Winemakers' Federation of Australia

For the Industry by the Industry

Australian Government

Australian Wine and Brandy Corporation

SUBMISSION TO THE INQUIRY INTO AUSTRALIA'S RELATIONSHIP WITH ASEAN

BY

THE JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE FOREIGN AFFAIRS SUB-COMMITTEE

AUSTRALIAN WINE AND BRANDY CORPORATION

&

WINEMAKERS' FEDERATION OF AUSTRALIA

8 AUGUST 2008

Andreas Clark
Trade Manager
Australian Wine and Brandy Corporation
T + 61 8 8228 2072
M + 61 407 232 400
W www.wineaustralia.com
Compliance Centre
Level 2, 18 Dequetteville Terrace
Kent Town, SA 5067
PO Box 2733, Kent Town, SA 5071

Tony Battaglene
Director, International & Regulatory Affairs
Winemakers' Federation of Australia
T +61 2 6239 8304
M. +61 413 014 807
W www.wfa.org.au
1/24 Bougainville Street
Manuka ACT 2601

Executive Summary

The Australian wine industry welcomes the opportunity to provide a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into Australia's relationship with ASEAN.

In 2007-8, Australian wine exports totalled a record 702 million litres with an estimated value of $2.66 billion which accounted for around 10% of Australia's agricultural exports. These wine export volumes currently represent almost 60% of Australian wine sales and make Australia the world's fourth largest wine exporter although we only account for 4% of total world production. Approximately half of Australia's wineries currently export to overseas markets. In short, exports have driven and sustained the growth of the domestic wine industry and market access has been, and will continue to be, critical to the sector's ongoing success.

In May 2007, the Australian wine sector launched *Wine Australia: Directions to 2025* as an industry strategy for sustainable success. Following a decade of unprecedented change in global wine trading conditions, *Directions to 2025* was developed to reassess the priorities and challenges facing the industry. It is founded on the firm conviction that Australia must become a more significant participant in the regionally distinct and fine wine market, and its target is to increase the value of Australian wine trade over the next five years by a cumulative $4 billion. It also identified a number of interlinked challenges and issues that it will need to overcome if it is to maintain strong growth and continue to increase the substantial contribution it makes to the Australian economy and society in general.

Australian exporters generally face a low-tariff environment in our major export markets, namely the EU, the USA and Canada although a number of our closer export markets in Asia impose substantial import duties and taxes on imported wine which significantly impede market access. Non-tariff regulatory barriers, however, in the form of labelling, wine-making or certification standards in some markets arguably represent a more serious challenge for Australian wine exporters impacting negatively on export performance.

Given the industry's reliance on exports, we support the WTO rule-based trading system as a valuable international institution, and, in particular, the dispute settlement system as having an agreed binding process for resolving trade disputes provides important liberalising outcomes. For example, pressure applied recently by wine exporting countries through the WTO dispute settlement process assisted in obtaining a partial liberalisation of India's onerous tariff regime for imported wine.

Bilateral FTAs also represent as an important alternative mechanism for locking in meaningful market access gains for Australian wine exports. We remain optimistic that FTAs can deliver important commercial gains provided they are comprehensive and truly liberalising. The Australian wine industry is keen to see the FTA negotiations with ASEAN promptly concluded with significant market access gains for all wine product lines with limited phase-out periods and no carve-outs. In addition we believe it is imperative non-tariff barriers are comprehensively addressed in FTAs.

1. Introduction

This is a joint submission from the Australian Wine and Brandy Corporation (AWBC) and the Winemakers' Federation of Australia (WFA).

The AWBC was established in 1981 to provide strategic support to the Australian wine sector. It is an Australian Government statutory authority directed by a board appointed by the federal Minister for Agriculture, Fisheries and Forestry.

AWBC's responsibilities include:

- export regulation compliance;
- maintaining the integrity of Australia's wine labels and winemaking practices;
- defining the boundaries of Australia's wine areas;
- strategic marketing of the Australian wine sector;
- negotiating to reduce trade barriers with other countries; and
- providing high quality wine sector statistics and analysis.

WFA is the national peak body for the wine industry with voluntary membership representing more than 95% of the wine produced in Australia. It develops policies and programs for the whole industry on a range of political, social, environmental, trade and technical issues with both a national and international dimension.

