

**Submission to the House of Representatives
Standing Committee on Industry, Science and
Resources Inquiry into increasing the value
added to Australian raw materials - Wine
Industry Case study**

Winemakers Federation of Australia

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1. Winemakers' Federation of Australia

The Winemakers' Federation of Australia represents the interests of the nations small, medium and large winemakers. The Federation's members in total produce around 90% of Australian wine. Due to the high level of vertical integration in the Australian wine industry, the Federation represents members on a wide range of issues, from primary production (grapegrowing) to manufacturing (winemaking), distribution and marketing.

The Winemakers Federation of Australia is funded through voluntary levies from its members. WFA is based in Adelaide and also has an office in Canberra.

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2. Introduction

Australian wine exports rose from \$10.8 million in 1986 to over \$1 billion in the 1999 year. This spectacular growth is set to continue and provides major opportunities for the Australian industry, with Strategy 2025 targeting Australia to become 5% of the world's wine market by 2025, up from less than 2% in the early 1990s.

Grapegrowers, winemakers and investors have all shared the benefits of strong and sustained growth so far, with the real value of wine production up 90% and that of winegrape production up 150% over the past decade (compared with only a 25% increase for the real value of other farm production).

However, high plantings of premium grape varieties internationally, and stable or falling world demand for wine mean that the international market place will be highly competitive in the medium term

In addition, as large areas of new plantings in Australia and elsewhere come into production in the next few years it is likely that profit levels of grapegrowers will fall as grape prices return to a more sustainable level. Wine producers will also come under increased competitive pressures, increasing incentives for greater production efficiency.

3. Issues

3.1 Government regulation

The Australian wine industry is subject to a myriad of legislation at both state and federal level. State regulations include: Liquor Licensing Acts that regulate cellar door sales etc; environment legislation ; consumer affairs legislation etc.

For the purpose of this submission, national legislation is addressed. As a general comment though, a major industry frustration centres on the differences in legislation between states. Prominent recent examples include the respective Liquor Licensing Acts and the introduction of the National Environment Protection Measure. No two states have the same legislation. This creates enormous compliance difficulty for the large number of wineries that operate across different states. Whilst the Ministerial Council process attempts to address these issues, the process is cumbersome, is time consuming and lacks either political will or jurisdictional power in some instances.

Licensing and permit regulations

The Australian Wine and Brandy Corporation (AWBC) is a Commonwealth statutory body responsible for national matters such as export regulations, labelling regulations, geographical indications and, under its committee, the Australian Wine Export Council, generic promotion of Australian wine.

The Corporation's functions relate to defined grape products which include wine, brandy, grape spirit and products derived in whole or in part from prescribed goods and to which an Australian standard applies.

Section 7 of the *Australian Wine and Brandy Corporation Act 1980* as amended, states the functions of the Corporation to be:

- a. to promote and control the export of grape products in Australia;
- b. to encourage and promote the consumption and sale of grape products both in Australia and overseas;
- c. to improve the production of grape products in Australia;
- d. to conduct, arrange for, and assist in, research relating to the marketing of grape products; and
- e. such other functions in connection with grape products as are conferred on the Corporation by the Australian Wine and Brandy Corporation Act 1980 as amended, or the regulations.

The AWBC act was substantially amended in 1993 following:

- (1) a request from the Australian wine industry to implement a label integrity program to ensure the integrity of Australian wine in respect of representations as to vintage, variety and geographical indication (region of origin),

(2) a wine agreement was signed between the European Union and Australia. This agreement provides better access to the EU for Australian wine, acceptance of each others winemaking practices and, mutually protected each other's wine intellectual property ie. geographical names and traditional expressions. Australia did not have the names and boundaries of its wine regions defined or protected in law. Consequently the Geographical Indications Committee was established under the AWBC Act to do this. Another important reason for formally naming and defining Australia's wine regions is to ensure the integrity of a label claim, as to the source of the grapes used in a wine, under the Label Integrity Program.

These amendments expanded the Corporation's powers:

- to determine any conditions that are to be applicable to registered geographical indications in relation to wines manufactured in Australia or an agreement country; and
- to determine any conditions that are to be applicable to registered traditional expressions in relation to wines manufactured in Australia or an agreement country; and
- to determine any conditions that are to be applicable to registered ancillary protected expressions in relation to wines manufactured in Australia or an agreement country; and
- to determine any geographical indications or traditional expressions that are to be registered in relation to a foreign country that is not an agreement country and to determine any conditions that are to be applicable to those indications or expressions; and
- to determine the varieties of grapes from which wine may be manufactured in Australia and to determine any conditions that are to be applicable to the description and presentation of wine manufactured from grapes of those varieties.

Food standards and winemaking product integrity

In addition to the AWBC Act, Australian wine law includes State/Territory **Food Acts**, which prescribe food (including wine) labelling requirements and, allowable additives, processing aids and composition specifications for wine. These Acts broadly reflect the Food Standards Code.

In 1995, Australia established an agreement with New Zealand, which progressed the *Australia–New Zealand Closer Economic Relations (CER) Trade Agreement* of 1983. This agreement provides for wine, amongst other food commodities, to be freely traded without any additional oenological or labelling requirements between Australia and New Zealand. Hence, the Australia New Zealand Food Authority (ANZFA) was directed to prepare a Joint Australia New Zealand Food Standards Code.

Since 1998, ANZFA has undertaken a review of the current [Australian] Food Standards Code to integrate the *New Zealand Food Regulations* in a new joint Code. The new joint Code also reflects the General Agreement on Tariffs and Trade (GATT) and subsequent World Trade Organisation (WTO) agreements of Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS), which are international agreements made subsequent to the last review of the Code. Consequently, the provisions of the recently released draft joint Code are solely based on consumer fraud and deception and consumer health and safety requirements, and any regulated winemaking practices that may be seen to constitute impediments to trade have been removed.

The draft joint Standard 2.7.4 for wine and wine products of the draft joint Code includes a general definition for wine and wine products. It also provides permission for the addition of certain foods during the production of wine. This draft joint Standard is non-prescriptive and removes the majority of the existing provisions for regulation of the winemaking processes. In addition, there is no separate standard for wine products, or products not elsewhere standardised.

