



Pre-Budget Submission 2024-25

24 January 2024



FOR INDUSTRY, BY INDUSTRY

Who we are

Australian Grape and Wine Incorporated (Australian Grape & Wine) is Australia's national association of winegrape and wine producers. We represent the interests of the more than 2,000 winemakers and 6,000 winegrape growers working across Australia's 65 wine regions. These businesses employ more than 160,000 people, making a significant contribution to rural and regional Australia, driving economic growth, local manufacturing, regional exports and food and wine tourism.

Our role is to help forge a political, social and regulatory environment - in Australia and overseas - that enables profitable and sustainable Australian grape and wine businesses. To do this, our activities focus upon the objective of providing leadership, strategy, advocacy, and practical support. We represent small, medium and large winemakers and winegrape growers, with policy decisions taken by the Australian Grape & Wine Board requiring 80% support, ensuring no single category can dominate the decision-making process and guaranteeing policy is only determined if it provides significant industry benefit. In practice, most decisions are determined by consensus.

Australian Grape & Wine is recognised as a representative organisation for winegrape and wine producers under the *Wine Australia Act 2013* and is incorporated under the *SA Associations Incorporation Act 1985*.

Message from the Chair

Australia's grape growers and winemakers are celebrated at home and abroad for the quality of their products and the experiences they provide to visitors to our regions every day. Business owners across our sector support the employment of 165,000 people along the value chain, across sixty-five distinct wine regions, situated in every state in the country. Every time a consumer buys a bottle of wine in a retail store, restaurant or cellar door, the benefits of this sale flow further than the wine business to other regional businesses, driving employment, prosperity, and community investment.

We are rightly proud of our heritage and our unique contribution to regional Australia, and we strive to recognise and promote the communities and regions within which our grapes are grown, and our wines are made. We are a leading example of a locally grown and manufactured, value-added agricultural industry.

It is well understood, however, that Australia's grape and wine sector is experiencing a downturn that is deeper and harsher than what we have seen previously. This downturn is testing the fabric of our sector and has the potential to decimate the businesses that contribute to the regional communities in which they operate. While this scenario is, absolutely, a cause for alarm, we are confident that a smart and strategic co-investment between industry and the Australian Government can mitigate the worst of the potential impacts, while also laying the groundwork for businesses to take stock and implement the steps they need to take to allow the industry to recover. This Pre-Budget Submission (PBS) seeks to inform the Australian Government how such a co-investment could be designed.

Our proposal is presented in three parts. Firstly, we ask for \$30 million to implement a sustainability support package for vineyard owners. This package would enable growers who wish to exit the industry or change their business models to drive greater efficiencies and better environmental outcomes in a sustainable and dignified way. The proposal recognises industry's concern that a lack of support for a transition out of the current supply and demand scenario could have serious long-term ramifications for not only our sector, but our communities, our environment, and the mental well-being of our people.

Secondly, Australian Grape & Wine is calling for \$36 million over the forward estimates to help facilitate an export-driven recovery. Australia is a proud and successful trading nation, and with sixty per cent of Australia's wine production being exported, the grape and wine sector has played a significant part in this success. However, in recent years our export success has been challenged, primarily by China's import duties on Australian wines which saw a \$1.2 billion market (our largest by a significant degree) effectively disappear overnight. This has had a profound impact on the supply-demand dynamics of the sector and stretched many grape and wine businesses to breaking point.

Our proposal to assist exporters to drive a recovery in sales in our sector reflects the need to further diversify our export market footprint. It also recognises that neither government nor industry can do this alone. We will need to work strategically and collaboratively to break down trade barriers and promote our products in both traditional and emerging markets. We call for new funding to leverage our investments taken over the last three years in markets like Japan, Korea, Southeast Asia, the United States, and India. We also call for funding beyond the Export Market Development Grant program to give businesses impacted by the unexpected impacts of China's import duties an opportunity to utilise their export know-how to pave the way for growth in new and diverse markets, for the benefit of the entire wine industry.

