

WINE TASMANIA



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**Submission to the Senate Rural and Regional Affairs
and Transport References Committee**

Inquiry into the Australian Grape and Wine Industry

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Committee Secretary

Senate Rural and Regional Affairs and Transport References Committee

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A. Introduction

The Tasmanian wine sector is an important and growing contributor to trade and the economy, regional employment, tourism and the overall Australian wine category and Tasmanian brand.

Whilst Tasmania may only represent a very small part of Australia's total wine grape production, it is Wine Tasmania's belief that the Tasmanian wine sector is, and can continue to be, an important part of reinvigorating the reputation and positioning of the Australian wine sector.

Contrary to most other Australian wine regions, demand for Tasmania's premium cool climate wines currently outstrip supply, resulting in some of the highest prices in the country being achieved for Tasmania's wines and wine grapes. Importantly, this has led to a number of recent significant investments in Tasmania's wine sector, at a time when there is little investment in wine assets nationally. Not only are existing Tasmanian wine producers expanding their investment through new vineyard area (20% growth in the past five years alone) and infrastructure, many new investors have entered the Tasmanian wine sector in recent years, including Brown Brothers, Treasury Wine Estates and Shaw + Smith.

Tasmania's value, increasing global reputation and quality position is in stark contrast to the national position (refer infographic on page 5). Tasmania's wine sector performance has benefited from a clear and unified, market-led strategy.

Wine Tasmania recognises that the Senate Committee's Inquiry will focus on issues impacting on the broader national wine sector, many of which will not particularly be relevant to Tasmanian wine producers. However, this Senate Committee Inquiry does provide an opportunity to consider the future of the Australian wine sector and activities that can be undertaken to build a strong and profitable, supporting regional economies and encouraging investment, trade and tourism.

This submission addresses key aspects of the Senate Committee's Inquiry and Terms of Reference relevant to the Tasmanian wine sector and in line with Wine Tasmania's Strategic Plan.

B. Summary of Recommendations

1. *Development of a clear and consultative marketing strategy for the Australian wine sector, led by industry and administered by a skills-based committee, including broader opportunities for wine producers funded through statutory levies*
2. *Correction to anomalies and penalties in the Wine Industry Award 2010*
3. *Simplifying compliance for the Tasmanian Freight Equalisation Scheme*
4. *Acknowledgment of regional differentiation in biosecurity issues*
5. *National profitability analysis and support tools, including financial benchmarking, business and financial support*
6. *Retention of the Wine Equalisation Tax (WET) in conjunction with the WET rebate being applied in line with its original intent to support regional wine businesses and communities*
7. *Opportunity for wine sector input on statutory levy distribution, including in relation to marketing and research, development and extension activities*
8. *An increase in outcomes-focused research, development and extension relevant to developing cool climate regions, including climate adaptability*
9. *Funding from statutory levies for national framework to support and promote sustainability activities, tailored to suit different regions and business sizes*

C. Snapshot of Tasmania's Wine Sector

The Tasmanian wine sector has developed a strong, clear and collaborative position in the wine world, built on quality and value. Tasmania has emerged as one of the strongest wine regions with an opportunity to lead and drive the new wave of interest in Australian wine.

Contrary to most mainland wine regions, demand for Tasmanian wine continues to outstrip supply, all Tasmanian wine produced is in the premium or ultra-premium wine categories, prices for both Tasmanian grapes and wine are some of the highest nationally, and our wines consistently receive independent wine show awards and accolades. Importantly, the wine sector has attracted significant investment by existing and new entrants in recent years.