At present, all wine imported into Australia must meet the provisions of the [Australian] Food Standards Code for wine, except for wine imported from New Zealand and the European Union (parties with which Australia had a bilateral agreement). For wine imported from New Zealand and the European Union, their wine is made according to specific practices and provisions that are based on their geography, technology and tradition, and hence may occasionally be in conflict with those of the existing Standard P4 for wine, sparkling wine and fortified wine. The draft joint Code removes the differential standards between Australia and New Zealand.

The Australian wine industry has strongly opposed a less prescriptive set of food standards. The reason for opposition is based on the need to define winemaking practices which conform with international practice. Were the industry to implement a less prescriptive set of practices, there is a strong likelihood that the international community would downgrade the image and perceived quality of Australian wine.

ANZFA has recognised that the industry is concerned that the removal of processing standards for wine sold in Australia may cause adverse perceptions of the Australian product in the international marketplace. Consequently, they have proposed that wine produced in Australia will still have to comply with the provisions of existing Standard P4 in the interim until the *Australian Wine and Brandy Corporation Act 1980* and *Regulations* can be amended to include appropriate provisions in addition to those included in the draft joint Code.

Under this model, Australian wine, whether sold in Australia or internationally, will need to comply with the provisions of both the draft joint Standard for wine and wine products and those incorporated in, for example, the *Australian Wine and Brandy Corporation Act 1980* and *Regulations*.

- **Issues ensuing from the new draft joint Code**

If Australia decides to implement additional production standards for domestically produced wine, other producers would need only to comply with the provisions of the joint Standard for wine and wine products. They may then be able to make wine at a lower cost (with concomitant lower selling price) compared with Australia (if the Australian industry elects to comply with additional provisions in, for example, the *Australian Wine and Brandy Corporation Act 1980* and *Regulations*). For example, importing countries may elect to use reconstituted concentrate or injected carbon dioxide to make sparkling wine, or may adopt the unregulated use of sugar that may facilitate adulteration by water. Hence **importing countries may have a significant competitive advantage in the price sensitive domestic marketplace.**

In reality, however, this may not be a significant issue. The Australian wine industry needs to consider the question of the advantage that domestic producers have over international competitors in the Australian marketplace based on, for example, strong brand recognition, lower transport costs and established distribution chains. If imported wine was made to a 'lower quality' standard, it is probable that the Australian

consumer would not support the product. Large Australian wineries are probably the only parties capable of successfully importing marketable quantities of such product.

- **Australia at odds with international standards**

If the proposed provisions for winemaking and wine are not supplemented with recognised or standardised winemaking provisions in the *Australian Wine and Brandy Corporation Act 1980 and Regulations*, the Australian wine industry may be seen to be inconsistent with the traditional, but entrenched, international ethos of winemaking practice. It should be remembered that the wine industry in the EU and USA (Australia's primary export destinations) operate in a highly regulated environment, with recognised standardised winemaking provisions. Hence these countries may consider the lack of prescriptive regulations as unacceptable, which may jeopardise Australia's current trading position with them, and erode the Australian wine industry's established international image and reputation for 'quality'.

On a concluding note, Government must be prepared to work with industry in circumstances where efficiencies can be gained by adopting a common-sense approach towards adapting domestic regulations to conform with international standards.

- **The emergence of deceitful and dubious winemaking practices**

The opportunity for a scandal to damage our international image and reputation has been identified as a potential threat to the long-term viability of the Australian wine industry. It may be argued that the risk of a scandal may be escalated in an environment where winemaking practice is not regulated at all, especially when our major export destinations operate in a highly regulated winemaking environment.

In an environment where there is no measure to evaluate winemaking practices, we may see particular practices being driven 'underground', that is, where even discussion of these practices is suppressed or surreptitious. The risk then is that one of these 'underground' practices may emerge and be seen as scandalous by our major export destinations. To prevent this some regulation of practices is seen as desirable by the industry.

It should be noted that provision now exists in the AWBC Act (Sect. 40H) to make regulations in respect of blending requirements, oenological practices and compositional or other requirements, where previously, this had been covered solely by the (old) P4 provisions of the Food Standards Code.

At present there are regulations in respect of blending requirements covering country of origin, grape varieties, geographical indications and vintages (Regs 18-22). All other requirements remain under the Food Standards Code Parts P4 and P6.

- **International wine agreements**

In 1994 Australia signed a wine agreement with the then European Community. This agreement was historic in that it was Australia's first formal wine agreement and was the first signed by the EC with a country outside of Europe.

The agreement was made on a government to government basis and the AWBC was nominated as the competent authority to administer the agreement provisions in Australia.

In essence, Australia gained better access for its wine exports to the EC countries, in exchange for agreeing to phase-out use of European geographical names as Australian wine style names. Prior to the agreement, there was mounting pressure on Australian wineries to discontinue use of EC geographical names.

The agreement provided for: a reduction in the number of analyses needed for Australian wine exports to the EC from eight to three; allowed Australian wine to be labelled with multi-varietal and multi-regional blends; mutual recognition and protection of each others wine intellectual property (regional names and traditional expressions); prevention of either party introducing additional certification requirements on imports of each others wines without prior consultation; and, acceptance of each others winemaking practices.

The phase-out of European names in use in Australia has commenced, with use of many hundreds of names (mainly obscure in Australia) now illegal. Phase-out dates of some of the most commonly used names which have a long tradition in Australia are still to be negotiated, depending on their significance to the Australian industry (refer to the AWBC Australian Plain English Wine Label Law document for phase-out dates and/or conditions of use).

At the time of the agreement, Australia did not have the names and boundaries of its wine regions defined or protected in law. It was necessary to do this so that the names of these regions could be protected in the EU, so the Geographical Indications Committee was established under the AWBC Act to do this. Australia has already protected all European Union GI's (and some Traditional Expressions) and, as an interim measure, the names of the 'old' Australian wine regions. We are now in the process of determining the names and boundaries of Australian GI's and placing them in the 'Register of Protected Names'. Until the new Australian names and boundaries are determined and protected under the AWBC Act in the Register of Protected Names, the 'traditional' names of Australian wine growing regions will continue to be used.

It was necessary to amend the AWBC Act to establish the Register of Protected Names, the Geographical Indications Committee and, strong protection provisions for EC and Australian names entered into the Register. (Refer under AWBC Act in this document). Thus the EC/Australia wine agreement has had a significant effect on Australian wine law.

Australia does not have any other formal wine agreements but has good working relationships with other countries where, for the most part, our winemaking practices are accepted by our trading partners.

