increases in shipping costs and decreases in availability of services is also causing significant problems for a number of Australian wine exporters and is likely to exacerbate the difficulty in increasing exports and diversifying markets. These will continue to complicate the national and international movement of wine and will render some wine deals no longer feasible, margin-wise.

Labour

A key issue impacting on the supply and demand equation is labour availability. Our interests in securing labour fall into three separate camps:

- Vineyard work such as picking and pruning.
- Winemakers – our sector relies heavily on winemaking expertise from overseas, primarily Europe and the US to complete vintage each year.
- Technical expertise – we understand that for many businesses, the high-cost winery equipment they purchase must be serviced by experts employed by the company (usually European) that they work for.
- There is also a critical shortage of catering, hospitality, and cellar door workers.

Freight

Australian wine growers, producers and suppliers are feeling the impact of market access, freight availability and increased pricing. The world has lost shipping lines and Covid-19 impacted airfreight, and this consolidation has rationalised both capacity and frequency to and from Australia. China has high demand on containers for freight to the USA and Europe, has reduced exports of steel and winery commodities and reduced container availability in Australia for our exports. The compounding effect on imported goods means supply will be tight, with longer lead times and additional cost outside the control of supply chain. For exporting goods, container shortage and reduced shipping options has the flow on effect of threatening retail slots or preventing new listings, holding wine in warehouse or tank, and then leading into vintage with surplus and potential contract cancellations. Steel prices and supply may restrict access to new tanks.

Domestically, even basic pallets are under pressure and Covid-19 has blocked the on-premise trade where many SME wine brands trade. As we open up again, these businesses will need support and partnership which will demand higher service levels.

We are seeing serious shortages of di-ammonium phosphate (DAP) which is used both as a fertiliser and as a winemaking adjunct. Other inputs traditionally sourced from China, due to price considerations are scarce or unattainable and we are moving to more expensive sourcing, where available.

Freight and logistics issues are a major impediment to exports, adding difficulties as we seek to diversify markets in the face of the dispute with China. Supply chain delays and soaring consumer demand have led to shipping containers backing up at Australian and global ports, meaning inordinately long wait times for consumers and making it much more expensive for companies to ship their goods. The shortage of containers and ships are providing exporters with enormous difficulties in sending wine offshore. It adds cost and impedes timely delivery of goods. In addition, ports around the world are overloaded. Domestic transport is also facing delays. The problems began when the coronavirus pandemic first hit China in 2020, and worsened when the giant container ship, *Ever Given*, blocked the Suez Canal in Egypt for nearly a week earlier this year. Months and months of shipping disruptions resulting in part from pandemic-triggered overseas factory shutdowns, port congestion and shipping container and labour shortages have caused delays for all kinds of products. It is unlikely the global freight issue will be resolved until late 2022 or 2023. There is no political solution on this, although the ACCC is looking into issues around Australian ports in the face of recent industrial action.

CONCLUSION

Australia is likely to enter a significant oversupply situation lasting several years, with grape growers and winemakers suffering viability problems. 2022 is likely to be a very testing year for grapegrowers, with prices for red wine grapes significantly lower than 2021. Growers with uncontracted fruit are likely to find it difficult to find a buyer and fruit may be left on the vine or sold below cost as growers try and get some return.

Wineries without strong brands or strong domestic exposure will also come under pressure.

The market diversification work provides strong promise in the medium to longer-term. In the short term, domestic tourism and import substitution (we still import around 25 per cent of wines consumed domestically) provide critical domestic growth opportunities to mitigate some of the oversupply problem.

Vintage 2022 and the next couple of years will be tough for growers and winemakers alike. Freight issues will cause logistics problems until at least late 2023 and slow diversification opportunities. This year we are already seeing disruptions to inputs and grape prices for red grapes are likely to be hit hard. This will impact on all regions, and it is likely to force structural change on the sector in the medium term.


