



Submission to the Parliamentary Inquiry into growing Australian agriculture to \$100 billion by 2030

14 October 2019



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. Our activities focus upon the objective of providing leadership, strategy, advocacy and support that serves Australian wine businesses now and into the future.

We represent the interests of the more than 2,500 winemakers and 6,000 winegrape growers working in Australia. Our role is to help forge a political, social and regulatory environment - in Australia and overseas - that enables profitable and sustainable Australian wine and winegrape growing businesses. These businesses make a significant contribution to regional economies by driving growth in jobs, exports and food and wine tourism.

Australian Grape & Wine's voluntary membership represents over 75% of the national winegrape crush. We represent small, medium and large winemakers and winegrape growers from across the country. Policy decisions by the Australian Grape & Wine Board require 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*. We work in partnership with the Australian Government to develop and implement policy that is in the best interests of winegrape growers and winemakers across Australia.



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Executive summary

Australian Grape & Wine is pleased to provide this submission to the House Standing Committee on Agriculture and Water Resources inquiry into growing Australian agriculture to \$100 billion by 2030.

We welcome the ambitious aim to grow Australian agriculture to a value of \$100 billion by 2030. With little more than a decade to achieve this, however, it is clear the agriculture sector and all levels of government will need to think creatively, make bold strategic investments and work in close collaboration if we are to meet this target.

Australia's wine sector is currently valued at around \$6.35 billion. When a wider lens is applied to the sector, to include other flow-on factors such as tourism and hospitality, the sector's broader economic contribution is estimated at over \$45 billion annually. Critically, the sector drives growth and employment in rural and regional economies right across Australia 65 wine growing regions.

While this contribution is substantial, Australian Grape & Wine is firmly of the view that with the right policy settings and strategic investments, this contribution can be significantly increased. There is no doubt that in 2019, Australian wine businesses are expressing a renewed sense of optimism, following a challenging period defined by structural oversupply and decreased demand for our wines in key markets. The Australian government's \$50 million Export and Regional Wine Support Package (the \$50 million package) is helping to drive growth in the sector. We are beginning to see improved market sentiment and sales in key export markets, particularly in China and the USA, along with increased wine-related tourism in Australia. While these early signals are positive, we are conscious that current funding arrangements will end on 30 June 2020.

Protecting and building upon these gains is our highest priority. Australian Grape & Wine is working with Wine Australia and Australian wine businesses to ensure we are doing everything we can to capture the benefits and build on investments that have been made, but we cannot do it alone. Further government investment in building demand internationally, optimising our supply and boosting wine tourism would ensure Australia's wine businesses can capture the transformational change that is before them.

In addition to this investment, we urge the Australian Government to maintain its commitment to free and open trade, cantered upon the rules-based international trading system and a network of Free Trade Agreements (FTAs). While many Australian wine businesses are rightly focusing on the opportunity of China's incredible economic growth and development, it is also important to ensure we are broadening the export opportunities in other growing markets. We encourage the Australian Government and Australian wine businesses to consider further diversification of our market access and market development efforts, particularly in South-East Asia and East Africa.

Finally, it's critical that governments ensure public policy settings are business enabling and fit for purpose. To reach the \$100 billion target in little more than a decade is an enormous and ambitious task, and one that will not be achieved if unnecessary or poorly designed regulation acts as a hand-break on business.

