



**Accolade
Wines**

Submission to the:

**Senate Standing Committee
on Rural and Regional Affairs and Transport References**

Inquiry into

**The Australian
Grape and Wine Industry**

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Executive Summary

Senate Inquiry into the Australian Grape and Wine Industry

Accolade Wines welcomes the opportunity to make a submission the Senate Inquiry into the Australian Grape and Wine Industry.

Our submission comments on each of the terms of reference as they impact our business and seeks to inform Senators of the most pertinent issues facing the industry.

In particular, we emphasise the following:

- Significant changes to the wine market over the past decade, both domestically and internationally, have substantially changed demand and demand patterns, and also the path to the consumer.
- The Australian wine industry is still undergoing significant structural reform and still suffers an imbalance between supply and demand, particularly in warm climate regions. Current estimates from the Winemakers' Federation of Australia (WFA) are that up to 70% of total current Australian wine grape production may be uneconomic¹. There has been a slow correction to supply.
- The industry has the potential to recover however substantial structural shocks such as a change to a volume based tax system would cause large scale disruption and ultimately lead to a much smaller scale industry with a significantly lower contribution to the Australian economy broadly and regional economies, especially warm climate regions.

The Australian wine industry is suffering a prolonged downturn² following the longest sustained boom in an industry, which like many other agricultural industries, is subject to a long history of boom and bust cycles.

Accolade Wines contends that low grape prices in some wine regions in Australia are not the result of market failure, but are in fact the result of an efficient market, in economic terms, reflecting changes in demand and competing sources of supply.

There are a range of factors in play that have both influenced demand domestically and abroad, and also supply both domestically and abroad. These factors in aggregate have contributed to what economics Professor Kym Anderson has described as a "perfect storm of shocks" to the wine grape industry.

¹ WFA (2013), *Actions for Industry Profitability 2014 – 2016*, Adelaide: Winemakers' Federation of Australia, page 23.

² Anderson, Kym, Wine Economics Research Centre Wine Policy Brief No 11, '*How to return Australia's wine industry to growth? Lessons from previous cycles*', University of Adelaide, Adelaide April 2015

Changes to federal and state regulatory structures offer some challenges and also the potential for some positive opportunities but in the main can do little to influence the broader macro-economic factors in play.

Removing Wine Equalisation Tax rebates from some categories of wine could help to remove distortions in the market place and move the pointer on grape prices upwards a little in the medium term, however removing rebates altogether or moving to a new tax base from the industry could devastate an industry that is not only a significant rural employer in its own right but helps to underpin regional economies by drawing tourist spend out of what is one of the world's most urbanised economies.

Our Recommendations:

- The government, rather than intervening in the market, should address its attention to supporting people and communities and, where appropriate, assisting the transition to new income sources.
- Tax structure to remain as "ad-valorem" (value based);
- Wine Equalisation Tax (WET) Rebate to be restructured in line with original intent – removed from bulk and unbranded wine as per the Winemakers' Federation of Australia (WFA) recommendations – and with a proportion of savings reinvested in marketing Australian wine to the world;
- The Australian wine industry be encouraged to continue to strive for supply chain efficiency to deliver value in wines at all price points;
- The government provide additional support to the promotional efforts of the Australian Grape and Wine Authority, to help lift the profile of Australian wine in selected markets.

1. Introduction

Accolade Wines

Accolade Wines is a global wine company with a long and proud Australian heritage, whose brands sell in over 115 countries. Headquartered at Reynella, South Australia, we employ more than 1500 people in Australia, the UK, North America, mainland Europe, Asia, South Africa and New Zealand. We also have offices in Guildford, Bristol, Sydney, Brisbane, Perth, Melbourne, Stellenbosch, Singapore, Beijing, Shanghai, Tokyo, Moscow, Warsaw, Marlborough and the Napa Valley. Many of our staff are located in major viticultural regions around regional Australia.