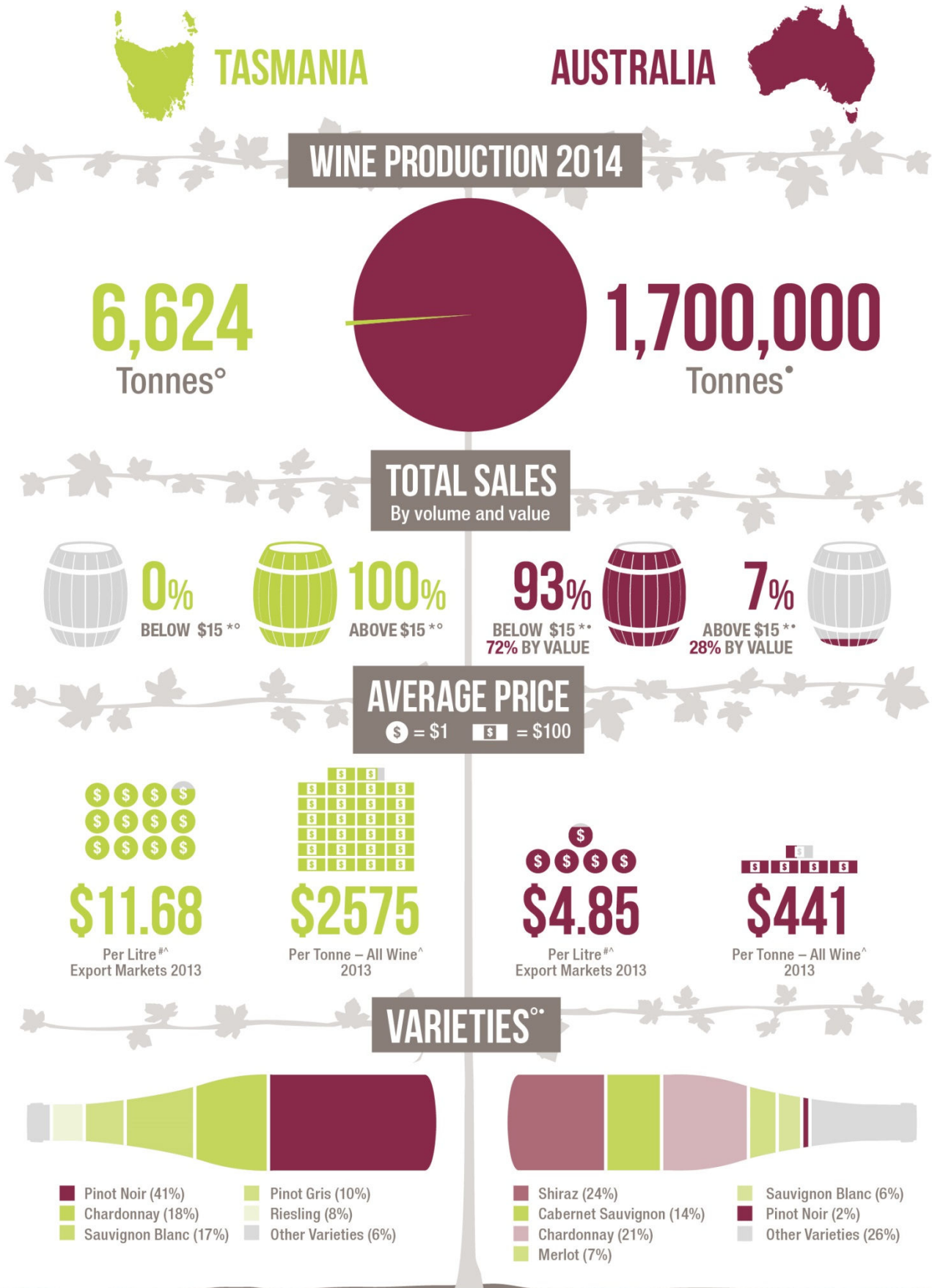
Tasmania has 160 individual licensed wine producers throughout the state, with vineyards covering around 1,800 hectares. Tasmania enjoys advantages through growing conditions, biosecurity, research and extension collaboration and input to research priorities, a clear strategic plan, government support and cooperation, unified wine sector and collaborative marketing activities.