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APPENDIX 1

TARGET MARKETS – OPPORTUNITIES, CHALLENGES AND RECOMMENDATIONS

India

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• Population of 1.353 billion, with 19 million reaching legal drinking age annually. • Alcohol generally an accepted part of the social fabric with whisky and beer the dominant categories. • Significant growth opportunity for wine, with Australia already the primary importer of wine in the relatively small wine market. • The time to invest is now. Australia and India are seeking to elevate its strategic and economic relationship. Peter Varghese's India Economic Strategy looks out to 2035, providing a roadmap to follow to deepen this relationship. • The framework of the Australia-India Comprehensive Economic Cooperation Agreement (AICECA) is in place and should be reinvigorated as a priority.	• Tariffs and taxes on Australian wine are high and complex. Including import duties of 150 per cent. In addition, there is a Social Welfare Surcharge, Central Sales Tax and differing State based taxes including VAT, excise tax, sales tax and entry of goods tax. Each of the 28 States and 8 Union and National Territories has individual taxation regimes. • In addition to tax variation there is significant regulatory divergence between states increasing compliance complexity (including prohibition in some states). • Underdeveloped transport, infrastructure and logistics poses challenges for the importation of some wines, posing risks for damage, degradation in quality etc. • A long history of protectionist agricultural policy and engrained suspicions of trade and open markets. • Recognition that the market and political dynamics are complex and subject to unexpected change. While investment is worth pursuing, it will not be easy.	**Short term (12 months – 18 months)** • In the short term, the Australian Government to work with industry groups to identify opportunities to deepen the bilateral cultural, political and economic relationship, including key city/state markets on which to focus. • Simultaneously, the Australian wine industry should deepen its relationship with India's nascent wine industry through information exchange and technical cooperation. • Establish a bilateral two-track government-industry regulatory dialogue to inform best practice regulation and deepen understanding of issues and approaches. This could be held in the margins of meetings of the International Organisation of Vine and Wine (OIV) meetings, or potentially extend to broader agricultural regulatory and policy exchanges. • Endorse NFF's recommendation for an investment of $50 million to fund a whole-of-industry strategy to build ties with India, fund inward trade missions and increase funding for the Agricultural Trade and Market Access Cooperation (ATMAC) program. **Medium term (18 months – 3 years)** • Initiate Ministerial-level agriculture dialogue between Australia and India. • Work towards establishing sector specific cooperation agreements, technical exchange or MOUs on regulatory cooperation. This could be aided by mutual participation in OIV and/or potential for accession to WWTG. • Reinvigoration and meaningful progress in AICECA negotiations, noting that market access gains will take sustained effort and investment. **Long term (3 years – 10 years)** • Conclude AICECA agreement. • Encourage India's ongoing engagement in RCEP.

The United States of America (US)

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• Real opportunity to recapture market share in the US, in which Australian wine exports reached more than $1 billion in exports prior to the global financial crisis. • One of the few traditional wine markets with growth potential. By 2023, an extra 23 million cases of premium wine will be required to meet demand. • Industry-Government co-investment through the $50 million Export and Regional Wine Support package and individual company marketing and educational initiatives is challenging negative perceptions of Australian wine with key influencers in-market. This can be built upon. • Strong trade and political relationship. Zero duties for Australian wine under the Australia-United States Free Trade Agreement (AUSFTA). • Active and engaged member of the WWTG.	• The key barrier in the US market is the complex and onerous regulatory system. • The complex 'Three-tiered system' distribution system makes it difficult for businesses to penetrate and establish themselves in-market. • Many influencers and gatekeepers (e.g. - critics, sommeliers and distributors) retain the misguided perception that Australian wine lacks the same quality and diversity as that produced by our competitors. Resultant challenge of increasing value.	• Sustained diplomatic effort, in coordination with industry and competitor producer nations, to open up the complex three-tier distribution model. • Diplomatic effort to encourage the US to re-enter the CPTPP.