We are the number one wine company by volume in the UK and Australia, with a portfolio of brands ranging from the iconic Hardys, the number one Australian wine brand in the UK and a significant wine brand in mainland Europe, through to Kumala, the number one South African wine brand in the UK.

In Australia, our wine range, led by Hardys which dates back to 1853, includes the 179 year-old Houghton label, recently acquired Barossa brand, Grant Burge Wines, as well as Banrock Station, Omni, Goundrey, Brookland Valley, Berri, Stanley, Amberley, Moondah Brook, Reynell, Renmano, Leasingham, Tintara, and Tasmanian labels Bay of Fires and Eddystone Point, plus sparkling brands House of Arras and Yarra Burn.

Our portfolio covers the gamut from value table wines to ultra-premium vintaged sparkling wines sourced from one of the broadest bases in the Australia.

In contrast to some other major wine companies our business model favours investment in our brands and their support rather than vineyards so we are biased towards contractual relationships with growers. Our relationship with South Australia's Berri-based CCW, the largest winegrape cooperative in the country goes back decades and is one of the most significant relationships of our business. We have other significant ongoing relationships with grapegrowers both large and small from Tasmania to West Australia.

2. Extent and nature of any market failure

The Australian wine industry is currently suffering from a prolonged downturn reflecting significant changes to international sales patterns, the path to the consumer and also changes to domestic consumption.

The industry enjoyed a prolonged boom from 1991 through to 2007, during which exports soared, grape prices escalated and the area planted to vines increased dramatically.

However, since those heady days a combination of factors has seen exports drop significantly.

An expert review of the Australian wine industry by Centaurus Partners, commissioned by the Winemakers' Federation of Australia, in 2013³ reported that the industry had been hit by a 'perfect storm' of events including:

- The global financial crisis in 2007;
- Falling demand for Australian wine in key markets, especially the US, UK and Canada;
- A steadily rising \$A from 80 US cents in 2004 to virtual parity by 2010;
- Centaurus also identified increased competition and choice from other exporters including: France, Italy, Chile, Argentina, Spain and South Africa⁴ and;
- 'Damage to Brand Australia' by a range of factors from exports of low quality wines and brand proliferation.

Simultaneously domestic sales have suffered from booming imports, particularly the popularity of New Zealand Sauvignon Blanc⁵.

According to Australian Bureau of Statistics data for the 12 months to June 2014, imports now account for 15.2 pc of domestic wine sales, up from 7.1 pc in 2006-07. Sparkling wine accounted for 11.8 ML or 14.5 pc of all imports and comprised a staggering 25.5 pc of all sparkling wine consumed in Australia.

In the same 12 months, New Zealand firmed its position at the top of the list in terms of imported wines coming into Australia, with volumes more than doubling

³ Centaurus Partners (2013), *Wine Industry Report: Expert Report on the Profitability & Dynamics of the Australian Wine Industry*, (August, 2013), page 19

⁴ Ibid page 21

⁵ Australian Bureau of Statistics, *Shipments of Wine and Brandy in Australia by Australian Winemakers and Importers*, Cat 8504, August 2014
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8504.0Main+Features1June%202014?OpenDocument>

since 2008. Australia now imports 52.9 ML of New Zealand wine at a value of \$334.9 million.

As imports have grown Australian producers have faced a diminishing domestic market.

The outcome of the dramatic change in export sales, and changes to the domestic market have been to hit the gross margins of wine producers.

Centaurus Partners carried out the most significant work in this area for their 2013 report, surveying and interviewing winemakers and concluding that total industry gross margin declined by 38 pc to \$1,107 million in 2012, from \$1,787 million in 2007. Most of this decline was attributed to a \$747 million decline in export gross margin.

However Australia's wine grape production levels have not diminished to the same degree the 2012 vintage was 1.8 million tonnes, 2013 vintage 1.83 million tonnes, 2014 1.7 million tonnes, with the 2015 vintage by Accolade's estimate approaching the 1.7 million tonne mark again.

