



Submission No 30

**Inquiry into Australia's Relations with the Republic of Korea; and
Developments on the Korean Peninsula**

Organisation: Australian Wine and Brandy Corporation

**Contact Person: Mr Stephen Guy
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Australian Government

**Australian Wine and
Brandy Corporation**

Our Ref.

15 July 2005

Mr J Carter
Inquiry Secretary
Joint Standing Committee on Foreign Affairs,
Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Mr Carter

Re: Inquiry into Australia's Relations with the Republic of Korea

Thank you for inviting the Australian Wine and Brandy Corporation to make a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into Australia's relationship with the Republic of Korea, a copy of which is attached.

Should you have any queries regarding the issues raised in the submission, please do not hesitate to contact Mr Stephen Guy, Compliance Manager for the Corporation, on (08) 8228 2050 or email: steve.guy@awbc.com.au.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Sam Tolley', written in a cursive style.

Sam Tolley
Chief Executive

INQUIRY INTO AUSTRALIA'S RELATIONS WITH THE REPUBLIC OF KOREA

Joint Standing Committee on Foreign Affairs, Defence and Trade

AUSTRALIAN WINE AND BRANDY CORPORATION SUBMISSION JULY 2005

CONTEXT

The Standing Committee on Foreign Affairs, Defence and Trade has called for submissions as part of a Review of Australia's relations with the Republic of Korea (South Korea).

The Australian Wine and Brandy Corporation (the Corporation) has identified Korea as a priority emerging market for the Australian wine industry. The purpose of this submission is to identify the trading opportunities for, and the challenges being faced by, Australian exporters selling wine in the South Korean market. The submission also makes some recommendations for improving the trading environment for Australian wine in Korea.

The Australian Wine and Brandy Corporation

The Corporation is a statutory body of the Australian Government established by the Australian Wine and Brandy Corporation Act 1980. The functions of the Corporation established by the Act are:

- To promote and control the export of grape products from Australia;
- To encourage and promote the consumption and sale of grape products both in Australia and overseas;
- To improve the production of grape products in Australia;
- To conduct, arrange for, and assist in, research relating to the marketing of grape products; and
- Such other functions in connection with grape products as conferred on the Corporation by the Act or Regulations.

The Corporation performs its functions and exercises its powers for the purpose of achieving the objects specified in the Act. These are:

- To promote and control the export of grape products from Australia;
- To promote and control the sale and distribution, after export, of Australian grape products;
- To promote trade and commerce in grape products among the States, between States and Territories and within the Territories;
- To improve the production of grape products, and encourage the consumption of grape products, in the Territories;
- To enable Australia to fulfil its obligations under prescribed wine trading agreements;
- For the purpose of achieving any of the objects set out in the preceding paragraphs:
 - to determine boundaries of the various regions and localities in Australia in which wine is produced;

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- to give identifying names to those regions and localities;
 - to determine the varieties of grapes that may be used in the manufacture of wine in Australia;
- To advance the objects of the Act by helping to ensure the truth, and the reputation for truthfulness, of statements made on wine labels, or made for commercial purposes in other ways, about the vintage, variety or geographical indication of wine manufactured in Australia; and
- To regulate the sale, export and import of wine:
 - for the purpose of enabling Australia to fulfil its obligations under prescribed wine-trading agreements;
 - for certain other purposes for which the Parliament has power to make laws.

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Executive Summary

The Korean wine market is currently estimated at 1.8million cases (9 litre equivalent) with an import value of AUS\$76 million. "Local" production represents 17% of the total market but much of this comprises wines blended with bulk imports. Local production of wine has almost disappeared as the local industry lacks competitiveness in quality and price against imports.

Changes in diet with an emphasis on "wellbeing" products (and wine is perceived to be in this category) and an acceleration of a wine culture commensurate with a growing middle class and generational shift, provide an environment conducive to rapidly increasing per capita consumption. Current consumption levels are a moderate 0.5 litre per head but this is conservatively estimated to rise to 2.34 litres by 2010 estimated to be worth US\$173 million.

Major impediments to growth include:

- high tariffs and duties (see section on Taxes and Pricing) which result in relatively high retail prices for wine compared to other alcohol drinks,
- lack of understanding of wine particularly by "occasional" wine drinkers, and
- lack of understanding of the market and cultural sensitivities by exporters.

Nevertheless there are favourable prospects for Australia to be the pre-eminent New World supplier of wine to Korea with the assistance of a structured marketing strategy incorporating a key education component.

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Wine Market in Korea

After a few years of stagnation during the late 1990's as a result of the Asian Economic crisis, the Korean wine market has rebounded, offering growing opportunities for imported wines at all price and quality levels.

Consumers have become more familiar with wines and more discriminating in their tastes and, while maintaining a strong sense of association with Old World brands, are keen to explore a more diverse offering in an effort to expand their experience and knowledge. Korea is predominantly a red wine market due to perceived health benefits. 75 percent of all wine consumed is red wine and this is expected to increase.



Consumption of wine has increased significantly particularly over the past five years and is currently growing at 30% pa (2003 compared to 2004).

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Source: KITA

It is estimated that the market will continue to grow at a compound rate of 20% over the next five years to 5 million cases (9 litre equivalent) valued at A\$230 million. Current growth is 29% pa based on depletions (source AC Nielsen & Gallo research).

Australia currently represents 7% of the market but this could grow to 15% + with the assistance of a focussed marketing strategy for Korea. On those growth assumptions the market could be worth A\$35 million to the Australian wine industry by 2010 or AUS\$46million if Australia gained 20% market share.