2. The Australian Wine Sector

In May 2007, the Australian wine sector launched *Wine Australia: Directions to 2025* as an industry strategy for sustainable success. Following a decade of unprecedented change in global wine trading conditions, *Directions to 2025* was developed to reassess the priorities and challenges facing the industry. It is founded on the firm conviction that Australia must become a more significant participant in the regionally distinct and fine wine market, and its target is to increase the value of Australian wine trade over the next five years by a cumulative $4 billion.

Directions to 2025 recognised that Australia's wineries require more than a vision, and provides a series of practical tools and information which is currently being rolled out to industry through a series of national workshops under the *WineSkills* banner. These training modules have received the backing of the Australian Government through DAFF.

a. Background and importance to Australia

Wine is an important industry in Australia, contributing significantly to a number of regional economies and directly employing some 28,000 people in both winemaking and grape growing (2006 Census), with further downstream employment in retail, wholesale, hospitality and tourism industries. The Australian wine industry is comprised of approximately 8,000 wine grape growers supplying over 2,000 wineries. In 2007, the total vineyard area reached almost 164,000 hectares. Wine grapes are grown in all states of Australia, with South Australia, New South Wales and Victoria accounting for the majority of production.

Snapshot of the Australian Wine Industry

(2007 figures unless otherwise indicated)		
Wineries (2008)	number	2,299
Direct Employment (2006)		
Grape Growing	number	11,003
Wine Making	number	16,956
Wine Grape Crush	'000 tonnes	1,397
Wine Production	million litres	978.4
Domestic Sales - Volume	million litres	449
Domestic Sales - Value (2005/06)	$A million	1,899
Exports - Volume	million litres	702.1
Exports - Value	$A million	2,656.8
Imports - Volume	million litres	34.2
Imports – Value	$A million	307

Sources: Australian and New Zealand Wine Industry Directory 2008, ABS and AWBC.

The rapid expansion of wine production in Australia over the last decade combined with a small domestic market has seen the Australian industry become increasingly export oriented. Australia exports wine to 104 countries, and has an eight per cent volume share of global wine exports. In 2007-08 wine exports totalled 702 million litres with an estimated value of $2.66 billion which accounted for around 10 per cent of Australia's agricultural exports. These wine export volumes currently represent almost 60 per cent of Australian wine sales and make Australia the world's fourth largest wine exporter. This is despite Australia's wine production accounting for only four per cent of total world production. Approximately half of Australia's wineries currently export to overseas markets.

Wine production and exports have also been expanding from other New World wine producing countries including: Argentina, Chile, South Africa and the USA. This growth has led to global wine production expanding faster than demand and has resulted in a significant decline in world wine prices. As a result, the profit margins for Australia's winemakers has declined in recent years, exacerbated by the increased number of competitors in the market as well as the capital intensive nature of the industry. Accordingly, the Australian wine industry is facing the challenge of maintaining profitability in a global market characterised by flat demand, increasing supply and declining prices.

b. Today's challenges

The wine industry faces a number of interlinked challenges and issues that it will need to overcome, if it is to maintain strong growth and continue to increase the substantial contribution it makes to the Australian economy and society in general. These challenges and issues, as identified in *Directions to 2025,* include:

- a structural imbalance between the cost of production and the price opportunity;
- grape and wine supply and demand fluctuations;
- retail consolidation driving downward pressure on pricing and margin;

- slow domestic growth and a tougher market for export growth;
- a resurgent Old World and better resourced New World competitors;
- greater environmental and sustainability challenges and responsibilities, particularly exacerbated by climate change;
- changing social concerns; and
- changing demographics and consumer expectations.

3. Trade with ASEAN

Access to export markets, particularly non-English speaking countries, remains a challenge for the wine industry. The two largest markets, the United Kingdom and the United States, account for around 61% of Australian wine exports, by value. Two of the next three largest markets, Canada and New Zealand, are also English speaking, and raise the share of exports to more than 74% by value.

In 2007-08, Australia exported 12,265,630 litres of wine valued at $86,583,368 which represent 3.3% of total Australian wine exports. Exports to Singapore, Malaysia and Thailand together accounted for 87.5% of all wine exports to ASEAN.

The following table provides a detailed breakdown.