- **Australian Trade Measurement Code**

Wine labelling in Australia (for domestic and imported product) is legislated under a combination of the Food Standards Code, the Australian Wine and Brandy Corporation Act and, the Australian Trade Measurement Code. Wine labelling and marketing is also subject to the Trade Practices Act (Commonwealth) and the Fair Trading Act (State) provisions.

State trade measurement regulations are administered by the consumer affairs agency in each state/territory. The principal requirement under this code for wine labelling is respect to the volume statement, print size and placement on a label.

Currently, the volume statement is required to be placed on the front label. The Australian wine industry would like to have more flexibility in labelling and would recommend that volume labelling should be permitted on either the front or back label. This allows the industry to use more creativity in labelling and allows the development of a single label for domestic and export markets (back label labelling is mandatory in some markets). It should be noted that there is no distinction between front and back label in the new food standards code and the wine industry seeks Commonwealth support that this should be reflected in the State trade measurement regulations.

Resource security

The Australian wine industry believes that there is a need for integrated management of our natural resources. As competition for scarce resources increase, (in particular, land and water), pressures on the management practices of industry members also increase. As an industry we believe that the way to control externality effects is not by regulation of border activities, but by adopting market based mechanisms that adequately deliver on the policy objectives.

One area that we do not feel has been articulated in government policy is the discussion on 'the right to farm'. We believe that the right to farm should be recognised as a confirmation of the primary purpose and unavoidable effects of a legitimate rural activity. It does not give a licence to pollute, but needs to recognise, for example, that as urban fringes extend into rural land that normal agricultural pursuits are a legitimate part of the landscape.

Any natural resource management policy should clearly outline the rights of existing landholders and not seek to impose urban restrictions on legitimate activity. This clearly fits within the definition of sustainable development and the vitality of the rural community.

Ideally this issue needs to be addressed in legislation, but requires national policy guidelines that can ensure consistency between jurisdictions.

Increasingly we are seeing that by having property right based use rights, the incentives to conserve natural resources are strengthened. The strength of rural property rights are continually being eroded by the imposition of *ad hoc* policy at the border that restricts farm based activity and this can encourage non-sustainable and inefficient practices.

Greenhouse Obligations and related issues

Wine industry greenhouse gas emissions come from electricity, water, petrol, diesel, natural gas use, land clearing, soil tillage, decomposition of organic waste and fermentation. Greenhouse gas sequestration comes from buffer vegetation, tree lots, use of mulch, increasing organic content of soils and vine growth. There are, therefore, a complex set of positives and negatives that must be assessed to determine the wine industry's net contribution to greenhouse gas emissions, before government policy alternatives or self regulation can be properly considered.

The industry is eagerly awaiting a new report from the International Panel for Climate Change (was due May 2000) on the carbon sink guidelines, which should identify what constitutes a 'Kyoto forest' and the amount of carbon sequestration that can be claimed. This report should assist industry in determining whether vineyards constitute a 'Kyoto forest'.

Summary of Regulation and Controls and anticipated activities

More stringent licensing arrangements (mostly at the state or regional jurisdictional level) are anticipated within the industry in relation to waste-water treatment and discharge in addition to stormwater runoff/contamination.

It is anticipated that controls on water use for irrigation are likely to be regionally based (eg Murray Darling Basin). Proposals include a market based water credit scheme, whereby credits would be a tradeable commodity. The wine industry strongly supports a more transparent market mechanism being put in place to ensure the longer term quality and sustainability of available water resources. Costs associated with irrigation water would need to increase to ensure a credit scheme is viable.

More stringent controls on clearing native vegetation are anticipated – especially mature trees and vegetation that provide ecological significance. More stringent requirements with noise (harvesting equipment, pest control & frost fans) and odour controls are anticipated. The industry has identified the potential of regulation for buffer vegetation around vineyards, for used packaging materials and for greenways gas emissions.

Industry Initiatives

- (a) In conjunction with the EPA, industry has developed codes of practice in SA and other states are also developing similar guidelines.
- (b) Cleaner production guidelines have been developed in SA and more detailed guidelines will be available within the next few months.
- (c) The industry has overseen a rapid growth in organic viticulture and wine production.
- (d) Revegetation and land rehabilitation projects or becoming more prominent.
- (e) The industry is a Greenhouse Challenge Member.
- (f) A National Environment Strategy is currently under development.

Regulation in the marketing of certain commodities

Government intervention via compulsory levies, is warranted in the wine industry, due to the existence of 'free riders'. An example where compulsory levies are used effectively for market promotion is the Australian Wine Export Council (AWEC). AWEC is fully industry funded, via a compulsory levy on all exporters. AWEC funding is designed to provide infrastructure and collective industry promotion, and to facilitate companies to undertake their own brand promotion at their own expense. The model is effective because it provides the infrastructure that most wineries could not achieve on their own, but also facilitates brand promotion by the brand owners as the focus of any Australian promotion.

As a concluding comment, regulation for marketing is only supported if the objectives are transparent, and if it can be demonstrated that the clear majority of industry are in support, and particularly those with the largest financial obligations.

3.2 Taxation

The Tax Reform process has sought to broaden the tax base, thereby diminishing the reliance on the narrower Wholesale Sales tax system as a major source of revenue. Furthermore, in applying a single rate to most goods and services (10%GST), the Tax Reform process has dispensed with the former loose classification of products according to their “luxury” or low price elasticity status.

In doing so, the Government has acknowledged that applying different tax rates to different goods is inherently inefficient. This is because the complexity adds significantly to government, industry and consumer costs, whilst the benefits of such an approach are rarely evident.

Having taken a significant step in reforming Australia’s tax system, the wine industry remains frustrated that alcohol is singled out for additional tax, without any clear justification beyond arguments that it is “socially desirable”. The wine industry is prepared to pay its fair share of tax. However, in doing so, it requires of government a commitment to explaining the reasons for additional tax, and to justify the level of tax. This was not forthcoming during Tax Reform negotiations.

Competitiveness of the Australian taxation system

Australian wine producers are now the most heavily taxed in the world. When compared to our major competitors, it is clear that Australia is placed at a competitive disadvantage (see table 1).

Table 1: International tax comparisons

Country	As % of Australia
Australia	100
France	26
Italy	15
South Africa	15
United States	26
OECD Average	36

A commonly held view amongst government is that domestic taxation issues have no impact on export competitiveness. Proponents of this view argue that sales displaced on the domestic market because of higher tax will simply be sold on international markets. This view is inaccurate for four reasons.