Declining exports, diminishing domestic sales, and reduced industry margins are being reflected in lower prices for fruit, particularly for warm climate fruit in the irrigated regions.

The Australian wine industry operates as an export industry, with more than half of its production exported.

Basic economics dictates that in a market where 50pc of production is competing with international pricing; international pricing will determine base pricing.

In this context it is impossible to reject the realities of competing in export markets. A very large percentage of the grapes produced in warm irrigated areas are aimed at entry level commercial wines typically sold through major foreign retailers like supermarkets and government monopolies. These wines must compete on price and quality with producers from South Africa, Spain, Italy, France, Chile and Argentina. Many of these countries have a lower cost of production and more favourable exchange rate than Australia.

The lower grape prices being experienced, particularly in warm inland areas, cannot be attributed to market failure in the true economic meaning of the phrase; rather they are the reflection of an economically "efficient" market. That is, one that reflects the diminished sales opportunities in lower prices for fruit in a classic supply-demand interstice.

The vast majority of Accolade's contracts with growers require us to offer our best estimate of a fair market price for the grape variety being purchased. In seeking to offer a fair market price we take account of industry conditions like levels of stock and likely remaining surplus wine from prior vintages, prevailing market prices for bulk wine both domestically and internationally and our best estimate of likely demand for each varietal from the region.

We contend that there is little that government, or wine companies can do to address the broad economic factors that have put downward pressure on prices.

There are opportunities to grow demand, find new markets and increase margins, however these are unlikely to lead to dramatic improvements in winegrape prices on a short-term or even medium-term basis. Industry turnaround will not occur overnight, it will definitely require a long-haul attitude.

Government's role within this scenario is to assist in growing demand by supporting the Australian Grape and Wine Corporation's efforts to boost Australian category promotion in key markets, continue to pursue access to markets through negotiations such as Free Trade Agreements, which offer both increased market access and the opportunity to grow margins.

The government can also assist by providing community support to allow generational change amongst vineyard owners and by enhancing opportunities to switch to other crops.

There are also opportunities for government to assist in consolidation of small operations to help operations benefit from economies of scale.

3. Impact of federal and state regulatory regimes

Federal Tax Policy

One of the most significant Federal impacts on an industry is the tax structure within which the industry operates.

Australian wine is already one of the most heavily taxed in the world⁶. Domestic taxation rates are important for the ongoing competitiveness of our industry in the global market. It is critical that our local tax rates are comparable to our global competitors to allow us to fairly compete.

A recent study by Professor Kym Anderson of the University of Adelaide shows that Australia is taxing wine relative to other alcohol beverages more than other wine exporting countries⁷ (See Figure 1 overleaf). It is also important to note that wine is taxed lower than other alcohol beverages in most wine producing countries.

Anderson's key findings are:

- For commercial premium wines (retail price of \$12 per bottle), Australia's Wine Equalisation Tax (29pc) is one of the highest tax rates among significant wine exporting countries (France – 0.8pc; Italy – 0pc; Spain – 0pc; Argentina – 0pc; Chile – 15pc; South Africa – 3.8pc; and the United States – 6.6pc)⁸;
- Expressed as cents per standard drink (in Australian dollars), this equates to Australia – 22 cents; France – 1 cent; Argentina, Italy and Spain – 0 cents; South Africa – 3 cents; and United States – 5 cents⁹;
- Australia taxes wines higher relative to other alcohol beverages (beer and spirits) than most wine exporting countries, with the exception of Chile where beer is very lightly taxed¹⁰.

Tax policy is an absolutely critical government setting that fundamentally impacts business structure and profitability, and through the impact on individual businesses, affects an entire industry's capacity to compete domestically and internationally.