	Qty in Litres	Value $A	Value/Litre
Singapore	5,752,333	45,322,895	7.88
Malaysia	2,288,968	17,276,533	7.55
Thailand	2,166,490	13,176,998	6.08
Philippines	870,621	3,358,216	4.06
Vietnam	612,399	3,176,448	5.19
Indonesia	424,486	2,769,220	6.52
Cambodia	73,803	803,176	10.88
Laos	18,189	418,705	23.02
Brunei	9,230	65,225	7.07
Myanmar	4,847	35,954	7.42
TOTAL	**12,265,630**	**86,583,368**	**7.11**

Free Trade Agreements

<u>ASEAN-ANZ FTA</u>

Given the increased global competition and more difficult trading environment for Australian wine exports, securing improved market access for Australian wine exports is critical to the industry's ongoing export success. Given the stalled multilateral trade negotiations, bilateral FTAs represent an important alternative mechanism for locking in meaningful market access gains for Australian wine exports. The Australian wine industry is keen to see the ASEAN-ANZ FTA negotiations currently underway promptly concluded with significant market access gains for all wine product lines with limited phase-out periods and no carve-outs.

The Australian wine industry is concerned, however, that some negotiating partners are arguing that alcoholic beverages should be excluded from FTAs on the basis of religious and cultural sensitivities. Our position is that while mindful of religious sensitivities, maintaining high import duties is neither an efficient nor desirable mechanism for regulating such products, especially as there are often sizeable consumer markets in those countries that oppose tariff reductions for alcoholic beverages.

Malaysia, for example was our second-largest export market in ASEAN in 2007-08 with 2.3 million litres worth $17.3 million. Australia now holds the position as the number one importer with our wine becoming increasingly popular. Indonesia is a smaller market for Australian wine with exports in 2007-08 of 424,000 litres worth $2.8 million. Australia has been the number one exporter to this market for some time and is particularly strong in Bali. Import duties of 170% are a significant impediment to further market gains, however.

Domestic producers of alcoholic beverages in both Malaysia and Indonesia continue to benefit from excessive import duties for imported alcohol, including wine. In Indonesia, for example, some Bali wineries are flourishing by exploiting the gap in the domestic wine market for affordable wines. Indonesia and Malaysia also have significant domestic beer industries with more than 90% of beer consumed in Malaysia over the last decade having been brewed, bottled and sold domestically.

In summary, we query whether religious and cultural concerns are a legitimate basis for maintaining high import duties especially as there is often significant domestic alcohol production and/or consumption in those countries that are seeking to exclude alcoholic beverages from FTA negotiations. If wine were to be carved out from such negotiations it would set an unfortunate precedent, especially when the some within the World Health Organisation are attempting to have trade in alcoholic drinks excluded from all international trade negotiations.

In addition we believe given the significant non-tariff barriers in some key Asian markets, where possible such issues should be comprehensively addressed in FTAs. We acknowledge that wine, like other alcoholic beverages, is not an ordinary consumer product and governments implement various national fiscal and other policies to reduce the potential harm associated with such products. To that end, addressing behind the border taxation issues such as excise taxes through FTAs presents difficulties. That said, where significant excise and other domestic taxes are imposed, we would expect FTAs should reasonably allow for the immediate removal of import duties, as unlike other goods, the tariff is usually just a small component of the total tax impost and domestic taxes are often remain unchanged.

Simplifying certification procedures is another priority for the Australian wine industry. Our position on this issue is that such requirements are unnecessary given AWBC's stringent export control procedures (see Appendix I). We believe no other wine-producing country has such comprehensive controls on the export of wine and accordingly the export approval granted by the AWBC should in itself provide a sufficient basis for import into the respective country.