Driven by Wine Tasmania's clear, market-led strategy, the strong interest in the Tasmanian wine sector is expected to increase, supporting growth in wine sales, expansion of existing wine businesses, investment by new entrants and resultant regional employment increases.

Key Statistics¹

- 1,340 full time equivalent positions
- 160 licensed wine producers
- 200+ vineyards covering close to 1,800 hectares
- 90 cellar door outlets, with 160,000+ tourists visiting wineries - 15% of all visitors (2014)
- Varieties - Pinot Noir 41%, Chardonnay 18%, Sauvignon Blanc 17%, Pinot Gris 10%, Riesling 8%
- Sparkling wine production - 35% of total production (76% of Chardonnay and 45% of Pinot Noir)
- Sales percentages (approximate) - Tasmanian 40%, mainland Australia 52%, export 8%
- Highest pricing for Pinot Noir, Chardonnay, Riesling and Sauvignon Blanc grapes in Australia, 2014
- Average bottle value of \$22.36, compared with the national average of \$10.87 per bottle
- The value of Tasmanian wine sales is growing at almost double the Australian wine sales value
- 100% of Tasmania's wine production retails above the equivalent of \$15 per bottle - this category represents only 7% of the country's total wine production, but generates 28% of its total value

¹ Sources: Australian Grape & Wine Authority, Winemakers' Federation of Australia, Centaurus Partners, Tourism Tasmania, Wine Tasmania



* Centaurus Partners | ° Wine Tasmania 2014 | * Winemakers Federation of Australia 2014 | ^ Australian Grape & Wine Authority | # bottled wine only

D. Wine Tasmania Overview

Wine Tasmania is the peak representative body for Tasmanian grape growers and winemakers, working to assist them to be recognised as world leaders in the sustainable production of premium cool climate wine.

Established in 2006 as a public company limited by guarantee, the Wine Tasmania Board is skills based and is chaired by independent director Graeme Lynch. Other directors are Will Adkins (Brown Brothers Tasmania), Rebecca Duffy (Holm Oak Vineyards), Nick Glaetzer (Glaetzer-Dixon Family Winemakers), Natasha Nieuwhof (Goaty Hill Wines), Scott Dawkins (Deloitte -independent) and Guy Taylor (Tourism Tasmania - independent).

Wine Tasmania represents more than 98% of Tasmanian wine production, with around 100 state-wide producer members and 40 associated member businesses. All activities undertaken by the industry body are designed to generate value for our members. Wine Tasmania's Strategic Plan further outlines details of our role and is available at www.winetasmania.com.au.

Wine Tasmania's key roles, as outlined in the Strategic Plan, are as follows:

1. **Drive demand** for Tasmania's wines through targeted and collaborative marketing and promotion
2. Encourage **sustainable production** and **market-led growth**
3. Support individual wine businesses and profitability to **stabilise the base** for future growth
4. **Advocate** and **manage issues** on behalf of wine producers

E. Wine Tasmania Submission

This submission addresses key aspects of the Senate Committee's Inquiry, including:

(a) The extent and nature of any market failure in the Australian grape and wine industry supply chain

As demonstrated in the Tasmanian wine sector's performance (see infographic on page 6), Tasmania has not experienced any market failure in the supply chain in its development to date, due to the sector's clear strategy of pursuing market-led growth.

(b) The extent to which federal and state legislative and regulatory regimes inhibit and support the production, processing, supply chain logistics and marketing of Australian wine

Wine Tasmania puts forward the following key legislative and regulatory issues which it believes inhibit the wine sector:

Wine Tasmania notes that the current structure of the **statutory body**, Australian Grape & Wine Authority (AGWA) provides the Board and personnel with responsibility for a wide range of diverse activities, including compliance, allocation of research, development and extension levies and generic marketing of Australian wine.