Firstly, the international market can be separated into two categories: lower priced wine and premium wine. The premium sector of the market is growing, whilst low priced wine is in chronic oversupply. Low priced wine in Australia is primarily cask wine. Any additional tax increases in Australia have the effect of lowering consumption of wine, particularly wine that is the most price sensitive – low priced wine. Therefore, higher tax rates displace lower priced wine into the international market which is in chronic oversupply. The medium term outcome is that this product is not exported or sold on the domestic market.

Secondly, the domestic market is an important buffer in times of international oversupply. That is, wine that can not be sold on international markets will be displaced back on to the domestic market. A robust domestic market therefore

buffers wineries from the negative and unprofitable impact of discounting on the domestic market.

Thirdly, the domestic market is crucial in providing the cash flow and the scale economies necessary to allow the Australian wine industry to compete offshore. In an industry where international markets dictate that stocks average 1.6 years before sale, and where annual sales growth rates average 14%, working capital requirements take up a significant proportion of investment in the Australian wine industry. Cash flow therefore remains a significant issue.

In this context, the cask and lower-price bottle market play a significant role in providing cash flow. Their shorter stock holding periods increase cash flow, therefore enabling the financing of products which require longer holding periods, and which are typically of a higher quality. It is these higher quality products which play a significant role in Australia's international image as a quality wine producer, and which form the backbone of Australia's export market success. The ability of some Australian wineries to finance the storage of these quality products is inexorably linked to their ability to obtain cash flow from the sale of cask and low-priced bottle products.

Fourthly, the domestic market is used by companies as a hedge against currency fluctuations. Many companies operate to a maximum percentage of exports to reduce risk of currency impacts. As a consequence, those companies that are at or near that maximum level are increasingly choosing to invest offshore. A larger domestic market therefore gives them more capacity to increase exports.

Taxation and Tariff Policies in Competitor Countries

The taxation and tariff policies adopted in competitor wine countries reflect the commitment of their Government's towards facilitating their industry's success. In the case of the European Union, this commitment is embodied in moderate tariff protection, substantial non-tariff protection, production and export incentives and minimal domestic taxation. These policies are embodied to varying degrees in all of Australia's major competitor countries except New Zealand.

It is arguable whether a system of production incentives and tariff and non-tariff barriers provides a long-term benefit to any domestic industry. In any event, the Australian industry does not seek, nor expect such a role from its Government. However, the industry does seek recognition of the distinct competitive advantage that these packages of measures, in conjunction with lower domestic taxation, provide to Australia's major wine competitors.

In a list of the world's major wine producers, and Australia's major offshore competitors, Australia ranks well behind all countries except New Zealand when comparing the combined impact of domestic assistance, tax levels, tariff and non tariff barriers.

When combined with government assistance that reduces unit costs, and shields the domestic market from import competition, the majority of these wine producing countries are conferred a significant competitive advantage over Australia.

The new tax system (ANTS)

As of 1 July the 41% wholesales sales tax on wine will be replaced by a goods and services tax (GST) of 10% and a wine equalisation tax (WET) of 29%. The WET was set at a rate of 29% as a result of the government's policy position ...' that the price

of a four litre cask of wine need only increase by the estimated general price increase associated with indirect tax reform ie. 1.9 per cent'.

The WET at a rate of 29% together with the 10% GST will deliver an increase in tax that results in a 1.9% rise in the retail price of a standard cask. In 2000-01 the Department of Treasury estimate that revenue from the WET will be \$549 million. Of this, \$14.7 million will be rebated to producers through the cellar door/mail order Commonwealth rebate. This provides an increase in government revenue of around \$130M in the first year.

For bottled wine, the retail price outcome of the new tax system varies, depending on the retail margins applied. For example, a bottle of wine currently retailing for \$15 will increase by 33 cents per bottle (2.2%) if the retail mark-up is 30% and by 45 cents per bottle (3.0%) if the retail mark-up is 45%.

For wine sold on-premise, where the retail mark-up typically exceeds 100%, the retail price increase will be much higher - in the order of 7.5%.

It should be noted that any advantage that accrues to business through input cost reductions being passed on by the suppliers of these inputs will not make a difference to wine prices as those cost reductions were factored in by the government when calculating the WET rate of 29%.

- **Cellar door rebate scheme**

In an attempt to alleviate some of the higher tax burden on the wine industry, and in recognition of its contribution to rural and regional Australia, the government implemented a rebate scheme, which, when taken together with the existing State subsidy, will make the first \$300,000 (wholesale value) of cellar door and mail order sales effectively free from WET.

Currently, the States provide winemakers with a subsidy of 15 percent of the wholesale value of wine purchased by unlicensed persons at the cellar door and by mail order.

As part of tax reform, the Government undertook to ensure that cellar door and mail order sales up to \$300,000 per annum will in most cases be effectively free from WET. The arrangements will have two components: the existing State subsidy with the Commonwealth providing additional assistance.

The Commonwealth assistance tapers to zero for sales between \$300,000 and \$580,000 per annum. For example, if the wholesale value of the winemaker's cellar door and mail order sales is \$400,000, the State will pay its subsidy of \$60,000 to the winemaker and the Commonwealth will rebate \$27,000 of the WET liability. Sales in excess of \$580,000 (wholesale value) will only attract the 15 percent State subsidy. The combination of the existing State subsidy and the Commonwealth rebate will mean that cellar door and mail order sales for small wine producers will effectively be free from WET on sales up to \$300,000 per annum.

The Commonwealth WET rebate will be delivered to winemakers as an offset against their WET liability on their Business Activity Statement. This approach will minimise administration costs for the wine industry and improve cash flow for business.

The \$300,000 threshold (wholesale value) will apply to licensed cellar door outlets operated by eligible producers (who are defined in the legislation establishing the scheme).

The industry has welcomed the introduction of the cellar door rebate scheme to provide some relief from the extremely high levels of tax. However, some anomalies still exist with respect to the scheme. First, the rebate is not linked to CPI increases, so benefits from the scheme will be eroded away over time.

Second, while the Commonwealth has been able to make the payment of WET and its subsequent rebate for cellar door transactions a 'book' entry, the State governments still require at this stage payment of tax, and the subsequent refund. This of course creates cash flow implications and administrative costs for both business and government.

- **Impact of the WET tax**

The WFA has a policy position that the WET tax imposes an unnecessary and unfair tax on the wine industry. WFA is currently undertaking a program of research with the objective of demonstrating to the Federal government that such a level of tax is unjustifiable and that the appropriate level is for GST only.