Thirdly, we recognise that there is a genuine opportunity for Australian consumers to get behind their local grape growers and winemakers. We are seeking \$20 million to both retain and extend the Wine Tourism and Cellar Door Grant program and drive a domestic marketing campaign to encourage greater levels of food and wine tourism across Australia's beautiful and diverse wine regions. We see this as an opportunity to reclaim market share in the domestic market, while also encourage people to experience what our growers and winemakers have to offer at their cellar doors, and across Australia's regional towns and cities.

While the challenges our industry is facing in terms of oversupply, trade headwinds, adverse weather conditions and decreasing demand are well documented, this PBS seeks to present opportunities for the Australian Government to do more than admire the problem. It presents solid and well-considered ideas that we believe align with the Government's policy platform and will have the broad support of grape growers and winemakers across the sector. Indeed, we believe these proposals align well with what Australian Grape & Wine heard during the comprehensive consultation process undertaken for the industry's soon to be released "One Grape & Wine Sector Plan".

We are confident that with the assistance and support of the Australian Government, Australia's grape and wine sector can achieve a sure footing for a prosperous future of supporting people right across Australia's regional wine communities.

John Hart OAM

Chair

24 January 2024

\$86 million recovery and resilience program for a sector facing undue hardship

Summary of recommendations

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| Recommendation 1: | Invest \$30 million in a sustainability support package for vineyard owners. |
| Recommendation 2: | Invest \$36 million over the forward estimates in an export market driven recovery. |
| Recommendation 3: | Invest \$20 million in a domestic marketing campaign to drive food and wine tourism in Australia, including an additional \$10 million to retain and extend the Wine Tourism and Cellar Door Grant scheme on an ongoing basis. |

Recommendation 1: A sustainability support package for vineyard owners

Without government intervention to support growers in this critical period, our sector will experience forced exits, widespread vineyard abandonment which can lead to significant biosecurity risks, attrition of younger generations in the affected areas, and adverse mental health consequences across regional communities.

Australian Grape & Wine proposes a competitive grants package for business owners who can see a pathway towards sustainable profitability through asset redevelopment. The grant would align with Australian Government priorities relating to water and the environment and help ensure businesses and regional communities can see a more sustainable future.

Funds would be quarantined for investments that demonstrate improved economic efficiency, evidence of greater return on energy and water use and/or optimisation of land use to promote food security, carbon sequestration or biodiversity outcomes. Example investments could include protected cropping, environmental plantings, or modifying equipment or infrastructure for alternative systems to improve irrigation efficiency all with a view to encouraging those with an unprofitable business model to explore alternative crops or businesses. It would be accompanied by a requirement that no planted vineyard area be left unmanaged, and all problematic waste associated with any asset removal be removed from the site. It could be based on a competitive tender process and leverage existing programs such as the Farm Household Allowance.

The results would be significant. For example, an allocation of \$30 million at a 1:4 ratio would facilitate reestablishment of a more profitable and water efficient crop over approximately 4,000 hectares.¹ The impact could be amplified if a portion of the funding was directed towards environmental plantings within the grant framework. It will also protect the reputation of other businesses in the regions and strengthen the Australian wine sector's sustainability credentials. For those who remain in the sector, the result would be to help drive greater efficiencies and profitability in their businesses which will have flow-on benefits for the regional communities within which they live and work.

Where vineyards are removed, we would have greater certainty that all harmful waste streams such as cooper chrome arsenic (CCA) timber posts will be dealt with appropriately. If such posts are disposed of incorrectly, they pose a significant contaminant risk for our soils, along with a fire hazard for communities. Funding is required to develop innovative solutions to help our industry mitigate these risks, including ways in which growers looking to exit the industry can do so in a way that is safe and sustainable. Investment by the Australian Government would complement and leverage existing research being undertaken by Wine Australia and the South Australian Government and put this research into action for the benefit of the grower, their community, and the environment.