Australian Wine Export Strategy

The Corporation, through the Australian Wine Export Council (AWEC), a committee of the Corporation, has recently identified and prioritised Korea as an embryonic market of future significant potential. AWEC has prepared a Strategic Plan for 2005/08 for Korea and has allocated a budget towards the achievement of that plan. The key performance indicators of that Plan are:

- To establish and broaden market awareness of Australian wines in Korea
- Provide opportunities for the Australian wine industry to capitalise on market awareness and market access activity
- Increase the Australian wine category in Korea by range, price points and channel distribution and establish Australia as the pre-eminent New World Wine supplier

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Challenges in Korea for Australian Wine

1. Korea Chile Free Trade Agreement

Chile signed a Free Trade Agreement with Korea in August 2004. The FTA calls for the gradual elimination of the import tariff on Chilean wines over a five year period. The "benefit" means eliminating tax of about 1500 won (A\$2) per bottle every year until 2009.

The FTA has resulted in considerable growth in Chilean wine sales. Prior to the FTA, France and USA dominated wine sales to Korea with 45.4% and 14% of the market respectively. Chile had 13.8% followed by Italy at 8.1% and Australia fifth with 7% market share. In the first four months of 2005 (following implementation of the tax benefits afforded under the FTA), Chile has assumed second place with MAT growth of 104%. Market share for the period ending April 2005 has resulted in France slipping to 37.5% of the market and Chile gaining 18.8%.

2. Tariffs and Taxes

Taxes on wine are higher than for most other forms of alcohol in Korea mainly due to a lack of local production. Four taxes apply to wine:

- Import Tariff 15%
- Liquor Tax 30%
- Education Tax 10%
- VAT 10%

Applied to the mark up for wine in store prices are considerably higher than in Australia. The following is a general guide to mark up into a supermarket (information supplied by Austrade, Seoul):

		Australian Dollars
A. CIF Value		\$100/ per dozen
B. Customs Duty	CIF x 15%	\$ 15
C. Liquor Tax	(A+B) x 30%	\$ 34.50
D. Education Tax	C x 10%	\$ 3.45
E. Subtotal	A+B+C+D	\$152.95
F. VAT*	E x 10%	\$ 15.30
G. Customs clearance Fees**	A x 8%	\$ 8.00
H. Total Customs Cleared	E+F+G	\$176.25
I. Importers Price to Supermarket	H x 45%	\$255.56
J. Supermarket Retail Price	I x 35%	\$345.00
Total Price Per Bottle Retail***		\$ 28.75

* VAT is refunded to importer as tax is carried over to final transaction

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** Approximate costs only to cover customs clearance, warehousing and transport. Additional fees apply to extended warehousing or shipment inspections.

*** Approximate only as both importers/distributor mark ups may vary as do the various channel mark ups. Luxury Hotels may mark up from 200-400%.

Recommendations:

- **Should an FTA between Australia and Korea be pursued, Australia to seek the removal of all wine tariffs for trade between Australia and Korea;**
- **Seek clarification on any preferential agreements regarding wine that Korea may have in place with a third country eg EU, US etc; and**
- **Clarify whether Korea is considering any increase in internal taxes on wine.**

3. Labelling and Inspection

Korean regulations require the following information to be in Korean language. In many instances, particularly where smaller quantities are involved, this information is applied manually in Korea:

- Name of Product
- Country of Origin
- Type of Product (Red Grape Wine)
- Importer's name, address and telephone number
- Business License Number of Importer
- Date of bottling (L Number)
- Name of place where product can be returned or exchanges if product is damaged or defective
- Alcohol content and volume
- Additives , if any
- Instructions for storage
- Government Health Warning – and warning for juvenile consumers
- Name of distribution channel (to prevent black marketing by restaurant traders)

All imported food and beverage are subject to Ministry of Health and Welfare/Food Quarantine inspection undertaken by the Korea Food and Drug Administration (KFDA). The first shipment of any new product is always subject to a detailed inspection including chemical analysis and can take 10 days or more to complete. There is no review process for products rejected and heavy penalties apply to importers whose products are rejected including loss of license.

Subsequent shipments are subject to visual/document inspection which normally takes about two days if the product is identical in label, product name, alcohol content,

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vintage, ingredients and net volume as the first shipment. Random detailed inspections may also be made

Recommendations:

- **Seek a significant reduction in the time taken for initial label approvals;**
- **Seek elimination of the inspection process for wines granted export permits by the Australian Wine and Brandy Corporation, a statutory authority of the Australian Government;**
- **Introduce a transparent review process for wines that may be rejected due to anomalies in chemical analysis.**
- **Seek the removal of the requirement to register new products in Korea.**

4. Compositional Issues/Sanitary Certificates

Australian wine exporters have experienced some problems relating to the acceptance by Korean authorities of analytical results for wine produced by NATA accredited laboratories based in Australia. These laboratories comply with the international ISO 17025 standard.

Recommendations:

- **Seek clarification as to the laws in Korea regarding wine composition, additives, processing aids, residue limits, methods of analysis, issue of sanitary certificate etc;**
- **Pursue mutual acceptance of Australia's winemaking practices by Korea;**
- **Obtain acceptance by Korean authorities of analytical results for wine produced by NATA accredited laboratories;**

CONCLUSION

The Australian wine industry has identified Korea as an important market for its continued export success. The Review presents an opportunity to address some of the current challenges being experienced by Australian wine exporters in Korea and to improve access to that market.

The Corporation would be pleased to elaborate further on any of the issues raised in this submission and thanks the Standing Committee for the opportunity to express these views. We look forward to continuing to work with you.

15 July 2005