Canada

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• Strong existing demand (Australia's 4th largest export market by volume and value). • Active and engaged member of WWTG. • The recent WTO wine case is removing some federal and provincial trade barriers. • Mutual membership of CPTPP provides for tariff free trade.	• Demand and value declined in recent years. • Government owned provincial liquor control boards restrict the sale and movement of alcohol, and significant regulatory divergence between provinces. • Highly regulated supermarket chains. • MRLs established by liquor control boards are restrictive by global standards. • Provincial liquor control boards have a focus on sustainability, a including on issues such as light-weighting of glass that can prove challenging for Australia.	• Co-investment in marketing and in market promotion of Australian wine. • Explore opportunities to reduce non-tariff barriers via the Australia-Canada FTA • Sustained diplomatic effort, in coordination with industry and competitor producernations, to liberalise the complex provincial liquor control model.

APPENDIX 1 CONTINUED

The United Kingdom (UK)

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• The UK is a strong and long standing market for Australian wine, first in terms of volume and third in value at $430 million in the year to 30 September 2020. • The proposed UKFTA offers an opportunity to improve our standing in the market by removing tariffs (currently UK global tariff rates apply to those without an FTA of 26.00 GBP/hl for wine) and address a number of technical barriers to trade.	• Challenges in the UK market are assessed to be surmountable in the context of the UKFTA negotiations. However, the triangular relationship between Australia, the UK and the European Union – all of which are simultaneously negotiating FTAs with each other – could see complexities emerge in negotiations. • Residual technical requirements from former EU regulation could create irritants. • A complicated duty system which is currently under review.	• Australian Government work closely with Australian Grape & Wine to fast track UK FTA negotiations and mechanisms for ongoing harmonisation of technical and regulatory requirements. A range of issues, including carbonation, sweetening and blending of Australian wine at destination, are priorities and these have been outlined in our submission to the UKFTA consultation process. • Australian Grape & Wine to continue to work with the UK wine industry to promote the mutual benefits of the UKFTA. • Encourage the UK accession to the WWTG as a priority. • Engage closely with the UK delegation to the OIV. • Australian Government to promote the UK's entry into the CPTPP agreement.

Japan

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• Lucrative and mature market with which Australia has a comprehensive FTA. • Under the Japan-Australia Economic Partnership Agreement (JAEPA), tariffs are tariffs for bottled wine will be eliminated on 1 April 2021. • Technical and certification barriers (additives and processing aids) that previously plagued the trading relationship have now largely been addressed in Japan. • Strong and improving bilateral ties at the political, economic and strategic levels.	• Recent focus on China has allowed competitor nations to capture market share, particularly for those with FTAs (US, Chile and EU for example). • Likely restrictions on certain grape variety names due to EU-Japan FTA.	• Co-investment in marketing initiatives to highlight Australia's wine offering. • Funding for inbound and outbound trade and promotions missions. • Encourage Japan's Accession to the WWTG (they attend meetings as observers).

Republic of Korea

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• Lucrative and mature market with which Australia has a comprehensive FTA. • The Korea-Australia FTA (KAFTA) entered into force on 12 December 2014, bringing immediate tariff elimination for Australian wine exports. • Strong and improving bilateral ties at the political, economic and strategic levels.	• The focus on China in recent years has allowed other producer nations to take market share from Australia. • High competition from the US and Chile & EU tariff free under their FTAs has a high level of competition (this applies to both Japan and Korea). • Technical barriers to trade related to recycling regulations and container labelling/taxation, warning labels, additives, MRLs and registration requirements.	• Co-investment in marketing initiatives to highlight Australia's wine offering. Funding for inbound and outbound trade and promotions missions. • Engage in technical and regulatory cooperation with Korea.

Indonesia

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA- CEPA) entered into force on 5 July 2020. However, cultural sensitivities around alcohol means the IA-CEPA contains minimal content specific to alcohol or wine. • Well established tourism market (licensed venues/Restaurant) for Australian wine. • Large population with a rapidly growing middle class of an estimated at 45 million people, and GDP exceeding USD$1 trillion. • Geographic proximity provides a trade advantage.	• 90 per cent import duty on most wine tariff lines (150 per cent on brandy) + 10 per cent VAT + additional excise duty. • Prohibitionist political groups advocating sales and marketing restrictions. • Regulatory challenges - Labelling revision, additives and winemaking practices.	• Government engagement to seek opportunities within the FTA to investigate opportunity for the tariff reductions, distribution quotas and technical issues. • Marketing and in-market support for promotion of Australian wine.