Why is this investment required?

Communities across the three inland regions of the Riverland (South Australia), Murray-Darling – Swan-Hill (New South Wales and Victoria) and the Riverina (New South Wales) are heavily reliant on wine export sales and were therefore amongst the hardest hit by the loss of sales to China. More recently, they have faced the additional impacts of floods and damaging storms. Since 2021, average revenue per hectare of vineyard area in the inland regions has fallen from \$9122 to \$4347 and we estimate that the average annual income per winegrape growing business has dropped by \$214,000.² Those predominantly planted with red varieties are likely to have fared significantly worse, and many are ineligible for the Farm Household Allowance Activity supplement or the National

¹ Vineyard removal costs estimated at \$7,000/Ha and reestablishment of an alternate crop at between \$20,000 to \$30,000/Ha.

² The value of the inland crush is based on Wine Australia 2023 National Vintage Report. South Australia maintains a vineyard register which reveals the number of growers. The number of inland growers in Victoria and New South Wales are based on best estimates.

Reconstruction Fund due to their forced reliance on off-farm income.

Growers are rightly concerned about their financial situation, the future of the sector and their communities. Many are also reporting significant anxiety about the recent announcement that water buy-backs are being implemented across the Murray Darling Basin. There are serious concerns that if these buybacks are not designed and implemented with due sensitivity, there could be devastating impacts across the winegrape growing sector and across the communities these growers support, with impacts likely flowing well beyond winegrapes to those businesses who rely on prosperous regional communities for their own businesses to thrive.

Given this economic climate, it is difficult to imagine how growers can afford to sustainably retire unproductive vineyards, leading to a higher risk of vineyard abandonment or widespread unsaleable vineyards. Such abandonments detract from the visual amenity impacting tourism, tourism dependent businesses and Australia's reputation as a premium wine producing nation, dampening the climate for investment and potentially stifling sales. Furthermore, abandoned vineyards heighten serious biosecurity risks, which cannot be confined to the abandoned site and will likely spread to adjacent vineyards. Associated waste streams such as CCA posts and dripline have the potential to cause environmental harm when left stockpiled in vineyards or disposed of incorrectly.

We are also deeply concerned about the growing risks of a mental health crisis in some of our key growing regions. The state of the economy can be used as a key indicator of mental health in regional communities due to the strong reliance of agricultural production on external market forces. The Riverina growing region along with Charles Sturt University recently undertook a profitability report for vineyards to assess the financial sustainability of Riverina growers, delving into the status of growers' mental health, their attitudes towards the industry and region, and succession planning for their businesses. Growers reported a sense of pessimism surrounding their businesses, but an attachment to their region. A sense of stress, worry, and low mood was also pervasive throughout responses. Investment in practical solutions that help growers today will help ensure better public health outcomes in our regions in the years to come.

Australian Grape & Wine proposes that the economic, environmental, and social risks of ignoring the issues facing the most affected growers warrants investment in the proposed support package. It would help drive a sustainable industry transition, encourage efficiencies, and mitigate the acute financial and mental health challenges associated with the current downturn our industry is experiencing, while striving to position businesses to be more competitive in the global wine market.

Recommendation 2: Invest \$36 million over the forward estimates in an export market driven recovery

- **Establish an export market expansion support program to continue government investment for market diversification and growth.**
- **Continue the support provided to industry in the form of in-market brand ambassadors for Australian wine.**

Australia exports around 60 per cent of its total wine production to more than 100 global markets. Exports have been the cornerstone of the sector's growth and success since the 1990s. However, the loss of the \$1.2 billion China market in 2021 has had a devastating impact on the sector's viability. In the 12 months ended September 2023, Australian wine exports declined by 11 per cent in value to \$1.79 billion and 4 per cent in volume to 604 million litres. Total value was well below the previous 10-year average of \$2.31 billion and the lowest 12-month value for nearly a decade. Global decline in alcohol consumption, increased costs including shipping and freight, and increased marketing investments by competitor nations have further compounded these impacts, leading to a significant decline in exports across most major markets³.