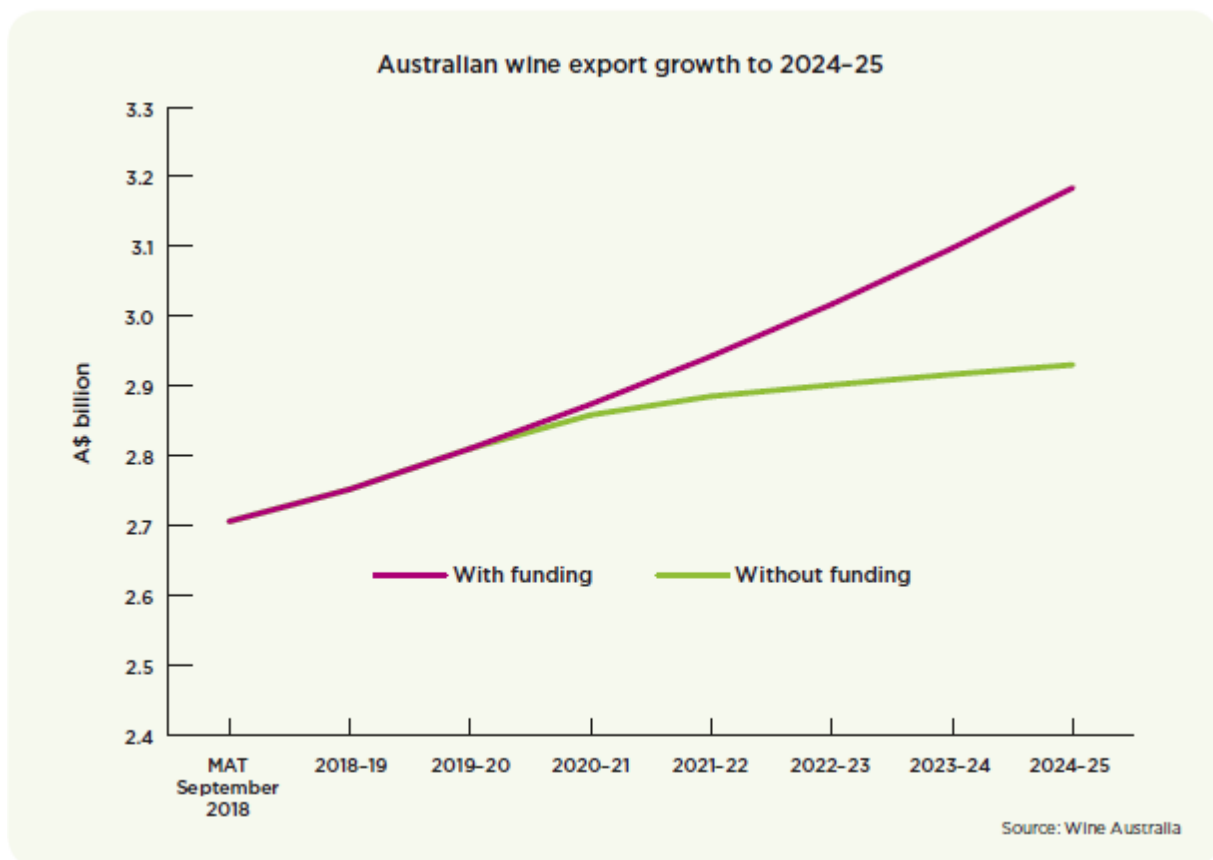
Australian Grape & Wine would be delighted to elaborate on the points raised in this submission at the Committee's request.

