

## Australian Grape and Wine Incorporated

### BOARD COMMUNIQUÉ – 22 June 2022

The Board of Australian Grape and Wine Incorporated (Australian Grape & Wine) held Membership Committee meetings on 17 and 20 June 2022 and a Board meeting on 22 June 2022. The Committee meetings were held electronically, and the Board met in person in Canberra.

#### Key issues

A full and comprehensive agenda was discussed.

#### Supply and demand

The key issue was the concern around structural oversupply in bulk red wine as a result of the closure of the China market and the impact on grape prices as the sector struggles to diversify its export markets. The oversupply issue has been compounded by disruptions to freight, high energy prices, significant inflationary pressures impacting input costs and inevitably demand and discretionary spending and uncertainty about government policy around wage increases.

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, essential tourism operations, brand owners and a large volume sector of commercial wine producers. Obviously, these segments intersect.

For small tourism focused producers in regions with strong direct-to-consumer models, the short-term outlook is still positive, although labour shortages, inflationary pressures and high cost/lack of availability of inputs will put margin pressure on businesses. The domestic market is likely to remain stable to strong, although the inflationary pressure on discretionary incomes is likely to impact in the next twelve months.

It was agreed that it would take some years for the industry to restructure and in the meantime some grape growers and winemakers. The real pressure will come on 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.

The 2022 vintage will come in around the long-term average and with some grapes left on the vine this year, and storage capacity already at capacity, the ability of wineries to take in grapes in 2023 will be under pressure. This is going to lead to further pressure on growers. Some growers may be impacted financially to the extent that they would have to exit the wine industry.

Australian Grape & Wine is committed to communicating this situation to the broader sector.

Our advocacy program will also focus on working with the newly elected Federal Government to discuss whether financial assistance could be made available to help grape growers who decide to exit the wine industry or alternative structural adjustment proposals. The high level of inflation and increasing interest rates were also identified as likely to impact on the domestic market. The opening up of international travel opportunities is also likely to impact domestic tourism.

## **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 met with Senator Farrell on the 21 June 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.

With a small target approach to the election, Labor has not taken a full legislative agenda to this term. Public health policies will be under consideration, and while obesity measures (such as a sugar tax) are probably likely to be more highly promoted, it can be anticipated that alcohol policy or reviews may also be brought forward for Ministerial consideration. I think we can say that wine tax will also come onto the agenda at some stage in the next three years.

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.

The closure of Parliament House due to COVID-19 limited our ability to hold face to face meetings with Ministers, but phone calls and video conferences have allowed for continued dialogue and engagement. We are looking forward to the increased opportunities as we move through the COVID recovery period.

## **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 have set strong targets around net-zero 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 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. 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.

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.

### **Alcohol Beverages Advertising Code (ABAC)**

ABAC provides confidential advice ("pre-vetting") to alcohol marketers on whether proposed alcohol marketing communications (including packaging) comply with the ABAC Code. It also reviews and adjudicates on complaint demands for ABAC's services. There were 3336 requests for pre-vetting, an over one third increase on the previous year. Rejections numbered 501, about 15 per cent of requests. The majority of ABAC complaints and breaches related to digital social media posts, with the lack of age restriction on certain social media posts generating particular concern. Importantly, JWS Research were commissioned to explore current public perceptions of alcohol marketing and how the ABAC Complaints Panel determinations align with the understanding of a 'reasonable person'. The research found that the Code's content standards align with community expectations for alcohol marketing and in some cases, appear to be more conservative." ABAC's Annual Report and Year in Review was released on 3 May and is available online at:

<https://www.abac.org.au/publications/annual-reports/>

In light of a research report and subsequent complaint to ABAC in July highlighting failures by alcohol brands to activate and/or monitor available age restriction controls on Facebook and Instagram, the ABAC Management Committee commissioned JWS Research to undertake proactive monitoring of ABAC signatory compliance with ABAC Responsible Alcohol Marketing Code Placement Rule 2.