APPENDIX 1 CONTINUED

Vietnam

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• Australia and Vietnam both members of CPTPP and our countries have FTA links via the Australia and New Zealand FTA (AANZFTA) and RCEP. • Under AANZFTA Vietnam to reduce wine tariffs by 2022 (now 80 per cent - 20 per cent in 2022). • Under CPTPP most wine tariffs will fall to zero in years 11 and 12 of the agreement.	• EU FTA entered into force in 2020 – strong competition with links to French wine as a former French colony. The FTA has also presented issues on use of certain grape varieties (Prosecco, Lambrusco, Montepulciano, Dolcetto and others) which will be protected as GIs for exclusive European use. EU FTA provides for a reduction of tariffs on wine to zero within 7 years (2027) before Australia. • TBTs – MRLs, uncertain additive and processing aid approvals, proposed laws on alcohol harm, complex registration requirements and taxation.	• Government consideration of comprehensive bilateral FTA addressing sector specific TBTs and accelerated tariff reductions. • Marketing and in market support.

Malaysia

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• Opportunities to engage 20 million online consumers via e-commerce channels CPTPP provides for tariff reduction to zero over 16 years. Malaysia is yet to ratify.	• Complex tax and duties system including import duty (RM 7/L), excise duty & (RM150/L of Alcohol) Sales and Services Tax (10 per cent). • 60 per cent of Malaysia's 28 million people are Muslim, and do not drink alcohol. • Regulatory and technical challenges including health warning and additives.	• Australian Government to encourage the ratification of CPTPP by Malaysia. • Investigate opportunities for expedited reduction or removal of duties and taxes. • Investment in e-commerce and online marketing and promotion opportunities.

Thailand

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• South-East Asia's second largest economy, and one of its fastest growing. • Under the Thailand-Australia Free Trade Agreement (TAFTA) Australian Wine all. • No wine tariffs. • Trend towards retail trade presents opportunities via supermarket sales channels.	• Complex taxes imposed on all alcohol including customs fees, excise tax, VAT, health tax interior tax, and public broadcasting tax. • Strong cultural and religious views taken of alcohol have driven restrictions of sale, consumption and advertising. • Potential for political instability and small market for wine. • TBT - Import limitations, onerous certification requirements, health labelling.	• Explore opportunities to improve Australian wine's access to Thai retail channels. • Marketing and in market support.

Myanmar

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) signatory, although Myanmar has not committed to any tariff reductions for wine. • Myanmar is also a party to RCEP which could lead to future tariff concessions. • French dominant in market, but there is growing interest in new world wines.	• A small total export wine market, estimated at USD$2 million. • Competition primarily from France, South Africa, USA, Chile and Italy. • Significant political and regulatory risks for businesses. • TBT - Complex Import and registration procedures, labelling required in Burmese.	• Encourage RCEP as mechanism for tariff reduction or removal. • Marketing and in market support.

Russia

POTENTIAL	CHALLENGES	RECOMMENDATIONS
• Significant wine importing market, with Australia growing market share. • High value still and sparkling wines seen as a status symbol.	• Geopolitical tensions have the potential to heighten political risk for exporters. • History of regulatory complexity and strict alcohol laws and policies. • Inconsistent, complex and regularly altered regulations. • Substantial social issues associated with alcohol misuse and antisocial behaviour. • Import tariff of 10-12.5 per cent for wine plus customs fees, excise duty and VAT.	• Government to work with industry to assess the market opportunity in Russia. • Encourage opportunity for regulatory cooperation and harmonisation. • Australian Grape & Wine to strengthen its relationship with Russia's wine industry and policy makers through our mutual membership of the OIV.

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