Building demand

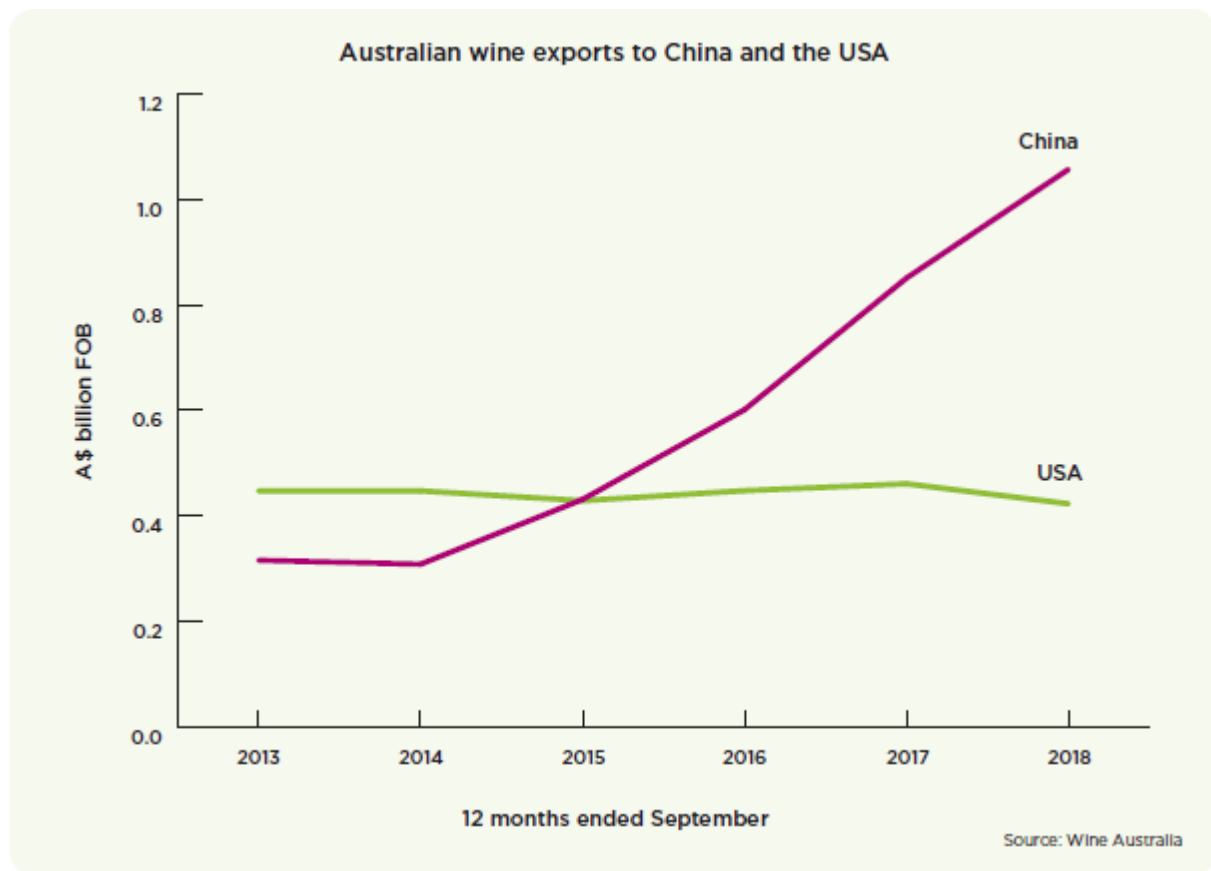
The future profitability of the Australian wine sector depends on exports. Growth in the domestic market is slow, and the biggest gains for Australian producers in 2018 came from the exports to high-growth markets overseas. In total, 63 per cent of Australia's wine production was exported to 125 markets in 2018.

The \$50 million package is helping build demand in key markets like China and the United States. However, without additional investment, we risk falling short of capitalizing on this growth and capturing the immense opportunity before us.

A continued annual investment of \$25 million in global marketing funding (i.e. and additional \$17 million per annum, over and above the recurrent industry funding of \$8 million from existing levies and user-pays funding) would conservatively see wine exports reach around \$3.2 billion by 2024-25. When combined with the other priorities we are suggesting in this document, a more realistic estimate is \$4 – 5 billion.



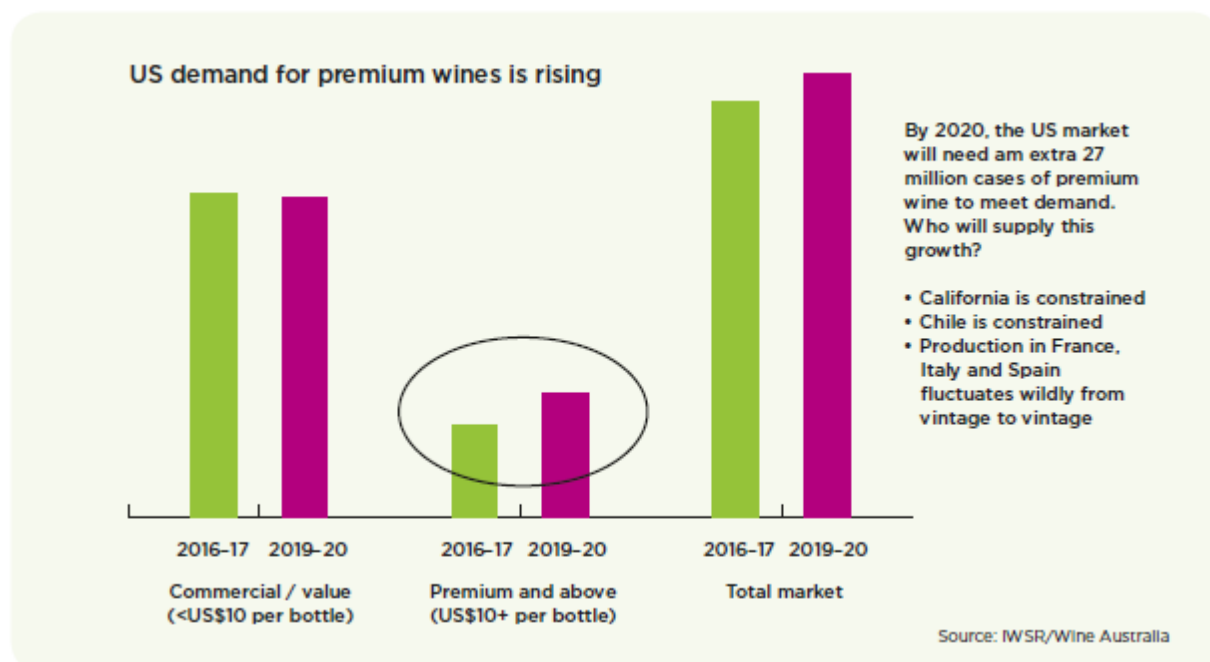
This additional investment would focus on cementing and building on our recent extraordinary growth in China, but strategically targeting the anticipated 750 million people who will make up China's middle class by 2022. Ongoing investment will allow us to educate these consumers about Australian wine by improving Australia's social media presence in current and new channels, and driving our engagement in e-commerce channels.