Prior to the merger of the Australian Wine & Brandy Corporation (AWBC) and Grape & Wine Research & Development Corporation (GWRDC), there were two Boards in place with skills specific to the functions of each organisation. Going back a number of years, there was also the Australian Wine Export Council in place, with a specific responsibility to oversee marketing activities, reporting to a specialist board / committee.

Whilst appreciating the benefits of merging the AWBC and GWRDC, Wine Tasmania questions if a single Board is able to provide the diversity of knowledge and experience across varying compliance, research and marketing issues.

In particular, Wine Tasmania would like to propose that there is consideration to separating the **marketing strategy** and activities through either a dedicated skills-based committee or through re-allocation of funds to the Winemakers' Federation of Australia (WFA), again with an appropriate skills-based committee, to ensure industry ownership of activities. Regardless of the structure, there is a need for a clear strategic marketing plan to be developed, driven by industry and with the opportunity for consultation and input.

There is currently an annual prospectus of marketing activities released to wine producers, but no publicly available marketing strategy underpinning these activities. Improving the performance of the Australian wine sector largely relies on a clear, long term, market-led strategy.

Core marketing activities delivered by AGWA, ie those being funded through statutory levies, include AGWA's international offices / personnel and educational activities. Additional, tangible activities are offered on the basis of user-pays participation. Wine Tasmania would like to request the opportunity for wine producers to provide input into the national marketing strategy and for an increase in the marketing opportunities for wine producers resulting from the statutory levies.

Furthermore, Wine Tasmania notes the focus on **research, development and extension** activities, supported through levy allocation, often excludes topics relevant to cool climate wine production. With a view to the future, and building Australia's premium wine production, Wine Tasmania believes there is an opportunity for an increased focus on outcomes-focused research, development and extension activities relevant to cool climate wine production. Within Tasmania, this includes priority areas of vine balance, yields and fruit quality for fine wine production relevant to cool climates, as well as productivity improvements and potential impacts of mechanising operations (see further details under point (j) - any other matters).

Wine Tasmania has put forward the following requested changes to the **Wine Industry Award 2010**, as part of the ongoing review by Fairwork Australia. There are inconsistencies between this award and related awards, such as the Horticulture Award, which are negatively impacting on both the profitability and quality aspects of Tasmanian wine production.

- Clause 13.3 - minimum four hours for casual staff - **request reduction to 2 hours**.
- Clause 27.2(g) - high penalty rates applying to casual staff, which impacts on both cellar door (tourism) and vineyard operations (compromising quality). By comparison, the Horticulture Award 2010, which applies to table grapes rather than wine grapes, provides for ordinary hours to be worked Monday to Friday and by agreement Monday to Saturday **without penalty**. There are no ordinary hours and therefore no overtime or Saturday or Sunday penalties for casuals in the Horticulture Award, in recognition of requirements for perishable goods. **Request replication of these conditions in the Wine Industry Award 2010**.
- Consideration to inclusion of a small business definition and reduced penalty rates for small businesses, eg less than 15 FTEs.

The **Tasmanian Freight Equalisation Scheme** (TFES) was developed in recognition of the challenges and costs associated with freight to and from Tasmania. The TFES is a valuable scheme to support freight, however the paperwork and compliance required to make a claim via the TFES is a deterrent to its full use as intended. Reviewing and simplifying the compliance process, and providing information and assistance to help businesses submit claims would be beneficial.

Protecting the **resource base** is incredibly important, including enabling input and consultation on key issues impacting on the production of wine grapes / agriculture.