Despite these challenges, the quality and diversity of our wine offering, and our export know-how provides a strong base from which we can pursue a sustainable, export-driven recovery. However, we cannot do it alone. A strategic partnership between industry and government is required to enable this recovery.

Market diversification and growth

In 2020 the Australian Government committed \$85.9 million to help Australian agribusinesses expand and diversify their export markets under the Agri-Business Expansion Initiative. From this investment around \$18 million in additional funds were allocated to expand the existing Agricultural Trade and Market Access Cooperation (ATMAC) grants program to enable the government to develop strategic partnerships with trade-disrupted industries to support trade expansion and diversification. For the wine sector, the investment of more than \$3 million supported market diversification activities through the establishment of tools, resources, in-market ambassadors, forums, coordinated marketing and promotion activities, removal of trade barriers, leveraging of other resources and extensive work to establish greater collaboration with India.

However, the additional ATMAC program funding ceased in 2023. This means that a range of activities supported by this initial investment lack ongoing funding. Trade diversification and growth are long term efforts and need to be sustained for the initial investment to begin to materialise. In some cases, such as the establishment of our in-market country managers in Japan and South Korea or investment in collaboration with India, a short-term investment without continuity could, in-fact, have the opposite effect and be detrimental to growth in these markets.

We propose the Australian Government invests a further \$6 million across the forward estimates, in partnership with Australian Grape & Wine, to build on the previous ATMAC investments. This funding would ensure ongoing funding for country managers in Japan, South Korea and Vietnam, and ongoing work to improve opportunities for businesses exploring the high-growth-potential India market.

Business lead export recovery & expansion

With around 1200 active exporters, a mature and highly competitive domestic market, as well as increased cost pressures and the effective closure of the industry's largest export market, our sector's recovery is highly reliant on

³ Wine Australia, *Export Report September 2023*, (2023).

export opportunities. The decline in Australian wine exports has not just been a result of the China market closures, this trend has extended to most major markets across Europe, Asia, and the Americas since 2020. The industry is in desperate need of support to recover and buck this trend.

The Australian Government's investment in the Export Market Development Grant (EMDG)⁴ program is one example of government support which has aided genuine impact on business export success. The scheme has been successful because it requires businesses to have 'skin in the game' and helps businesses to explore opportunities themselves. While our members have noted some concerns with the scheme recently in relation to the sunset clause on business eligibility, uncertainty about the quantum of funds and burdensome administrative requirements, these principles of providing a hand-up, rather than a hand-out, are worthy of consideration by Government in the context of helping drive an export led recovery for the Australian wine sector.

We are therefore calling on the Australian Government to allocate \$30 million over the forward estimates to a dedicated program that seeks to support experienced Australian wine export businesses to recover market share, diversify and expand Australia's wine exports. As part of the program, we would expect that businesses would undertake objective exporter capability assessments and be required to report on agreed performance measures, to ensure transparency and optimal return on investment.

This proposal reflects the unique set of challenges facing the industry, including the need to mitigate the worst of the oversupply scenario. It also reflects the fact that many previous businesses most impacted by the closure of the China market are previous EMDG recipients. It is these companies that have the export know-how and experience to enter new markets and grow existing markets, helping reposition and reset Australian wine overseas. However, the current challenges facing the industry mean that these companies are focused on survival and are lacking the capacity to invest in the high up-front costs associated with venturing into a new market, such as hiring staff, innovative products, developing the right model for market entry and distribution, and undertaking market research. Furthermore, businesses must manage the ongoing and equally important costs of marketing and promotion to maximise their potential in market.

Supporting the sector by providing opportunities for businesses to lead their own recovery will help drive demand for Australian wine internationally, diversify our export markets and reduce the downward pressure on grape prices, particularly in those regions geared towards producing wines for export. Experienced exporters help drive these benefits and create a stronger return on investment for the Government's co-investment with industry.