We continue to see tremendous opportunity to re-capture market share in the United States, where Australian wine has underperformed since the Global Financial Crisis due to factors including periods of unfavourable exchange rates, consumer perception issues and falling demand.

Additional investment in the United States would unlock our potential in the market, returning sales growth to \$1 billion per annum. The United States market is one of the few traditional wine markets which is still growing, with the expectation that by 2020, an extra 27 million cases of premium wine will be required to meet demand. Australia is well placed to capture this opportunity, but we need to overcome current consumer-perception barriers. Our proposed investment would focus on re-capturing shelf-space with major retailers and continuing to engage with influential wine figures in the United States, including critics and leading sommeliers, to ensure Australia's talented winemakers get the recognition they deserve.

Doubling current sales of Australian premium wines in the United States only requires an extra million cases worth US\$100+ million in retail value. We can do so much more. We expect additional investment would unlock growth of half a billion dollars over the next five years.



In addition to the call for further government investment, Australian Grape & Wine firmly believes in the need to diversify our export opportunities. While making the most of the opportunity in China is critical, we must not forget the range of other emerging economies in Southeast Asia, Africa and elsewhere. As many of these markets are developing and do not have existing wine drinking cultures, we believe it is important to help their governments to develop their regulatory settings in relation to trade, alcohol and health in particular, to ensure they meet their policy objectives, while enabling free and open trade. The Australian Government's work with Australian Grape & Wine and Wine Australia in the APEC Wine Regulator's Forum and the World Wine Trade Group, provide good examples of how we can collaborate to strengthen and diversity the export environment.

Importantly, the average export price and the average winegrape price are closely linked. The export growth generated by the \$50 million package is underpinning higher prices for winegrapes in Australia, delivering growth along the value chain. The national average purchase price in 2019 was \$664 per tonne, up by 9 per cent on the 2018 overall average value of \$611 per tonne. This figure is the highest since 2008 and it is the fifth consecutive vintage where the average purchase price for winegrapes has increased. An investment in building demand will pay dividends along the supply chain and is the best way to grow profitable and sustainable wine businesses.