The Australian government has labored hard over the past few years to achieve Free Trade Agreements with key wine export targets such as Japan, China and South Korea. The lowering of imposts within these nations will make a significant difference

⁶ Anderson, K., "Excise Taxes on Wines, Beers and Spirits an Updated International Comparison" Working Economics Research Centre, Adelaide University, Adelaide, Working Paper No0214, 2014.

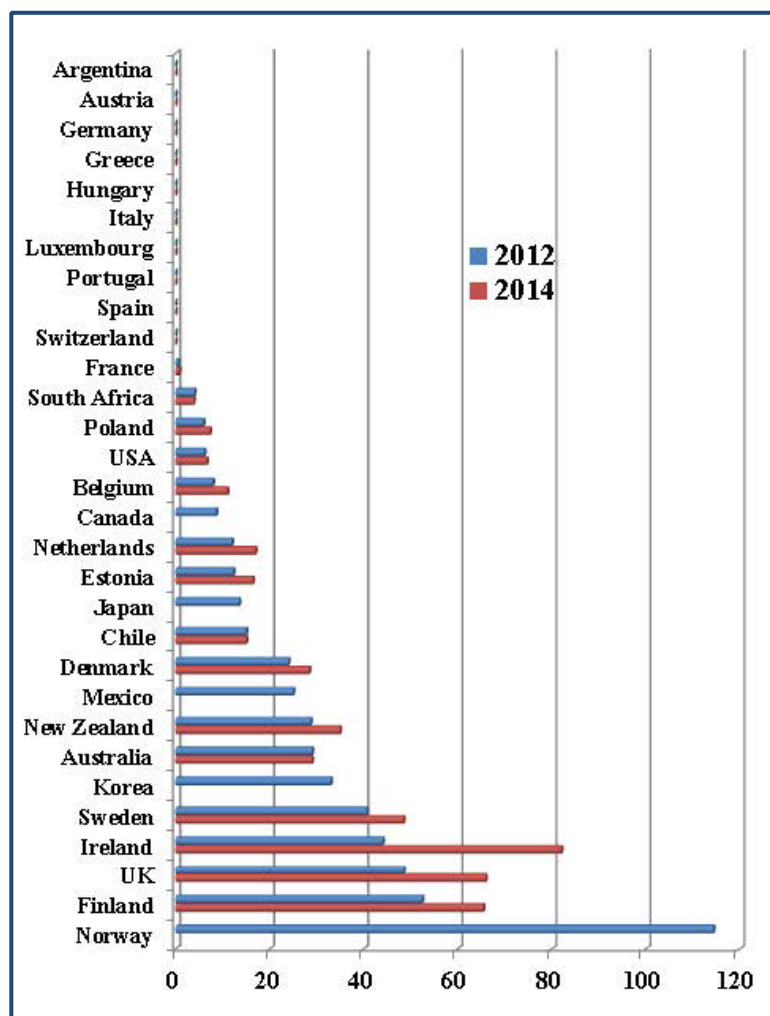
⁷ *ibid.*

⁸ *ibid.*

⁹ *ibid.*

to Australian wine businesses' ability to compete however, changes to tax settings within Australia, such as a move to a volumetric tax on domestic sales rather than the current ad-valorem WET, could fundamentally disadvantage Australian wine companies.

Figure 1: Ad-valorem consumer tax equivalent of excise on commercial premium wines, 1 January 2012 and 1 July 2014 (in %)
Source: Anderson, page 7.



A change to a volumetric tax would penalise and directly inhibit the sustainability of our \$2 billion export industry that directly and indirectly employs up to 60,000 people, mainly in regional Australia.

Currently the majority of wine sold in Australia sells for under \$12 per bottle or equivalent. If a volumetric tax were imposed on wine, at the level of the current full-strength beer rate, our analysis shows that over 82pc of wine will increase in

¹⁰ Anderson, K (2014), "Excise Taxes on Wines, Beers and Spirits: An Update International Comparison", Working Economics Research Centre, Working Paper No 0214.

price¹¹. This in turn will lead to an increase in the cost of affordable wine for the everyday Australians doing their weekly shop, leading to decreased wine sales, a decrease in grape purchases, and eventual job losses at a time when regional unemployment is at an all-time high.