Enabling this investment would not only provide crucial support to individual wine businesses and grape growers within the supply chain, but also serve as a significant, confidence-enhancing and productivity boosting measure for our sector and communities in Australia's wine regions. As noted in the Review of Financial Assistance to SME Exporters of 2020, *"Evidence points to continuous (or persistent) exporting Australian businesses being better performers compared to those businesses that do not export or switch. According to research undertaken by the Department of Industry, Innovation and Science, Australian exporters on average employ more staff, pay higher wages, and achieve higher labour productivity compared to non-exporters."*⁵

These measures also align with the Government's policy platform which states "Labor will work....to support new export opportunities in both bulk commodity and premium markets, including gaining access to markets that have faced the greatest resistance from our trading partners."

⁴ We note in mid-2023 the Australian Government announced intentions for a strategic refocusing of the EMDG, Australian Grape & Wine is supportive of improved EMDG criteria for ensuring those who access funding can do so in a sustained manner that will prioritise the greatest return on investment.

⁵ Fisher, Anna. "Review of Financial Assistance to SME Exporters", (2020), page 3.

Recommendation 3: Invest \$20 million in a domestic marketing campaign to drive food and wine tourism in Australia, including an additional \$10 million to retain and extend the Wine Tourism and Cellar Door Grant scheme on an ongoing basis.

The celebrated relationship between Australia's wine, food, and tourism scene is one we must capitalise on through a comprehensive domestic marketing campaign. Growing these channels has strong potential to provide immediate and ongoing benefits to the sector. As cellar door tastings and related experiences promote a loyal customer base, they also increase future direct to consumer (DTC) sales via mail order and wine clubs. For small to medium sized businesses in particular, this channel often outperforms others in terms of rate of return to businesses.

To seize this growth potential, Australia needs to expand and enhance its unique food and wine tourism experiences with a new strategic campaign to attract international and domestic tourists to our 65 distinct wine regions and to build the perception of Australian wine.

The benefits of visitation and tourist expenditure flow to local restaurateurs, café owners, accommodation managers, service stations, hotels, other tourism operations and beyond. Tourism Research Australia estimates that prior to Covid-19, there were 8.4 million visits to wineries from both domestic and international travellers.⁶ According to that report, travellers that included a visit to a winery spent a collective total of \$9.6 billion in Australia during their trip and are typically higher spenders with an average spend per person of \$1136 (the average across all visitors was \$380). Wine Australia estimates that DTC sales channels generated approximately \$1 billion in sales in 2020-21.⁷

While some regions battle to keep up with this demand, others are yet to reach their full potential, particularly those in the inland regions. After the prolonged uncertainty caused by Covid-19 and the devastation caused by floods and heavy rain, there is a strong case for industry and governments to work together to provide a confidence-boost to regional food and wine tourism providers in Australia.

We call on the Australian Government to co-design and fund a marketing program to build the perception of Australian wine in parallel with expanding regional food and wine tourism. Such a strategy could be targeted towards promoting people and place, encouraging people to travel further for their wine tourism experiences and promoting longer stays in regions. This would pave the way for tourism dollars to flow to communities most in need such as those along the Murray which are struggling with oversupply.

These experiences also provide an opportunity to build relationships with consumers that persist beyond any single visit. An increase in visitor numbers by 10 percent would be worth approximately \$100 million in DTC sales generating significantly higher flow on benefits to these regions' economies. By shining a light on Australia's diverse wine regions, such a campaign would increase demand for our world-leading wines at local retailer outlets and restaurants. Educating customers, consumers and the broader public about Australian wine would also have flow on benefits beyond wine sales, such as raising the profile of wine regions as employers and contributors to regional economies.