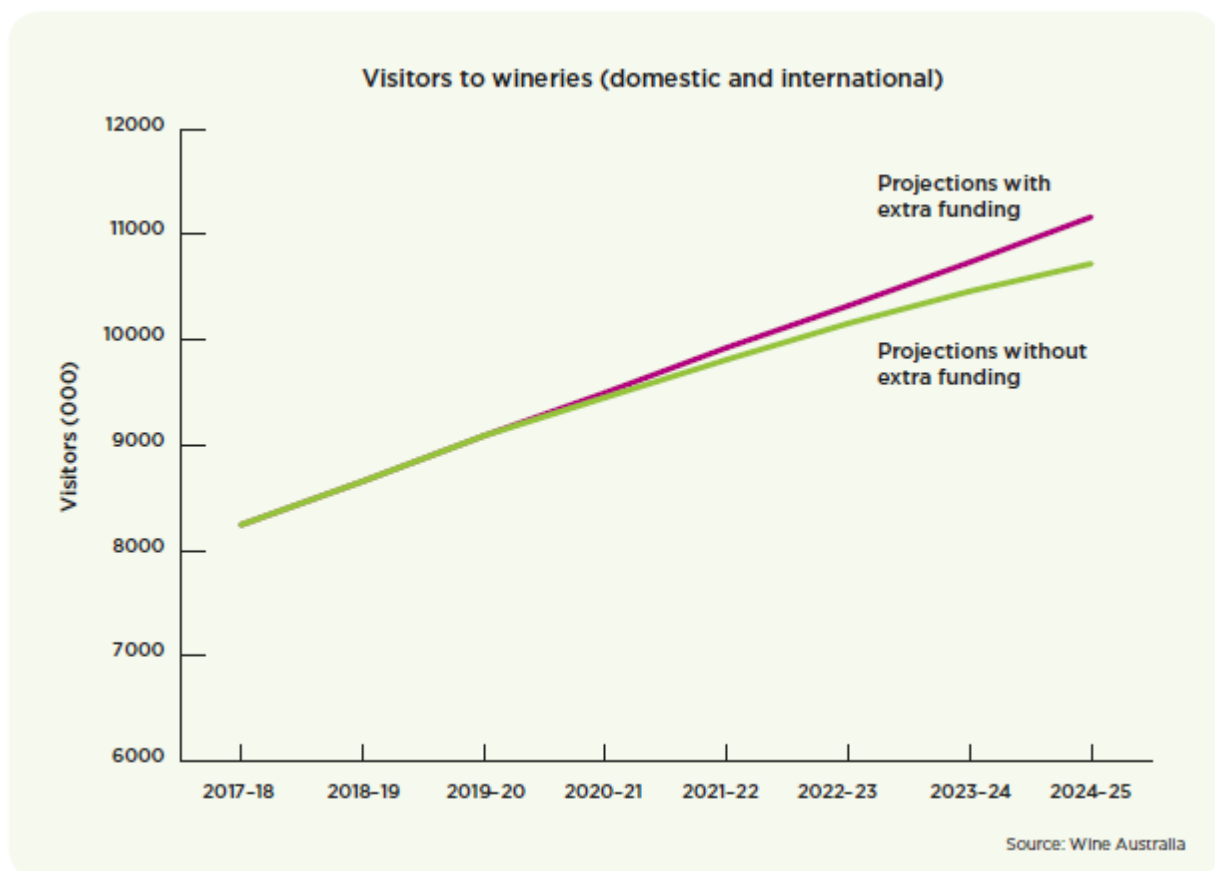


It is also critical that small and medium-sized businesses (SMEs) can capture the benefits of trade and market access opportunities. For this reason, Australian Grape & Wine strongly supports the Australian Government's review of the Export Market Development Grants Program. This program has served many Australian companies very well over many years, but it is the right time to consider how it can be improved to make sure it remains fit for purpose over the years ahead. Australian Grape & Wine looks forward to contributing to this process.

Increasing wine tourism

Tourism remains an important vehicle for driving growth in rural and regional economies and enhancing understanding of Australia's wine offering. The \$50 million package is on track to deliver its ambitious international tourism performance indicator of an extra \$170 million spent by international tourists who visit a wine region as part of their trip to Australia by 2020. Additional investment will maintain this momentum over the long-term, enabling continuing accruing benefits in rural and regional economies.

We project that an additional annual spend of \$3 million would see an additional 400,000 – 450,000 domestic and international tourists visit wineries over five years, on top of Tourism Research Australia's national forecast for 2017, firmly placing Australia as a source of outstanding wine-based tourism experiences over the long-term, and building demand for high-quality Australian wines when tourists return home.



Increasing wine tourism

Innovation is a critical driver of productivity, increasing quality and improving sustainability in the Australian wine sector, and in the agricultural sector more broadly. While we are confident the current model of industry and government investment in Wine Australia's Research and Development (R&D) programs works well and can drive innovation into the future, we also strongly support the Australian Government's initiative to review the Rural Research and Development Corporation model. The \$100 billion target for agriculture demands not only innovative thinking, but that every dollar invested in R&D is spent as wisely as possible. Australian Grape & Wine looks forward to making a submission to this review process in due course.