Biosecurity is a particular issue for wine producers. Freedom from pests and diseases of economic significance is a major factor in the competitiveness of many Tasmanian industries. Whilst recognising the desire for a national approach to biosecurity, Wine Tasmania will continue to push for regional differentiation for the benefit of its wine producers, together with other agricultural sectors. Regional differentiation prevents serious pathogens and pests from entering Tasmania and having a significant economic impact on businesses such as salmon (infectious salmon anaemia), pome fruit (fire blight) and winegrapes (phylloxera). Wine Tasmania also believes there is an opportunity to promote national awareness of biosecurity issues beyond phylloxera, making biosecurity a common consideration for all viticultural operations

In order to encourage the wine sector's **workforce development**, Wine Tasmania notes two key opportunities. Firstly, an anomaly currently exists in the eligibility for Commonwealth Government **employer incentives** - currently a number of Tasmanian postcodes do not make vineyard or winery employers eligible to attract an Australian Apprenticeship employer incentive despite these being rural areas. This includes metropolitan postcodes, which are identified as head offices or postal addresses for regional wine businesses (eg. Hobart). Sometimes these areas are adjacent to other postcode regions that are eligible for employer incentives. One example of this is Richmond (7025) where an employer is not eligible and Campania (7026) where an employer is eligible.

Secondly, Wine Tasmania's Workforce Development Plan has identified the opportunity to facilitate **job sharing** of workers - within and across industry sectors. The opportunity to provide tangible skills to workers, allowing them to collect and demonstrate skills across industries would support their longer term employment and could potentially be credited towards a relevant certificate or diploma qualification. Creating an online register to match available and skilled workers with employers would assist both employers and employees.

Recommendations:

- *Development of a clear and consultative marketing strategy for the Australian wine sector, led by industry and administered by a skills-based committee, including broader opportunities for wine producers funded through statutory levies*
- *An increase in outcomes-focused research, development and extension relevant to developing cool climate regions - see also (j) below*
- *Correction to anomalies and penalties in the Wine Industry Award 2010*
- *Simplifying compliance for the Tasmanian Freight Equalisation Scheme*
- *Acknowledgment of regional differentiation in biosecurity issues*
- *Workforce development, including incentives to employ and train and job sharing*

(c) The profitability of wine grape growers and the steps industry participants have taken to enhance profitability

Within Tasmania, the majority of wine businesses are grape growers only, with more than 200 vineyards across the island and around 40 processing facilities. Some growers sell their wine grapes under contract, whilst a large number have their fruit contract processed into branded wine, and some have a combination of both. Some wine businesses manage and own all aspects of their vineyard and winery operations, and may also offer contract processing. Some vineyard owners have cellar doors, some do not.

Within each of these business models, there are profitability pressures. Tasmanian wine grapes may attract a premium price, but there are also high costs associated with hand harvesting, hand pruning, freight and lack of scale, along with lower yields from climatic and quality pressures.

The steps being taken by Tasmanian wine producers to improve profitability include a market-led focus, to grow the value of their wine grapes and wine and to target customers and markets that are prepared to pay for their premium products. From a production perspective, wine producers are continually focused on efficiencies, without compromising quality. This includes water management, soil health, pest and disease management, biodiversity and waste management. Tasmanian wine producers proactively participate in a wide range of research and trials in order to pursue efficiencies in line with desired quality.

From a collaborative Tasmanian wine sector perspective, growing the reputation of Tasmania's wine quality has supported increasing demand and premium pricing. Wine Tasmania is currently trialling an environmental management framework that will further assist wine producers to record, measure

and improve their practices. Wine Tasmania is also an active participant in the 'Sensing Tasmania' program, designed to support on-farm practices and decisions to improve productivity and performance.

Wine Tasmania has commissioned a financial analysis of the Tasmanian wine sector, in order to better identify financial pressures and support wine producers with information to improve profitability through decisions such as channel / product mix, pricing and markets. The preliminary information obtained from this analysis has provided some very basic information, but would benefit from a national approach to determine the financial benchmarks and opportunities to support the profitability of individual wine producers. Business / financial support for wine businesses that are currently unprofitable could assist them identify if there are changes that could be made to improve profitability and, if not, provide support for exiting the business.

Targeted, outcomes-focused research will also support vineyard efficiencies and business performance. Wine Tasmania notes there is an opportunity to consider and increase the research into cool climate wine production and broadening climate adaptability work to include cooler regions where climate variability poses risks other than drought and extreme heat events.

