

Australian Grape and Wine Incorporated

BOARD COMMUNIQUÉ – 9 September 2022

The Board of Australian Grape and Wine Incorporated (Australian Grape & Wine) held a Board meeting on 7 September 2022. On the evening of 6 September, the 2022 Life Members dinner was held, welcoming Jane Mitchell as the latest Life Member of the Australian Wine industry. Apart from her many other contributions, Jane was on the Australian Regional Winemakers Forum Council, Winemakers' Federation of Australia Executive Council, Australian Wine Export Council and the Australian Wine and Brandy Corporation Board. I was privileged to work with Jane for several years and valued greatly her immense contribution and her dogged determination in seeking outcomes for the whole sector. She taught me a great deal and continues to be an inspiration to me and many others.

Key issues

A full and comprehensive agenda was discussed.

Supply and demand

The Board continues to focus on issues around the structural oversupply in bulk red wine because of the closure of the China market and the impact on grape prices as the sector struggles to diversify its export markets. With Board members from a range of different business models and regions it enables a focus on different responses as the structural oversupply issue impacts different regions and business models in different ways. The Australian grape and wine sector is not homogenous with many businesses, some of which are essentially tourism operations, some are brand owners and a large volume sector of commercial wine producers. Obviously, these segments intersect.

It was clear that we are seeing a downturn in demand and visitations as inflationary pressures drive up the cost of living and interest rates hikes are starting to dent consumer confidence.

It was agreed that 2023 would put real pressure on grape growers and winemakers in the commercial sector and particularly the commercial export sector. This will be reflected in lower prices and demands for grapes in 2023, as stocks will remain high due to freight disruptions and capacity to take in grapes in 2023 will be limited. Grape growers without contracts for red grapes are likely to be impacted severely.

However, during the last month I have been on the road as part of the Finlayson's Road show, visiting many regions throughout Australia. While most businesses are aware of the pressures they are facing, there is a quiet confidence that we will get through the current crisis. The clear message from many regions was that we should not seek support measures to prop up businesses, but our advocacy should focus on building demand, increasing cost efficiencies through innovation, reducing regulatory impediments, and working with the government on the freight, labour and other cross-cutting issues.

The difficult market conditions means that pressure will come on both growers and wineries. This requires clear and honest communication and the voluntary Code of Conduct and the price transparency work have a role to play. This year will test the current system and will require an honest appraisal of its effectiveness following vintage 2023.

Australian Grape & Wine signed off on the latest iteration of the strategic plan which will focus our attention on these issues. In November, we will hold key sessions with Wine Australia, and States and Regions to ensure we can deliver on the outcomes identified by our Board and Committees and meet any additional priorities identified by these groups.

I am also pleased to say that our relationship with Wine Grapes Council of South Australia and their Board representation has allowed us to continue to expand our advocacy efforts on behalf of growers.

The political scene

Parliament has only sat for 8 days in the first 100 days of the Labor government, and it is fair to say that the government is still finding its feet. However, the sitting periods have provided us a good opportunity to get in front of new ministers, rekindle relationships with others and cultivate understanding of our sector with the cross benchers.

The Skills and Labour summit has come and gone. Although Australian Grape & Wine did not attend the summit, we participated in a Round Table with the Trade Minister immediately preceding the summit to convey our messages on behalf of the grape and wine industry. The government clearly understands our issues and the difficulties we face in sourcing labour across our business, including agriculture workers, winery workers, hospitality workers etc. However, no clear short-term solutions have emerged from the summit and shortages and wages pressures will be here for some time to come.

Water is also a big issue for Labor and one where we will need to ensure we have a strong footprint in the decision-making process. Labor has committed \$34m to establish a National Water Commission aiming to drive reform, future-proof water resources and increase policy transparency. Labor has also committed to uphold the Murray Darling Basin Plan in full, delivering on water commitments including 450GL for South Australia. Australian Grape & Wine had a comprehensive debate on water policy at our Board meeting held on 7 September and over the coming months will be developing a comprehensive strategy to ensure that we can play a constructive role in the debate. This is particularly important considering the governments forthcoming review of the Murray Darling Basin Plan.

The Government is bringing down a Budget on 25 October 2022. This Budget will be aimed at bringing forward funding for the Government's priorities announced in the election campaign and on review of existing programs. Australian Grape & Wine is taking forward a very targeted ask for measures to grow demand and help growers and winemakers through the current oversupply situation facing significant sectors of the industry. We know that the supply-demand situation is complex and different regions and different varieties present a very different picture. However, the reality is that we still have to find a home for the red wine that was formerly destined for China and are faced with freight and logistics issues, soaring input costs and labour shortages, and raging inflation. Pressure will be felt right across the board in 2022-2023 and into the medium term.