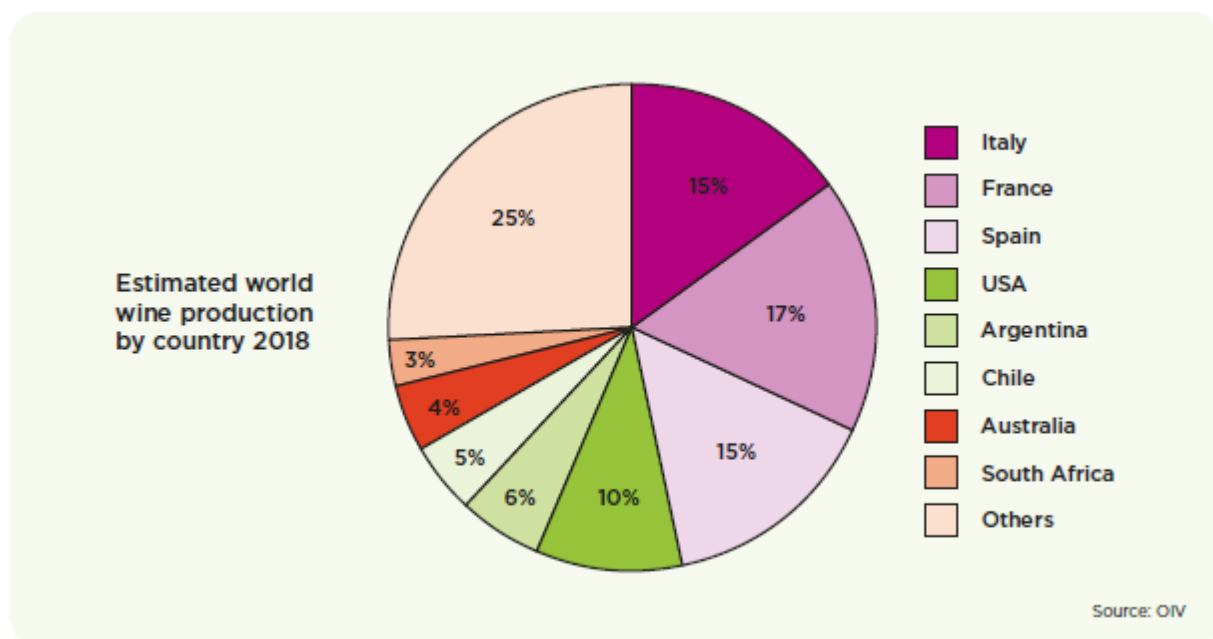
At a more practical level, there is one piece of ageing infrastructure that is preventing the sector from unlocking the full potential of our world class R&D. The University of Adelaide's Hickenbotham Roseworthy Wine Sciences Laboratory, situated at the University's Waite Campus, was established in 1998 and plays an integral role in research, education and service to Australia's wine industry. State-of-the-art at the time, the winery is now too small and dated to provide our researchers with the infrastructure required to provide the innovation we need. A new winery is urgently needed to ensure our researchers are on par with our competitors in the USA, Europe and South Africa, all of which have invested in new facilities.

These research facilities are critical to the entire sector, but are particularly important to the future productivity of SMEs that do not have the capacity to engage in their own large-scale R&D activities. In addition, the winery acts as a major piece of infrastructure to attract new Australian and international students, strengthening the pool of highly-trained oenologists entering the industry, and contributing further to Australia's educational export earnings.

Supply-side efficiency – optimisation

Australia's grape and wine sector does not operate in isolation from the rest of the world. The global wine supply and demand situation is a major determinant of winegrape pricing in the warmer inland regions. At 1.29 billion litres, Australia is a relatively small producer in comparison to major producers of France, Italy, Spain, and to a lesser degree, the USA. The supply situation in these countries has a significant impact on Australia's trade, particularly at the price-driven commodity end of the market.