Growth in food and wine tourism could be achieved by enhancing the value of Australian wine domestically and internationally through activities such as:

⁶ Tourism Research Australia (2018-19) sourced at <https://www.wineaustralia.com/news/market-bulletin/issue-184>

⁷ Wine Australia, "Surviving and Thriving in 2020-21" <https://www.wineaustralia.com/market-insights/wine-direct-to-consumer-survey-report>

- A marketing and brand building campaign to increase the perceived value of Australian wine by promoting the people and places behind our unique and diverse product offerings;
- Consumer research to understand preferences and the drivers for visitation;
- An industry led grant program supporting wineries to enhance their food and wine tourism experiences;
- A program to develop winery capability in leveraging digital solutions to improve customer experience, manage customer information and harness insights for growth and business efficiency;
- Collaborating with tourism and agribusiness regional development corporations/entities;
- Bringing key food and wine influencers to Australia; and
- Leveraging food and wine credentials at international trade and tourism events.

The Wine Tourism Cellar Door Grant (WTCDG) has played a critical role in contributing to attracting visitors to cellar doors around Australia. Expanded cellar door offerings draw tourists to the entire region, benefitting all wineries, not just those that have received grant funding. Wineries are critical contributors to the local economy, drawing in tourism revenue that supports the community as visitors frequently spend money not only on wine purchases but also on food and accommodation in the region. This financial boost can be a lifeline for many rural communities.

In addition to the economic impact, winery cellar doors provide employment opportunities in these communities. From hospitality and sales positions at the cellar door to roles in wine production, maintenance and administration, wineries create jobs that are integral to the region's workforce.

The WTCDGs ongoing oversubscription since its inception underscores that the current funding pool is insufficient to adequately meet the existing scope. To address this challenge, we propose increasing the pool of funding from \$10 million to \$20 million and applying annual indexation. This will also account for inflationary pressures effectively reducing the value of the funding provided.

This would enable eligible businesses to fully leverage the scheme by accessing their full entitlement up to the \$100,000 cap and would be a significant driver of recovery for grape and wine businesses with flow-on benefits for regional communities. It will enable businesses to invest in improving their tourism and cellar door offerings.

The combined investment of \$20 million on these measures will not only contribute to the revitalisation of the Australian wine industry but also drive tourism, boosting local communities across our nation. With government support, we can elevate our standing on the world stage and foster growth in a sector that holds immense potential.

State of the industry

- Winegrapes are grown in every state of Australia.
- There are more than 2,500 wine producers and 6,000 wine grape growers across Australia.
- There are sixty-five distinct wine regions, which we call geographical indications (GIs).

We are a pillar of regional economic prosperity

- A magnet for regional tourism, with 8.4 million visits to wineries in the year to March 2019 (although this fell to 5.5 million visits to wineries in the year to September 2020 as a result of the pandemic). Higher per person spend compared to non-winery related tourism.⁸
- Grape growing, winemaking and wine-related tourism contributed an estimated \$45.5 billion to the Australian economy in 2019.⁹
- The sector supports the employment of more than 160,000 full and part time people across Australia, the majority located in rural and regional Australia.

Enjoyed globally – an export success story

- The world's fifth largest wine exporter nation by volume in 2022, behind Italy, Spain, France and Chile, with around 60 per cent of production exported.
- 604 million litres at a total value of \$1.79 billion exported in the year ending 30 September 2023.
- This equates to 15.4 million glasses of Australian wine enjoyed overseas every day.
- Every bottle of Australian wine sold overseas tells a story about rural and regional Australia.

We are farmers.... amongst other things

- Grape and wine businesses are unique in agriculture. We are a leading example of a locally grown and manufactured, value-added agricultural industry.
- While we are farmers first and foremost, our business models reach consumers in ways other agricultural industries do not, including through our roles as restaurateurs, event planners, wedding hosts, tourism managers and accommodation operators.
- We grow grapes, jobs, careers, businesses and communities.