Wine Tasmania also notes that Tasmania's focus is on the overall value proposition - ensuring efficiencies through the production process, but only as appropriate to achieve the premium quality. Tasmania is not chasing the lowest cost production, but rather an appropriate cost structure for the value and quality Tasmanian wine represents.

Recommendations:

- *National framework to support and promote sustainability activities, tailored and relevant to different wine regions / business sizes - see also (j) below*
- *National profitability analysis and support tools, including financial benchmarking, business and financial support*
- *An increase in outcomes-focused research, development and extension relevant to developing cool climate regions, including climate adaptability - see also (j) below*

(d) The impact and application of the wine equalisation tax rebate on grape and wine industry supply chains

Wine Tasmania confirms its support for retaining the value-based system of taxation on wine, together with the rebate (and only in conjunction with the rebate).

Within Tasmania, the Wine Equalisation Tax (WET) rebate is being utilised as was originally intended - to support small wine producers / cellar doors making a significant contribution to Australia's regional communities. Wine Tasmania believes there is an opportunity to reform the rebate in line with its original intent, removing the rebate from bulk, unpackaged, unbranded and private label wine and New Zealand producers. Increasing net taxes paid by Tasmanian wine producers would severely impact on this developing high quality and value sector, which is increasingly being recognised around the world.

Recommendations:

- *Retention of the Wine Equalisation Tax (WET) in conjunction with the WET rebate being applied in line with its original intent to support regional wine businesses and communities*
- *National framework to support and promote sustainability activities, tailored and relevant to different wine regions / business sizes - see also (j) below*

(e) The extent to which grape and wine industry representation at regional, state and national level effectively represents growers and winemakers with respect to equity in the collection and distribution of levies

Wine Tasmania does not currently have any input to the collection or distribution of grape and wine levies, but would like to have this opportunity on behalf of the state's wine producers, particularly regarding the allocation of funds towards marketing activities and research, development and extension activities, as outlined in this submission.

Wine Tasmania notes that the two bodies defined in the Act as representing the wine and grape industry interests, the Winemakers' Federation of Australia (WFA) and Wine Grape Growers Australia (WGGA), have extremely limited resources and are struggling to galvanise the industry and be relevant across all segments. Wine Tasmania firmly believes in the need for an independent organisation representing the interests of the important grape / wine sector, in order to lead the national sector strategy and direct the statutory body's activities, with appropriate resourcing.

As previously outlined, this is particularly relevant for the generic marketing activities, which Wine Tasmania believes should be industry led against a clear strategy.

Wine Tasmania further believes that the wine sector's sustainability program should be funded through statutory levies, owned and managed by the independent wine body (see further details under point (j) - any other matters).

The state wine bodies, such as Wine Tasmania, operate independently and do not receive any regular funding from statutory levies. Wine Tasmania has submitted funding requests to the statutory body, including for extension activities, and has been successful in securing \$25,000 per year as part of the AGWA Regional Program and a further \$40,000 for dedicated extension activities in 2014/15.

Wine Tasmania would like to see further allocation of levies, or at least the opportunity for input on priority projects, in relation to cool climate research, development and extension activities (see further details under item (j) - any other matters).

Recommendations:

- *Opportunity for wine sector input on statutory levy distribution, including in relation to marketing and research, development and extension activities*
- *Funding from statutory levies for national framework to support and promote sustainability activities - see also (j) below*

(f) The work being undertaken by the Australian Grape and Wine Authority pertaining to levy collection information

Wine Tasmania is not aware of details of the work being undertaken by AGWA pertaining to levy collection information.

(g) The power and influence of retailers of Australian wine in domestic and export markets

There is no question that retailers carry tremendous power and influence both in Australia and internationally. With Tasmania's modest wine production, sales are relatively equal between wholesale and retail / direct to consumer, and 90% of Tasmania's wine is sold domestically. Where Tasmanian wine producers are selling wine via retailers, they have largely been able to retain their value, supported by Tasmania's market-led strategy creating demand that exceeds supply.