To ensure enduring profitability of the winegrape growing sector, Australia must invest in improved technology to ensure we can compete in terms of production efficiency with our global competitors. We recognise a significant scientific effort has concentrated on viticultural systems in recent years and that over the last two decades innovation has played a significant role in the sector's growth. As the sector matures, however, there is a need to balance the scientist's interest in an incremental change within a particular field, with the need for practitioners to manage their properties in the best interests of their businesses. A 'quantum leap' in productivity is required, focusing on a holistic approach to the application of science and R&D.



More recently, there has been an awakening realisation amongst some industry leaders that horticulture R&D would benefit greatly from collaboration, particularly through a cross-disciplinary approach to research. This approach, when utilised well, has provided some significant benefits to industry. An excellent example of this can be taken from the work transforming Australia's almond industry into the most profitable in the world.

Riverland Wine Growers, in partnership with a world-class set of researchers, have assembled a team that we believe could unlock the potential of our vineyards, improve our resilience in the face of climate change and drought and massively improve our productivity. It proposes to follow the basic methodology utilised so successfully in the almond industry to develop winegrape-specific management optimisation guidelines and tools.

Early indications, based on the success of similar work carried out in Spain, are that the region's winegrape industry has the potential to improve yields per hectare while improving quality outcomes and optimising, and quite possibly reducing, the amount of irrigation water required to produce a crop. It goes without saying that in a time of continued pressure on water supplies, the significant environmental and economic benefits flowing from such research would be a game-changer for our sector.

There is a fully-formed research proposal, with substantial industry investment locked away that only requires an additional one-off \$3million investment from government to return sustained profitability to growers.

Getting the policy settings right

The competitiveness of Australia's wine sector is driven not only by quality, innovation and the skill of our winegrape growers and winemakers, but also by regulatory and policy settings that are targeted, evidence-based and business enabling.

For Australia's agriculture sector to reach its target of \$100 billion in value by 2030, it is absolutely essential that the regulatory environment is as business-enabling as possible. We are not against regulation. Indeed, strong regulation in the *Wine Australia Act 2013*, for example, helps ensure the provenance of our wines, giving international buyers confidence that what they are spending their money on is the real thing. However, there are some recent instances where policy suggestions have been made which will put a hand-break on profitability and our international competitiveness, for little to no public benefit.

For example, elements of the public-health lobby often seek to impose unjustifiably costly labelling requirements on alcohol beverages, including wine, which evidence suggests provides negligible public health benefits. The same goes for calls to increase taxation and pricing of alcohol products, which evidence suggests reduces the amount light to moderate drinkers consume, but make little difference to those drinking at dangerous levels. The Food Standards Australia-New Zealand proposal currently out for [public consultation](#) represents a classic example of poorly considered and disproportionate policymaking. While we accept the Ministerial decision to mandate a pregnancy warning label of October 2018, we do not accept FSANZ's proposal to deviate from the successful and widely recognised voluntary warning labels in place today, in favour of the much larger, more prominent, red "HEALTH WARNING" label proposed by FSANZ. This would cost winemakers significantly in terms of label redesign, but would also take attention away from important, but comparatively (if the FSANZ model were to be adopted) less-prominent mandatory warnings (such as allergen warnings, alcohol content and standard drinks) and voluntary messages relating to drinking in moderation, which are helping to drive the level of dangerous drinking down to the lowest levels in decades. This FSANZ proposal is a real concern, and if implemented, is an example of regulatory over-reach that would increase production costs and reduce competitiveness, with no sense from FSANZ about the likelihood that such a label will reduce the number of women who drink alcohol when pregnant in any way.

The ACCC's recent Market Study into the Wine Grapes Sector is another area of both opportunity and concern to Australian Grape & Wine. While some recommendations arising from the report have the potential to improve commercial relationships along the supply chain, we consider others to be examples of potential regulatory over-reach and unreasonable intervention in the market. We want to see a transparent market, based on strong contracts and improved market information. However, we do not want to see a suite of policies introduced that seek to intervene in what winegrape growers and winemakers can freely agree to do in a contract.