We are an industry that is suffering significant hardship

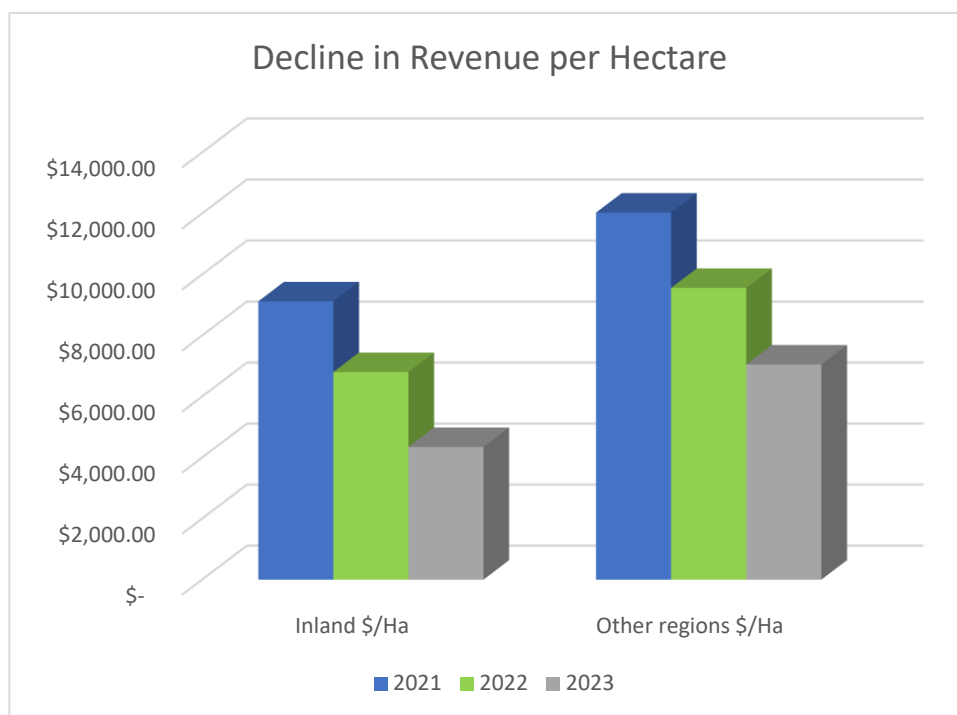
- As at September 2023, the average export price for red wine was \$3.73, a 26 percent reduction compared to the average export price in September 2020 of \$5.05, before the loss of our major trading partner, China.¹⁰

⁸ Wine Australia, "New results provide a better picture of tourism to Australian wine regions", (2019), <https://www.wineaustralia.com/news/market-bulletin/issue-184>

⁹ Gillespie Economics, "Economic Contribution of the Australian Wine Sector", (2019), p.4.

¹⁰ Wine Australia, Export Dashboard, <https://marketexplorer.wineaustralia.com/export-dashboard>

- Coinciding with a 2023 crop that was significantly below the 10-year average, the average price per tonne of red grapes in inland regions have fallen from \$659 in 2020 to \$304 in 2024, a reduction of 54% compared to pre-China prices.¹¹
- Based on current sales, the sector requires an annual crush of 1.4 million tonnes to remain in balance rather than the 1.75 million tonnes we have become accustomed to.
- According to ABARES, grape prices are set to fall a further 7% in 2024 with red grapes once again disproportionately contributing to the decline.¹²



Conclusion

We aspire to be recognised once again as a global leader for quality and innovation and to be at the forefront of sustainable wine production.

There has never been a more important time for the Australian Government to invest in the grape and wine sector. The targeted investment proposals outlined in this submission would give the sector the best chance of not only surviving the shocks we are currently experiencing in the form of market closure and oversupply, but to emerge as a celebrated, financially viable and sustainable industry – supporting rural and regional economies and communities. We would welcome the opportunity to discuss these proposals with you further.

¹¹ Wine Australia, Grape Price Indicator Dashboard, <https://marketexplorer.wineaustralia.com/grape-price-indicators>

¹² ABARES, [Agricultural Commodities Report - December 2023](#)

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