(h) The adequacy and effectiveness of market intelligence and pricing signals in assisting industry and business planning

The information and resources provided by AGWA in relation to export markets are very comprehensive and of great assistance for wine producers currently exporting or looking to export their wines. Other analytical information tends to be reporting on historical data rather than providing commentary on expected future performance or pricing signals. Wine Tasmania would be supportive of additional market intelligence and pricing signals to assist planning, relevant to its sales mix across on-premise, cellar door / direct to consumer and retail channels.

(i) The extent to which the Australian grape and wine industry benefits regional communities both directly and indirectly through employment, tourism and other means

The Tasmanian wine sector is a significant contributor to the state's economy, regional employment, trade, tourism and the overall Tasmanian brand. It has experienced strong growth and external investment, particularly in the past five years, with support from state governments.

The Tasmanian wine sector directly provides 1,340 full time equivalent employment positions in wine growing areas around Tasmania. There are close to 100 cellar door / tourism experiences, with Tourism Tasmania research indicating that wine and food are key motivations for visitors to the island. In 2014, more than 160,000 visitors to Tasmania called in to a cellar door during their stay (15% of all visitors).

The Tasmanian wine sector has been identified as a key sector with the opportunity for growth by both the Australian and Tasmanian Governments, with the sector itself proactively pursuing growth via a market-led strategy.

(j) Any related matters

Research, Development & Extension

The Tasmanian wine sector benefits from a cooperative, progressive and knowledgeable resource in the Tasmanian Institute of Agriculture (TIA). The collaboration between the wine sector and TIA is particularly strong, with a mutual focus on industry-led, outcomes-focused and targeted research, development and extension (RD&E).

With the majority of Australia's wine production in warmer climates, often national research tends to focus on issues, varieties and styles relevant to these areas. Increasing global interest is directed towards higher value wines from cooler areas, such as Tasmania, yet much of the research and development funds still go to aiding warm, inland irrigated regions. Analysis of value chains and market demands by AGWA may show that shifting focus to higher value grape and wine research and extension (including marketing) would pay better dividends.

The Tasmanian wine sector has a strong track record of RD&E, ensuring that activities are outcomes-focused and based on wine producer priorities. Over the past 4 years alone, in excess of \$2.5M has been directly and indirectly contributed and leveraged for grape and wine research, development and extension activities based in Tasmania, including national and international partnerships.

It is Wine Tasmania's belief that there is a significant opportunity to continue supporting cool climate research, development and extension, including through the excellent resource of TIA. Priorities research activities within Tasmania include vine balance, yields and fruit quality for fine wine production relevant to cool climates, as well as productivity improvements and potential impacts of mechanising operations. Wine Tasmania would also like the opportunity for input from state / regional wine bodies on local research priorities as part of the AGWA competitive assessment and funding of research projects.

Recommendation:

- *An increase in outcomes-focused research, development and extension relevant to developing cool climate regions*

National Sustainability Program

A credible and consistent sustainability program that measures, reports and encourages improvement by individual wine producers is a priority for the Australian wine sector. WFA has initiated the national Entwine program, which has struggled from lack of resources and well as some relevance to smaller producers. The Entwine program is currently being reviewed to ensure its applicability to producers of different sizes and with different priority markets.

Wine Tasmania supports the development of tailored sustainability programs that meet the needs of small producers, whilst providing sufficient rigour to inform and instil confidence in customers.

A sustainability program that provides a credible platform against which individual producers and the Australian wine sector can report and promote should be seen as a priority in considering the future of the sector. It is Wine Tasmania's belief that funding from statutory levies should be provided for a national sustainability program, tailored to suit different sized producers, and administered / audited independently.

Recommendation:

- *Funding from statutory levies for national framework to support and promote sustainability activities, tailored to suit different regions and business sizes*