We also want to see a sensible, evidence-based discussion on waste and recycling in Australia. While it is a work in progress, we are pleased to see the Australian Government is beginning to consider how best to approach issues relating to recycling in Australia, and we very much wish to be a part of this conversation. We are not in

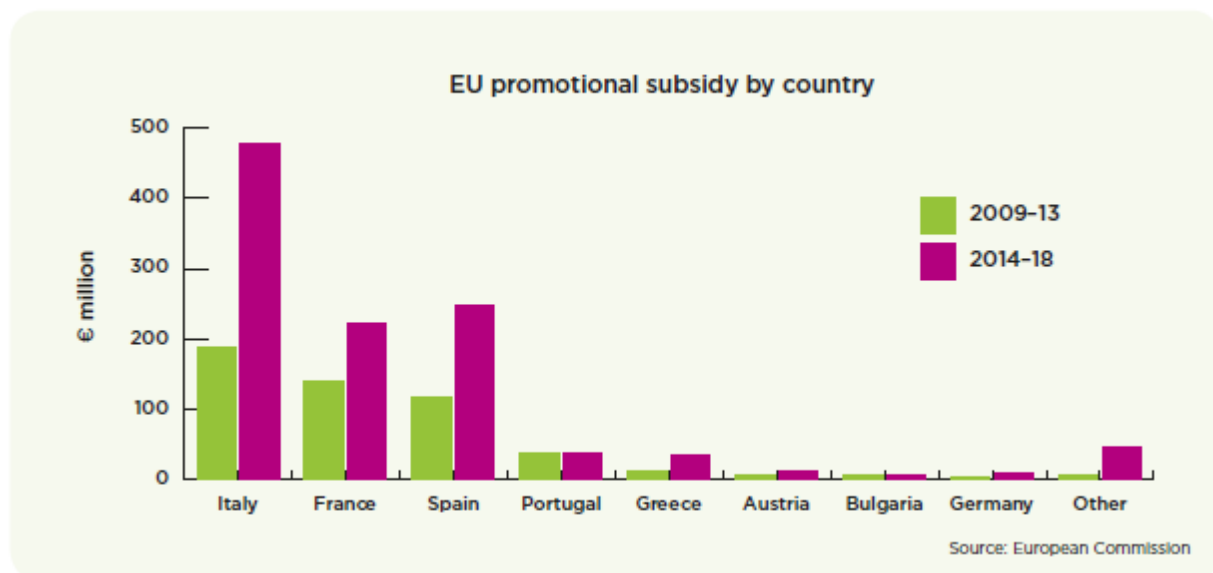
favour of calls, however, to introduce wine bottles to container deposit schemes (CDS) in South Australia and across the rest of the country. As noted in our [submission](#) to the South Australian EPA's review of its CDS, such a decision would cost winemakers enormously, but provide no foreseeable benefit to the environment, or to recycling of wine bottles in that state, or elsewhere.

Achieving good public policy outcomes depends on the government of the day's commitment to looking at the evidence, genuinely consulting with stakeholders in a spirit of good-will and collaboration, and coming up with targeted approaches. We urge the Australian Government, and state and territory governments bear this in mind, along with the aim of increasing the value of Australia's agriculture industries to \$100 billion, when considering future policies that impact on Australian wine and agricultural businesses.

Conclusion

The \$100 billion target being contemplated by this committee is ambitious, but achievable, and the opportunity before the Australian wine sector is immense. However, this opportunity is also rare. Australian wine businesses are well-placed to capture this opportunity, but without the kinds of government assistance outlined in this submission, it is likely they will fall short of their potential.

Australian Grape & Wine has taken a prudent and strategic approach in developing this submission. We firmly believe our suggestions, whether they be in the form of potential investments or policy design, are reasonable and fiscally responsible. We are confident that if acted upon, they would ensure the Australian wine sector is profitable and sustainable over the long term. Our claim is clearly supported by a comparison of our requests with the levels of ongoing support our European competitors receive from their governments.



The benefits that would accrue from this investment would extend beyond the wine sector alone. Rural and regional communities across Australia's 65 wine growing regions would benefit from a lift in economic activity by way of increased job opportunities and tourist numbers, lifting the prosperity of rural businesses and those who rely upon them. Such a lift would be particularly timely for those who manage the vagaries of Australia's weather patterns as a part of their normal business every day.

Now is the right time to be considering how government and industry can work together to drive the kind of enormous growth required to meet the \$100 billion target. We wish the committee well in its consideration of this vital issue and we are happy to elaborate on the points raised in this submission at any stage.

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