TAFTA

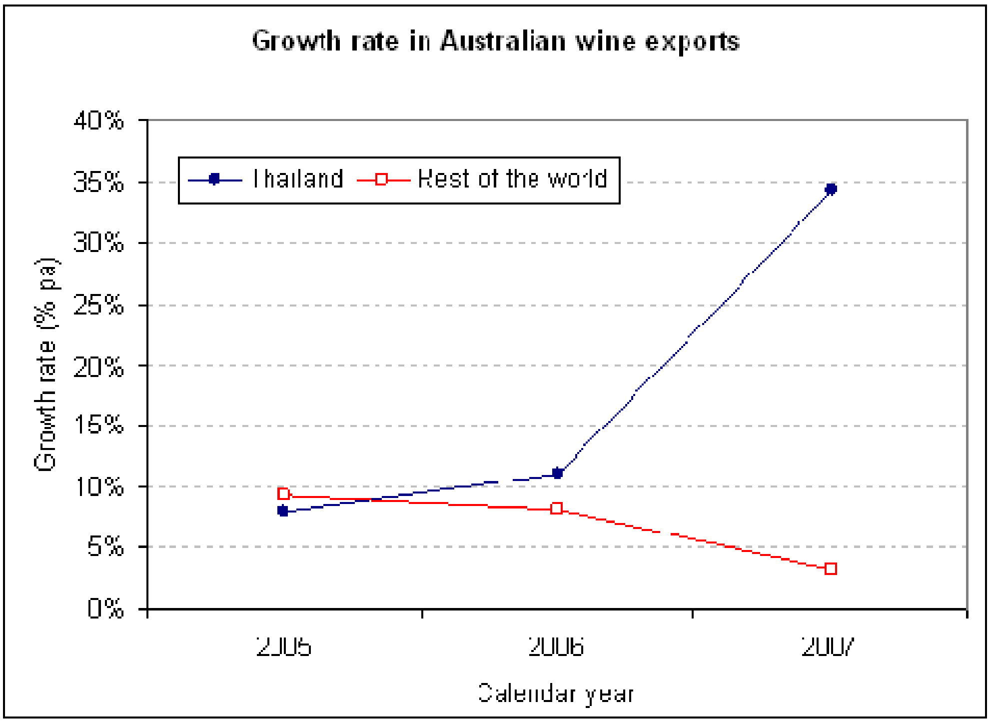
a. Tariffs

Under the TAFTA wine tariffs have one of the longest phase-out periods with the tariff rate reducing by 4% each year and reaching zero on 1 January 2015. Australian wine faces an import duty of 28% from 1 January 2008 compared with the MFN rate ranging from 54.6 to 60% and as a result the Australian wine industry has secured market gains. That said, the onerous domestic tax regime for wine continues to act as a heavy brake on further market penetration. When import duties (even at the TAFTA preferential rate), the excise tax (60% of value or 100 baht per litre of pure alcohol, whichever is the higher), and other surcharges are calculated, imported Australian wines face a total tax impost of nearly 300%.

The table below shows the volume and growth rates of Australia's wine exports to Thailand and the rest of the world from 2005 to 2007. In 2006 and 2007, the growth in Australian exports to Thailand was significantly greater than the growth in exports to the rest of the world, albeit off a low base. Furthermore, the growth rate to Thailand has been increasing while declining for the rest of the world. The chart illustrates this.

Wine exports to Thailand for 2005-2007

	Thailand		Rest of the World	
Calendar Year	**Vol (ML)**	**Growth Rate**	**Vol (ML)**	**Growth Rate**
2005	1.41	8%	700	9%
2006	1.56	11%	758	8%
2007	2.10	34%	783	3%



Unfortunately, there is very little reliable data on the Thai market so determining our market share is difficult but given the recent strong rate of growth in exports, it is reasonable to assume that we increased our market share.

b. Certificates of Origin

One particular issue that continues to cause frustration for Australian wine exporters concerns certificates of origin, which is relevant when exporters wish to access preferential tariff rates under the TAFTA.

Increasingly, exporters complain that, in addition to complying with the AWBC's rigorous export approval process, if a certificate of origin is required they must liaise with another body – the various State Chambers of Commerce. Exporters rightly point out that all of the information included on such certificates of origin has already been provided to the AWBC as required under the export approval process and query why the AWBC cannot issue such certificates. Our response, naturally, is that the AWBC is not authorised to do so but given this concern is regularly raised with us we believe it is an opportune time to review this process to see if it can be improved for the benefit of the Australian wine industry. To that end, we are seeking a formal role for the AWBC with respect to certifying origin under the TAFTA and other FTAs if a certificate of origin process is adopted. We have raised this issue formally with DFAT in late 2007 and it has agreed to examine our proposal.

c. SAFTA

Given Australian wine entered Singapore duty free prior to the implementation of SAFTA its impact on the Australian wine industry has been negligible.

d. MAFTA

A free trade agreement with Malaysia has the potential to deliver significant gains for the Australian exporters if wine tariffs are eliminated. Negotiations however have been stalled for some pending the outcome of the ASEAN-ANZ negotiations.