It is highly regrettable that industry has been required to undertake this research under the presumption of guilt, with no attempt by Treasury to justify their policy position.

The level of the Research and Development (R&D) tax concession

The introduction of the rural Research and Development Corporations in the 1980's was in direct recognition of the need for an outcome focus for the respective R&D Corporations.

The decision to match industry funding with Government funding was in support of this outcome focus and in recognition of the market failure common in R&D and predominant in rural R&D.

In the case of the Grape and Wine Research and Development Corporation (GWRDC) the support from Government has facilitated the development of a highly responsive R&D Corporation, with a very clear focus on delivering outcomes for its key stakeholders - government, grapegrowers and winemakers.

R&D has been recognised as one of the major contributing factors to the current success of the Australian wine industry. This success has delivered substantial benefits to grapegrowers, winemakers and allied industries. More importantly though, it has contributed towards the Australian wine and grape industry contribution to employment, regional growth, export income, international recognition of Australian expertise, and government revenue. It is these factors that justify substantial and continued Government support, via matching funding for R&D.

There is a strong public good aspect too much of the research undertaken by the wine industry, particularly relating to technology adopted by other industries. It must be recognised that the wine industry is not just a primary industry, but a major

processing industry in its own right which produces major technological advancements in the fields of environmental practices, waste management, packaging, transport, processing etc.

R&D can be classified into private benefits and public benefits. Clearly, government matching of industry funds for the rural R&D bodies is aimed at providing public benefits. Government involvement is also warranted in some circumstances where the benefits are largely private. These include circumstances: where there are a large number of small operators that are incapable of undertaking research on their own; where there are substantial up-front costs to the research; where the risk/return outcome is very high; and where property rights cannot be captured, thus diminishing the probability of the research occurring because of 'free rider' problems.

Where the benefits are mostly private, a mechanism must also exist outside of the statutory R&D bodies to facilitate research that may be at risk because of one or more of the above factors. In this context, the 150% R&D concession had been an appropriate recognition of these factors. The industry is very concerned that the government's decision to reduce the R&D concession from 150% to 125% is likely to be detrimental to the wine industry - particularly as the major driver of its success has been its innovation and propensity to develop and rapidly implement new technology

3.3 Investment issues

Level of investment incentives in Australia

Australia has very few investment incentives for the wine industry. Probably the key concession available to the Australian wine industry is the Capital Expenditure Deduction For The Establishment Of Grapevines - 75AA. This came out of the Commonwealth's 1993 Australian wine industry package and provided a four-year write-off period for expenditure incurred after 1 July 1993 in establishing grape vines in Australia for primary production.

75AA covers the purchase, planting, propagation, tendering, tying and training of vines. It is also applicable for rock removal, levelling and fertiliser treatment.

75AA recognises the long lag time before a vineyard can obtain full production and aims to reduce the distortionary effect of the way depreciation is treated under the current taxation system.

The principal benefit of 75AA has been in allowing small farmers to diversify from unprofitable sheep, cattle and broad-acre farming activities by growing grapes to spread the risk of their farming activities. These plantings have mainly been on a small scale and have principally occurred in more traditional farming regions. The large scale plantings from larger companies have been more in response to demand pressures than incentive supplied by this tax concession. Apart from the obvious social and economic benefits of a more diversified and profitable agricultural sector, the transition from agriculture to grapegrowing in highly irrigated areas has meant a change from activities using large quantities of fertiliser and pesticides and irrigated all year round to more environmentally conscious farming practices using minimal additives and sophisticated irrigation methods.

The Australian wine industry supports the retention of limited taxation concessions that recognise the special characteristics of particular industries. In particular, tax concessions are an effective policy for influencing environmental outcomes (eg tax

concessions on low volume sprinkler use, to reduce water wastage). However, the industry understands that such concessions must be regularly reviewed. In the case of the removal of concessions, such action must not be taken retrospectively. For example if the government was to remove 75AA, then eligible producers currently receiving that benefit should continue to receive the benefits of the accelerated depreciation for the full four years.

Many of Australia's competitors offer considerable investment incentives to their wine industries. For example, the European Union's reform package of the Common Agricultural Policy (CAP), Agenda 2000 will be introduced on 1 August 2000. The wine component of this package includes replacing 23 existing Regulations at Council level with a single Regulation and new implementing rules.

Under Agenda 2000, there will be continuation of the 'grubbing up' scheme. However, where producers are paid to stop producing they will lose their replanting rights. Support will be provided to change wine varieties to encourage the planting of premium grape varieties. Restructuring support will be subsidised to cover the loss of earnings during conversion and the costs of implementing these measures.

With respect to market measures, in order to preserve 'market balance' and maintain market prices, aid will be provided for the private storage of table wine and grape must in the case of oversupply.

The justification for the support in Agenda 2000, is that the implementation of the Uruguay Round agreements in 1995 resulted in a more open community market in which traditional market measures lost much of their impact. In particular there is less scope for export to be subsidised. The wine reform package has the objective of making industry more competitive by increasing the proportion of quality wine produced. This is done through the program supporting the replacement of inferior vine varieties by new varieties.

Globalisation of world wine industry and trade

Many of the larger international wine trading groups are seeking to become the dominant force in the global wine trade. Increasingly companies are making investments in many different countries in the areas of viticulture, production, distribution and retailing. This globalisation is providing a strong counter-incentive to the protectionist tendencies being exhibited by some governments. In addition, there is an increasing desire for harmony in New World countries to counteract the European Union's approach to wine regulation.

It is critical that the government continues to actively create strategic alliances with other wine producing and consuming nations with the objective of breaking down trade and investment barriers to facilitate this globalisation.

3.3 The need for innovation

The Australian wine industry has no significant natural geographic, soil or climatic advantages over its competitors. Its competitive advantage is based on its ability to: quickly determine consumer trends; provide new products and styles to influence consumer preferences; and to provide a quality product at relatively low cost.

In the medium to longer term, the key distinguishing competitive advantage for Australia will only be the quality of its human resources and its ability to innovate (which is strongly linked to the former). Human resources and innovation will be the key drivers behind the industry's ability to: interpret trends and react quickly to them; develop new products and styles; and improve quality and lower costs.