ABAC Code Placement Rule 2 provides that an alcohol marketer must utilise available age restriction controls to exclude minors from viewing its marketing communications.

JWS Research randomly selected 300 alcohol producer, distributor or retailer brands and for each of the selected brands, audited:

- whether available age restriction controls have been applied to the brand's accounts on Facebook, Instagram, Twitter and You tube; and
- up to two apparent social media influencer posts promoting the selected brands posted to Facebook or Instagram on or after 1 August 2021, to test whether the individual posts have been age restricted by the influencer.

The results indicate that small wine companies show a high degree of non-compliance particularly with respect to age-gating websites and digital advertising.

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/>).

We will contact those companies on behalf of ABAC to discuss how best to meet compliance with the Code and protect the brands received from the public about alcohol advertising and other marketing.

We are currently reviewing the ABAC Code and are seeking views on:

- Regulation of zero alcohol beer, wines and spirits. FARE believe that all non-alcohol wines should be regulated as if they are alcohol
- Sponsorship is always a contentious issue:
  - marketing flowing from a sponsorship is already covered by the ABAC standards
  - naming rights, logos on uniforms and the sponsorship agreement itself are all excluded from the ABAC standards
  - should either a best practice guide be developed for sponsorships, or a new Code standard that prevents sponsorship of teams or events that are primarily aimed at minors OR where participants or spectators are reasonably expected to comprise > x% of the audience
- The growing trend of product packaging not clearly identifying a product as alcohol is one that challenges pre-vetters and panelists (item 8):
  - the strong or evident appeal to minors provision provides that packaging can't have strong or evident appeal to minors which includes creating confusion with a soft drink
  - should there be some requirement like that adopted by IARD for all alcohol product packaging (which they are also extending in time to non-alcohol beers wines and spirits) to include either a symbol or written age restriction (i.e. 18+) or is this a suggestion for FSANZ given ABAC is a voluntary code and it would be difficult for ABAC to get compliance
- Alcohol retailers age-gating websites:
  - currently refuse to age gate their retail brand websites
  - under the current ABAC standards they are captured and should do so
  - this is an issue of contention that should be resolved either by their agreement to age gate websites, or ABAC including a specific exception for alcohol retailers on this requirement.

### **Market diversification**

Australian Grape & Wine is working closely with the Australian Government, Austrade, Wine Australia and our members, to diversify our export market footprint. 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.

### **China WTO and Relations**

Since the change of government in Australian's federal election in May, there has been some interest in the media and within industry around what this could mean for a possible thawing of the political relations between Australia and China. We have been encouraged by the commencement of dialogue at the political level, but caution that there is not a rapid solution in sight.

The Australia-China WTO dispute resolution on Anti-Dumping and Countervailing Duty Measures on Wine from Australia is also concurrently progressing. This continues to present a useful avenue to engage in dialogue with China on the measures imposed on Australian Wine.

### **Domestic Regulatory issues**

There are three domestic regulatory issues that have significant implications for the sector.

- Food Standards Australia-New Zealand (FSANZ) is consulting on amending the Australia-New Zealand Food Standards Code (the Code) to provide energy labelling on alcohol beverages. We believe a mandatory energy-labelling requirement is likely.
- FSANZ is consulting on a proposal for added sugars labelling. We have raised concerns on unintended consequences of such a proposal around dosage or juice added to ferments.
- Australian Grape & Wine continues to explore alternative options to the container deposit scheme (CDS) model.

### **Membership and policy development**

The Board also discussed options to expand membership and involve more stakeholders in policy development discussions. The bi-annual regional forums were seen as a good way to improve stakeholder engagement from across a range of business models. The oversupply crisis has emphasized the need to develop policy to respond to industry needs across the country. Tony Battaglione is meeting with members of the inland region grower groups at the Australian Wine Industry Technical Conference as part of this process. Further structural improvements will be considered by the Board later this year.

### **Next meeting**

The next Australian Grape & Wine Board meeting will be held in September 2022. This meeting is planned to be held in person in Adelaide.

**Tony Battaglione**

27 June 2022