4. Conclusion

In our view, there is no pressing need to commence bilateral free trade negotiations with individual ASEAN countries provided the ASEAN-ANZ FTA provides significant market access gains for all wine products with limited phase-out periods and no carve-outs. Australia has already concluded FTAs with two of our largest ASEAN markets for wine exports, namely Thailand and Singapore and negotiations with Malaysia, our other major market in ASEAN, are underway but on hold pending the outcome of the ASEAN-ANZ negotiations.

In addition, given DFAT's resource constraints, in our view it is best if the Government focussed on concluding high-quality FTAs with China and Japan which will deliver significant gains for Australian exporters. And FTAs with South Korea and India should also be a priority. Such FTAs are critical to the industry's future trading prosperity particularly as one of our major competitors, Chile is gaining a significant competitive advantage in several key markets as result of tariff preferences obtained under its FTAs.

The AWBC and WFA welcome the opportunity to provide a submission to this important inquiry and would be pleased to elaborate further on any of the issues raised in this submission if necessary.

Appendix 1: AWBC Export Control Procedures

1. Export Licence

Firstly, the Australian Wine and Brandy Corporation regulations require exporters of grape products to be licensed where individual shipments exceed 100 litres. The AWBC issues licences for the export of grape products and considers each application against a set of criteria, including the financial standing of the applicant and a range of other matters. The regulations provide for the suspension or cancellation of a licence for breaches of the regulations or in other prescribed circumstances.

2. Product Approval

Secondly, each wine in the export consignment must be approved. Australian wines must be determined to be of "sound and merchantable" quality before they can be exported from Australia. The aim is to maintain the reputation of Australian wine in overseas markets by preventing the export of wines that have faults. An export permit, issued by the AWBC, is required for each wine destined to be exported, unless the total consignment of wine is less than 100 litres. Before an export permit can be issued, the AWBC's wine inspectors must approve the wine.

The AWBC maintains a panel of wine inspectors of the highest integrity, qualification and experience. The inspectors are drawn from the wine industry and ideally have some experience in wine show judging at a regional or state level.

Wine Inspection Procedures

1. Exporters must submit a completed Continuing Approval Application which includes a certificate of analysis and the compositional details of the blend. The analysis covers the following parameters:
   a. Specific gravity
   b. Alcohol
   c. Volatile acidity
   d. Titratable acid
   e. Sulphur dioxide – free
   f. Sulphur dioxide – total
   g. Residual sugar
   h. pH
2. Two samples must be submitted along with a separate copy of the labels. The bottled samples submitted for approval must be the finished product as intended for presentation to the consumer.
3. Labels must be consistent with the product description given on the application.
4. Each grape product to be exported is required to meet the standards and requirements of the AWBC Regulations and the Food Standards Australia New Zealand Code.

Wine Inspection Rejections

Two wine inspectors appointed by the AWBC carry out a sensory evaluation of all export samples. Typical reasons for rejection include the following faults:

- Clarity and condition
- Chemical contamination eg:
    - Sanitation compounds
    - Mechanical oils
    - Burnt rubber
    - Excessive wine additives such as sulphur dioxide
- Oxidation
- Microbial contamination eg:
    - Sulphides
    - Mousiness
    - Mouldiness
    - Volatility
    - Other
- Closure contamination eg:
    - Random oxidation
    - TCA
    - 'Plastic' taint
- Other contaminants or taints

The wine is expected to reasonably reflect the grape varieties and/or wine description claimed on the label. Information with respect to price and quantity is provided to enable inspectors to make commercial judgements.

The sensory evaluation is a masked tasting, however, inspectors are required to view the analysis details and label descriptions to ensure there is nothing on the label or application form which is questionable in light of the sensory evaluation. The inspectors may call for an independent analysis if required.

Where a wine is rejected at the initial inspection, an exporter may resubmit the wine for a second inspection. The second inspection, with the sample masked, will be conducted by a panel of three Inspectors, none of whom were involved in the initial inspection of the wine. If rejected at the second inspection, the product may not be exported although a final review panel process may be initiated subject to certain conditions.

3. Shipping Approval

Finally, exporters must submit a completed shipping application for each consignment of wine leaving Australia that is in excess of 100 litres. The shipping application notifies the AWBC of the intention to export and must be lodged with the AWBC 10 days before the day of departure.

The application must include all shipping details as well as a list of products with their current continuing approval numbers to be shipped. Where the export complies with all necessary requirements, the AWBC will issue an export permit number.