It is therefore vital that the Australian government acknowledge that human resources and our ability to innovate are crucial to longer term competitiveness. The government's role most be to provide the infrastructure that facilitates human capital development (quality universities and vocational education for example) and innovation (adequate research grants, co-investment of R&D with industry for example). An increased commitment to these endeavours is encouraged above all others.

Professor Peter Hoj, from the Australian Wine Research Institute (AWRI) has provided an independent submission to this review. Professor Hoj's views are strongly endorsed and not reproduced here.

Intellectual property rights

The key to Australia's success on the international market has been due to high quality, competitive pricing, strong branding and aggressive marketing. Intellectual property issues have emerged as a major issue of concern as any weakening of the system can impact significantly on brand differentiation. For example, it is clear that challenges to the integrity of the Trade Related Intellectual Property Agreement (TRIPS) under the WTO by the European Union by its endeavours to seek recognition of the concept of traditional expressions are a thinly veiled barrier to trade. Consequently, any mechanisms that can strengthen intellectual property frameworks around the world are strongly supported by the Australian wine industry.

- ***The Madrid protocol***

As we understand it, the original Madrid Agreement of 1891 only attracted about 30 parties mainly because of inherent problems with the concept of a central point of attack on Trade Marks [with the possible result that if the mark couldn't be registered in one of the participating countries it might fail in all of them] and because it gave undue weight to the French position by protecting appellations of origin in preference to other possible indications of source.

However, the Madrid Protocol now under review is a stand alone amendment to the Madrid Agreement that countries can accede to without having to accept the original agreement - and which, it seems, a large number of countries are proposing to do.

As we understand it, the sole function of the Protocol is to provide a new mechanism for the international registration of trademarks. In a nutshell it works by a party going to its national trade mark registration authority, nominating what class the trademark is to be registered in and in which of the participating countries, and paying the fees applicable to registration in each of the selected countries.

The application can still be opposed and rejected in individual member countries as it can be now, and will be subject to the individual country laws on registrability. What the Protocol provides is more of a mechanism than a fundamental change of laws in the participating countries.

From WFA's perspective, the impact on trademark owners only seems to be positive and we support accession to the Madrid Protocol by Australia.

- ***The Agreement on Trade Related Intellectual Property Rights (TRIPS)***

The Agreement on Trade Related Intellectual Property Rights (TRIPS) is a critical international agreement for the wine industry. The TRIPs Agreement seeks to reduce distortions in international trade by promoting the effective protection of intellectual property and ensuring that the enforcement of this protection does not create barriers to trade. In the wine industry, the specific intellectual property rights subject to TRIPs are Geographical Indications and Trademarks.

Depending on who you are, TRIPs is central to the debate on 'traditional expressions' or barely relevant. The European Union would have us believe that 'traditional expressions' are legitimatised by TRIPs, while the Australian view is that none of the WTO Agreements (e.g. TRIPs, TBT, and GATT) accord individual 'traditional expressions' any special status, including intellectual property rights, in international trade law. What is clear is that the European Union is seeking to reopen the TRIPs agreement within the context of the WTO negotiations to allow explicit recognition of traditional expressions as a form of intellectual property. This would have wide ramifications for the wine industry.

3.4 Market Access

In strategy 2025 it was clearly envisaged that strong export growth was essential for the continued growth of the Australian wine industry. Strategy 2025 targeted Australia to become 5% of the world's wine market by 2025, up from less than 2% in the early 1990s. Overall exports by 2025 were expected to grow to 600 million litres equating to A\$2.5 billion in sales annually. Strategy 2025's targets, which looked ambitious back in 1996 now, look not only achievable, but also conservative.

The rapid growth in volume of production due to rapid vineyard expansion and increased processing capacity has seen volume targets exceeded. This has been reflected in the growth in exports, not only by volume, but also by value to the extent that they now around \$1.2 billion per annum.

Although the domestic market showed growth in the last year, and can be expected to continue to grow, it is unrealistic to expect it to take up all of the increased production. It is limited in size and clearly doesn't have the same potential as the international market although it will always be vital to underpin profitability for many Australian producers. In addition, with high planting's of premium grape varieties internationally over the last five years, and despite strong growth in premium wine demand, the international market place will be highly competitive in the medium term.

The introduction of the Goods and Services Tax and the Wine Equalisation Tax in July 2000 will also provide increased incentives to export as the differential between the tax on domestic and export sales increases.

The impact of these events will be that companies that are not export orientated and/or lack strong brand recognition will almost invariably face a competitive 'squeeze' over the next few years. These competitive pressures will be exacerbated

if any of our international markets are closed or obstructed by other countries trade restrictive policies.

The impact of any market restrictions will be felt on the whole wine industry, not just the export sector and not just the companies that export to that particular market. Growth in world wine trade and the protection of market access is therefore of critical importance to the Australian wine industry. Moves to restrict trade through increased protection of local producers are evident, which may be reinforced by a future oversupply of wine. It is critical that we promote and enhance free trade and market access for Australian products. There may be some risk in exposing the Australian market to increased competition, but this risk is far outweighed by the benefits of continuing free access to major international markets such as the USA and the EU.

At present, the Winemakers Federation of Australia is involved in critical discussions in several forums that will have significant impact on Australia's future ability to trade in wine on the international market. The Winemakers' Federation of Australia's involvement in trade issues has taken on a major importance in our work program with the increasing importance on trade issues impacting on the outlook for the industry.

International trading environment

The characteristics of the international trading environment are dynamic, but provide some clear indications of where the potential pressures on the global market will come from in the short and medium term. Key influences are:

I. The increased market share of Australian and other New World wines coupled with higher global wine supply and falling consumption in some markets are leading to international tensions.

Australian and world production of wine will increase significantly in the next few years, but since 1982 the world's consumption of wine has fallen by a quarter. In the late 1980s around 85 per cent of all wine exported in the world came from four European countries — France, Italy, Spain and Portugal. New World Wine producing countries are now making substantial inroads into the market share of the traditional European producers, and with increased market penetration in Europe, producers such as Australia are now being seen as a genuine threat to European dominance of the international wine trade. The adjustment has been particularly noticeable in the UK market where Australia now commands over 15 per cent of the total market. With an average price of £4.64, this is well ahead of the market average of £3.50 and demonstrates Australia's dominance in key price points. With more planting's coming on stream, traditional exporters that also have traditional protectionist tendencies, are going to find it tempting to put additional barriers in the way of Australian imports.

II. International wine agreements

In 1994 Australia signed a wine agreement with the then European Community. This agreement was historic in that it was Australia's first formal wine agreement and was the first signed by the EC with a country outside of Europe.