However, the Board is realistic and understands the government is facing significant budgetary pressures due to the expenditure on COVID related measures and soaring national debt. The key target is to ensure government understands the problems facing the sector, so we have a greater chance of more significant measures to help the sector in the May 2023 budget.

The lack of clear guidance on next steps with the Wine Tourism and Cellar Door Grant is causing concern and questions from industry. The new Government has committed to conducting an audit of the previous Government's Budget measures across all portfolios. This includes the Wine Tourism and Cellar Door Grant program. We are working closely with State and Regional organisations to maintain the grant and if possible, expand the allocation.

Advocacy agenda

Following the win for the ALP at the Federal election, we are preparing a detailed engagement plan with the new government, cross benchers, and opposition. During the campaign, the ALP did not speak much on alcohol-related issues, and it did not feature in any of their policies or overall economic "Plan for a Better Future".

The Board has taken a position that we need to allocate increased resources to advocacy in response to the issues the sector is facing in the short to medium term, and to respond to the make-up of the new Parliament. Expect to see a much bigger focus and public advocacy program to build on our already strong footprint in this area.

While Australian Grape & Wine maintains good relations with all parts of the political spectrum, it is a critical time to expand existing relationships, build understanding of the sector and advocate strongly for the support the sector requires.

Key Ministerial portfolios include Jim Chalmers as Treasurer, Stephen Jones as Assistant Treasurer, and Andrew Leigh as Assistant Minister for Competition, Charities, and the Treasury.

Mark Butler is the Health Minister.

Queensland Senator Murray Watt is the new Minister for Agriculture. Tony Battaglione, together with a small group of key agriculture stakeholders met with the Minister 21 June. We had a very good hearing and outlined the issues facing the grape & wine sector. The Minister has made the issues of biosecurity, labour, and freight his key priorities. However, he is aware of the issues caused by the China market and the difficult times that will be faced by growers in the short to medium term, and we have agreed to meet soon to further discuss the issue and identify solutions.

Senator Don Farrell is the new Minister for Trade – a key portfolio for the sector and one that holds the key to improving demand. Tony Battaglione has met with Senator Farrell on several occasions to commence what should be a very productive relationship. Senator Farrell owns a vineyard in the Clare Valley and is well known to many of our members.

It is also clear that although some in the industry were seeing the election of the Labor government as providing an opportunity for a 'reset' with China and re-opening of the market, this is not likely in the short term. The Prime Minister has made it clear that movement from China on trade issues is essential for greater strategic engagement.

Domestic Regulatory issues

There are several significant domestic regulatory issues that have the potential to impact Australian wineries. These include a number of consultations by Food Standards Australia-New Zealand on Energy labelling on alcoholic beverages, Carbohydrate and sugar claims on alcoholic beverages and Added Sugars Labelling.

We are also looking at issue around plain English allergen labelling and its implications for stock in trade.

The moves from several State governments to introduce and expand Container Deposit Schemes to include wine bottles and of course the administrative and financial implications of these proposals remain a concern for the Board. The Board is strongly committed to sustainability and increasing recyclability, but question marks



remain open about the suitability of CDS to make advances in this area. Australian Grape & Wine has been looking carefully at options around Australia and supports the move to a fourth bin for glass which is being introduced in Victoria.

Sustainability

Australian Grape & Wine's Board has identified sustainability as a key priority for our future success, both as an opportunity to differentiate our national brand, and as a means to maintaining our social licence for generations to come. Climate change and the environment are key issues influencing purchase decisions of consumers. As an industry, we are committed to reduce emissions and waste and we can't lose sight of these important goals, but we also need to be thinking about broader sustainability issues such as those relating to labour, diversity, ethical trading, water use and enterprise profitability.

The Australian Grape & Wine Board reiterated its commitments to enabling the sector to reduce carbon emissions. We know that ambitious industry goals of carbon neutrality are difficult to meet, and there are many roadblocks in reducing eliminating Scope 1 and 2 emissions, let alone scope 3. However, together with Wine Australia, we are producing a road map, from which we hope to be able to provide the tools to allow Australian grape and wine producers to develop methods for their own carbon neutrality, allowing individual producers, to meet their business targets within commercial reality.

The Australian Grape & Wine Board also had a substantial debate on sustainability and the role of Sustainable Wine Growing Australia. The Sustainable Wine Growing Australia program is a key part of our strategy, and it is important that it is fit for purpose and internationally recognised. We have seen a large increase in membership of the program, and we are starting to gain traction with recognition both domestically and internationally. The program will continue to improve and is poised to become a major strength in underpinning Australia's wine brand strategy.