The agreement was made on a government to government basis and the AWBC was nominated as the competent authority to administer the agreement provisions in Australia.

In essence, Australia gained better access for its wine exports to the EC countries, in exchange for agreeing to phase-out use of European geographical names as Australian wine style names. Prior to the agreement, there was mounting pressure on Australian wineries to discontinue use of EC geographical names.

The agreement provided for: a reduction in the number of analyses needed for Australian wine exports to the EC from eight to three; allowance of Australian wine to be labelled with multi-varietal and multi-regional blends; mutual recognition and protection of each others' wine intellectual property (regional names and traditional expressions); prevention of either party introducing additional certification requirements on imports of each others' wines without prior consultation; and, acceptance of each others' winemaking practices.

The phase-out of European names in use in Australia has commenced, with use of many hundreds of names (mainly obscure in Australia) now illegal. Phase-out dates of some of the most commonly used names which have a long tradition in Australia are still to be negotiated, depending on their significance to the Australian industry.

At the time of the agreement, Australia did not have the names and boundaries of its wine regions defined or protected in law. It was necessary to do this so that the names of these regions could be protected in the EU, so the Geographical Indications Committee was established under the AWBC Act to do this. Australia has already protected all European Union GI's (and some Traditional Expressions) and, as an interim measure, the names of the 'old' Australian wine regions. We are now in the process of determining the names and boundaries of Australian GI's and placing them in the 'Register of Protected Names'. Until the new Australian names and boundaries are determined and protected under the AWBC Act in the Register of Protected Names, the 'traditional' names of Australian wine growing regions will continue to be used.

It was necessary to amend the AWBC Act to establish the Register of Protected Names, the Geographical Indications Committee and, strong protection provisions for EC and Australian names entered into the Register. (Refer under AWBC Act in this document). Thus the EC/Australia wine agreement has had a significant effect on Australian wine law.

Australia does not currently have any other formal wine agreements but has good working relationships with other countries where, for the most part, our winemaking practices are accepted by our trading partners. However, Australia is currently in the process of negotiating a multilateral agreement on oenological practices with the other New World Wine producing countries which has potentially significant benefits for the industry.

III. Increased protectionist pressure and the potential for a trade war

The greatest potential impediment to continued market access concerns the ability and indeed willingness of some countries to take unilateral action to restrict imports. The potential risks of such action by the United States have been heightened by the recent collapse of the World Trade Organisation talks in Seattle. The support of a domestic political policy agenda by the United States at the expense of trade liberalisation is a strengthening of the protectionist moves by the United States seen

in 1999 (for example, the recent decision by the United States to restrict the import of Australian and New Zealand lamb into its market taken in response to domestic political pressure from the American Sheep Industry Association).

This, together with a protectionist United States Congress and the lead-up to a Presidential election, means that the risk of adverse trade action being taken by the United States government is heightened.

Such actions provide a clear warning to the Australian wine industry that success on the international markets do not guarantee access as other producers become concerned about our increased market penetration. The prospects of a trade war breaking out in the wine industry are a distinct possibility. This outcome could have major implications for our industry — some companies now earn more than half their revenue from overseas sales.

Apart from direct trade action in the form of non-tariff and tariff barriers erected to protect domestic industries, Australian trade in wine can be threatened in the case of retaliatory action taken by other countries when other Australian subsidised products are successfully challenged in the WTO. Recent potential threats of this have occurred with respect to Howe leather (at the time of writing still a real possibility) and Canadian salmon. The real danger for the Australian industry is that the government in a larger trade dispute could trade it off.

Tensions have also arisen through increased friction between the US and EU on wine related negotiations with the potential for Australia to be caught up in the consequences. In addition, Australia has attracted the displeasure of the United States and other New World countries through our bilateral negotiations with the European Union. This animosity is not generated by the market access enjoyed by Australia but primarily due to concerns over precedents set in such areas as 'traditional expressions' for other bilateral agreements.

Key markets most likely to be effected by a trade war are the United States and the European Union.

IV. Presence of high levels of domestic support by some producers

The European wine policy is a key determinant of both the competitiveness of its member countries and access of other producers to the world's largest market.

The European Union's reform package of the Common Agricultural Policy (CAP), Agenda 2000 will be introduced on 1 August 2000. The wine component of this package includes replacing 23 existing Regulations at Council level with a single Regulation and new implementing rules.

Agenda 2000 has the capacity to influence the international market for wine to a significant degree. The justification for Agenda 2000, is that the implementation of the Uruguay Round agreements in 1995, resulted in a more open community market in which traditional market measures lost much of their impact. In particular there is less scope for export to be subsidised. The wine reform package has the objective of making industry more competitive by increasing the proportion of quality wine produced through the program supporting the replacement of inferior vine varieties by new varieties.

V. Push for trade liberalisation in the World Trade Organisation

The World Trade Organisation (WTO) is the successor to the GATT (General Agreement on Tariffs and Trade) established in 1947 and is comprised of the representatives of the Governments of 134 member states, serviced by a Secretariat based in Geneva. These member states account for around 90% of world trade, and 33 other countries are negotiating membership.

At the WTO, Governments negotiate rules for international trade. The rules are important for the wine industry as they provide leverage for small countries such as Australia against the major trading powers such as the United States and the European Union. The WTO rules reduce the number of trade disputes and prevent disputes that do arise from spilling over into broader trade wars providing increased certainty for our exporters

The World Trade Organisation Ministerial Conference was held in Seattle, United States of America from 30 November to 3 December 1999. The collapse of negotiations at this Conference has delayed the launch of a new round of multilateral trade negotiations. Not only is the delay of a new round bad news for Australia, but the willingness of the United States to allow domestic politics to interfere with its international trade policy sends a worrying message about future protectionist policies coming out from the United States.

A new round of negotiations is the best means of securing a better deal for our wine industry. Key priorities for Australia with important implications for the wine industry in the new round are reduced barriers to our exports of agricultural products, reduction in tariffs, stronger rules, fairer competition and ensuring that the commitments made are honoured.

VI. Push for an international standards body

The Office International de la Vigne et du Vin (OIV) was created by Treaty in 1924 and established an International Wine Office, in Paris. The OIV is an intergovernmental organization of a scientific and technical nature, which is active in the area of wine and vine-related products. It has historically been dominated by European countries. The OIV makes recommendations, in the areas of wine-producing conditions; oenological practices; the definition and/or description of products, labeling and marketing condition; and methods of analysis and appreciation of vine-products.

Most of these standards then are transformed into law within the European Union. In addition, the OIV is seeking active recognition by the United Nations as the competent international body in the field of wine standards. If this happens, EU dominated OIV views would become accepted international practice in case of a dispute taken to the WTO. A further example of the dangers of OIV as it now runs is its influence on Codex Alimentarius - the international standard in such areas as food additives and import inspection and certification procedures. At the recommendation of OIV, four wine additives currently approved for use in the USA have been deleted from Codex, without any scientific basis.

VII. Tariff issues relating to the Australian wine industry.

Currently, the Australian wine industry faces higher costs than our international competitors through the presence of tariffs on inputs. These tariffs place an unnecessary cost on Australian producers and in most cases there is no domestic industry producing these products.

Of key concern to the industry, are tariffs on oak barrels and cooper products, agglomerated cork and stainless steel. Import tariffs add substantially to the cost of wine production. WFA estimate that in 2000 the cost of tariffs could be around \$5million. In addition, there is currently an import tariff for wine and brandy. WFA would submit that all input tariffs should be removed as they place an unnecessary cost on production. WFA has a policy position of zero tariffs on wine and brandy imports.

VIII. New World Wine Producers Forum

In 1999, the New World Wine Producers Forum (NWWP) became a critical international forum to free up trade in wine. The NWWP includes representatives from Argentina; Uruguay; Chile; USA; Canada; Australia; South Africa; and New Zealand. The NWWP has become an important forum for information exchange and development of international wine agreements between the participants.

WFA has played an active role in this group and continues to view its activities as a major trade facilitation opportunity as well as a valuable foil to the restrictive activities of the European Union. WFA needs to affirm our strong commitment to this forum and its activities.

At its most recent meeting held in Queenstown, New Zealand in late February 2000, progress towards concluding a multilateral agreement on oenological practices (MA) and agreement to actively pursue an MA on labelling was made. It is expected in the next two months that agreement will be reached on the wording of the MA on oenological practices, which will effectively prevent any of the signatories rejecting trade in wine on the basis of oenological practices unless it call into question health and safety or consumer deception concerns.

There is a clear strategic imperative for Australia to enter into such an MA on oenological practices. The short-term benefits provide the Australian industry with a major risk management tool to maintain market access to the key major markets, United States and Canada, and the establishment of an internationally alternative methodology to the European Union's prescriptive approach for accepting differing national oenological practices.

The next focus of the NWWP is on labelling. Two key areas are:

- ◆ Standardisation of mandatory labelling requirements between NWWP countries.
- ◆ Harmonisation or mutual acceptance for other labelling practices.

A one-year timeline from the finalisation of the Multilateral agreement on oenological practices to the completion of the agreement on labelling has been set by the NWWP. Australia through the

Winemakers Federation has agreed to coordinate the preparation of an issues paper on labelling issues. Labelling will then be taken up as an issue with the European Union through the OIV process and bilaterally. WFA supports this initiative and the activities of the Australian working party on labelling.

3.6 Access to efficient and competitively priced inputs and infrastructure

The international competitiveness of Australia's wine industry relies on its ability to produce a quality product at low cost. The Australian industry has grown significantly in the 1990s, largely as a consequence of being quick to react to changes in consumer demand for wine. However, as other countries adapt to the changed international environment, the international marketplace will become increasingly competitive. Our high quality will be matched by our competitors. Maintaining our market presence will therefore increasingly rely on our ability to compete, at each quality level, on cost.

Electricity/gas provision and ongoing reforms in those sectors

Energy costs are a reasonably significant input cost to wineries. Reforms that provide more competition in the energy sector, and more flexibility to wineries in terms of their purchasing arrangements are strongly supported by the wine sector.

Rail, and domestic and international sea transport

The value-added nature of the product means that Australia's geographical disadvantage and higher per-unit transport costs can more easily be absorbed. Nevertheless, higher costs do impact negatively on profitability. Ongoing reforms of sea freight are strongly supported, and indeed, sea freight costs are not seen as a significant impediment. A more significant issue with wine transport is the logistical problems created by a six week turnaround from Australia to international markets. Clearly, there is little that can be done about this by Government.

Domestic freight costs are a more significant impediment, particularly given the regional nature of the wine industry. Wine producers in Western Australia for instance, suffer a significant competitive disadvantage by virtue of their geographical distance to the eastern states.

Access to infrastructure in remote regions

Regional infrastructure is inadequate in a growing number of wine regions. This is largely due to the growth in the wine industry, and the lack of any centralised facility to address the regional infrastructure needs. Key impediments (in order) are adequate roads, electricity availability and water availability (water is a key issue, but the majority of issues for water are not infrastructure related).

The South Australian government is currently undertaking a study of the infrastructure needs of the South Australian wine industry. This follows on from studies done in McLaren Vale and the Barossa Valley. This model could be applied on a national basis, with Government reviewing infrastructure needs for key industries (probably determined on the basis of potential growth). Such an approach

would enable quicker identification of problem areas, and facilitate in determining the role to be played by the public and private sectors in providing infrastructure.

3.7 Labour and skills issues

The rapid growth in the wine sector has left the wine industry short of adequately qualified staff in some disciplines. Whilst the pool of talent in more generic areas such as management and marketing is sufficient, specialised areas such as viticulture and winemaking have seen deficiencies in appropriately qualified staff.

Australia's skills base

The Australian wine industry has a reputation for excellence in the key disciplines of winemaking and viticulture studies. This is due to a strong commitment to teaching and research excellence, particularly in the University of Adelaide and Charles Sturt University.

In addressing the skill base requirements for the next generation of wine industry leaders, one fact is resoundingly clear. The ability of the Australian wine industry to reach pre-eminence as an international force in the world wine market will rely critically on the innovative culture of its workers, and fundamentally on the quality of its education system.

In this regard, more public investment in tertiary, vocational and secondary education would pay a significant dividend via future economic benefits. The Australian wine industry strongly supports a culture of excellence and innovation in its teaching institutions. It strongly endorsed more public investment and would encourage more co-investment with industry in education and training delivery.

Education and training

In addition to the comments above, a more pro-active relationship needs to be developed between industry and teaching institutions. In particular, public funded vocational education and training could reap a significantly higher dividend if industry was more actively involved in curriculum setting, and in identifying education and training needs.