High quality research and innovation will be important drivers of our ability to meet our sustainability targets while driving much needed productivity and competitiveness improvements in the years to come. Encouraging the Australian Government to maintain its commitment to matching funding for research, development, and extension (RD&E) through the Rural Research and Development Corporations (RRDC) system will be vital in this context.

As mentioned before, water policy is also a key focus over the next 12 months. The Basin Plan is being implemented over a transition period to 2024 to allow time for Basin states, communities, and the Australian Government to work together to manage the changes required for a healthy working Basin. Australian Grape & wine needs to be part of this process.

International issues

Internationally, there are several significant developments. The new UK Prime Minister Liz Truss will bring down an Emergency Budget in October. Given the cost-of-living crisis and high inflation in the United Kingdom it is possible that the duties decision may be deferred from the proposed start date of early 2023.

Following the signing of the New Zealand Free Trade Agreement and the resumption of bilateral relations between the Labor Government and France, negotiations have resumed. It is anticipated that these negotiations will be completed in the next 12-18 months. Negotiations on wine related issues are still proceeding in parallel to the main FTA discussions but will be finalised as part of the overall package. The European Commission have proposed dates for two virtual meetings in September and an in-person meeting in Brussels in November.

Prosecco remains a key issue of contention. We have also met with the Department of Agriculture around the next round of negotiations on the Free Trade Agreement with India. We are seeking a lowering of the minimum export price for wine as well as progress on technical cooperation.

Biosecurity

Biosecurity remains a key focus for the Board of Australian Grape & Wine. Recent issues have raised concern over whether the system is fit for purpose and will enable to successfully mount an eradication campaign for exotic plant pests or diseases. Australian Grape & Wine are committed to reviewing the existing arrangements and ensuring we can put forward an effective response.

Alcohol Beverages Advertising Code (ABAC)

The Board remains committed to responsible marketing of wine. This means that producers, no matter their size should introduce age-gating onto their marketing and on their websites.

The ABAC website includes instructions on how to ensure available age restriction controls have been applied to brand accounts on Facebook, Instagram, Twitter and YouTube and social media influencer posts on Facebook and Instagram (refer <http://www.abac.org.au/about/guidance/>).

Market diversification

The Board discussed activities to diversify markets. On 4 April 2022, the Australian Government awarded a \$1,817,000 grant to Australian Grape & Wine aimed at continuing to improve trade and grow demand in diversified international markets for Australian wine. The grant was provided following the successful application to the Agricultural Trade and Market Access Cooperation (ATMAC) program. It builds on the first stage ATMAC project, an investment in our sector, that saw a \$998,000 grant awarded in 2021. This initial investment in the first stage of our project involved:

- Development of a high-level sector framework to deliver growth through market diversification in the Australia Grape and Wine Sector.
- Establishment of two in market consumer and trade focused Australian wine ambassadors, one in Japan and one in South Korea.
- Development of a detailed sector trade and market access strategy and associated action plan that targets removal of barriers to trade to reduce time and cost imposts on the sectors exports.
- Creation of a United States wine market tool that will provide small and medium Australian wine businesses with a greater understanding of differing requirements across all 50 states and provide information supporting the businesses to develop strategies to enter the market.

The grant funds announced in April for stage 2 will allow Australian Grape & Wine to lead a number of activities in collaboration with national wine sector organisations and state and regional associations to support improved trade and growth of export markets into 2024. The key to its success is the building of strong communication channels between State and Regional Associations and State governments, Austrade, and Wine Australia.

We continue to work closely with Wine Australia and Austrade to open new markets internationally. The ATMAC Grant is helping in the markets of Korea and Japan. We are also looking to shortly hire an additional brand ambassador to further help the interface with consumers. Wine Australia will manage this program to continue the work we have initiated with them in Korea and Japan. We also brought out a delegation from India for the Australian Wine Industry Technical Conference (AWITC) to start building relationships to prepare the ground for the development of the Indian market. This relationship is starting to pay off with the opening of a dialogue on



how to improve access to the Indian market through enhanced certification process and acceptance of Australian testing.

We are also working on a few issues relating to maximum residue levels in wine in Canada, India, and other markets.

Next meeting

The next Australian Grape & Wine Board meeting will be held on 16 November 2022. A strategy day/s will be held on 14 and 15 November with our membership committees and sessions with Wine Australia. The Annual General Meeting (AGM) will be held on 15 November and the final Board meeting for the year on 16 November. The Board would encourage all those who can, to attend the AGM and ask questions, and have your say. This meeting is planned to be held in person in Adelaide. We have also invited Wine Australia to present at the AGM and be available for questions.

Tony Battaglione
9 September 2022