Wine is different

It is also worth noting that wine is quite different to beer and spirits in a variety of other ways, which make it vulnerable to any change in taxation. These differences have recently been highlighted by the WFA¹²:

- Wine is the only net exporter, exporting about \$2 billion per annum (12 times more than spirits and 39 times more than beer);
- Wine is the least consolidated sector;
- Wine is more capital intensive than beer;
- Invested capital required to generate \$1 of profit is higher in the wine industry;
- The wine industry needs a higher level of working capital than beer and other beverages; and
- Average return on invested capital for wine is less than 1pc, in contrast beer is 20.3pc .

Finally it is worth mentioning retail margins. Retailers generate more margin on wine sales than they do from beer and spirits. For example, Woolworths Liquor Group earns 2 to 3 times more margin on wine than beer. This reflects the highly fragmented Australian wine industry structure and the ease of the large retailers passing costs back to wine producers .

In light of the current balance of retail power in the Australian wine industry, we anticipate that any increase in the cost of wine (that may occur if wine taxation were to increase) would be taken by the wine producer (and not passed onto the consumer or borne by the retailer), further eating into the already small profit margin of the industry and reducing any possible positive social policy outcome claimed by the anti-alcohol lobby.

¹¹Aztec Australia Liquor Weighted MAT to 22/03/15.

¹²Winemakers' Federation of Australia, *Why should wine continue to receive a differential tax rate compared to other alcohol types?* Adelaide, 2015, page 5.

This change would be catastrophic as the industry is still undertaking a restructure and grappling with an oversupply of grapes.

Impacts on Statutory Marketing and Research organisation

Changing to a volumetric tax would also have significant unintended impacts on the industry's capacity to fund research and development.

The industry's statutory research, development and promotional body, the Australian Grape and Wine Authority (AGWA) derives its operating funds from four primary sources:

1. Market development funding

- a. Wineries pay the promotion component of the wine grapes levy in a stepped amount per tonne. The promotion component is payable on grapes delivered to a winery once the threshold of 10 tonnes has been reached.
- b. Wine businesses also pay the Wine Export Charge on wine produced in and exported from Australia. The amount of levy payable is based on the free-on-board (FOB) sales value of wine for the levy year.

2. Regulatory funding

Regulatory activities are funded on a cost-recovery basis through activity-based fees.

3. RD&E funding

The grape research levy (grapegrowers pay \$2 per tonne of winegrapes crushed) and the R&D component of the wine grapes levy (wineries pay \$5 per tonne of winegrapes crushed) are matched dollar-for-dollar by the Australian Government.

4. User-pays activities

Wine businesses, regional associations and state governments pay voluntary contributions to participate in market development activities.

In the event that a volumetric tax were introduced, the decimated domestic wine sales would flow through to a reduction in tonnage crushed and therefore to the levy revenues funding AGWA. The result would be significantly lower investments in research and development (which would be further impacted through the reduction in Federal dollar for dollar matching) and have equally devastating outcomes for Australian wine promotion both in export markets and domestically.

Accolade Wines completed a detailed submission to the Federal Government's tax review discussing the need to retain the current wine tax system. We are happy to submit this document to the inquiry for information, if desired.

Advertising

Accolade Wines considers that the existing regulatory regime for alcohol advertising in Australia combined with the voluntary commitments made by the majority of the country's major wine producers ensures that wine advertising meets accepted social standards in that it is not targeted at minors, at risk groups or in ways that encourage alcohol abuse or promise outcomes beyond the enjoyment of an alcoholic beverage.

Further regulation of advertising in Australia would be onerous and would contribute little in the way of social or health benefits.

There is little evidence to suggest that there is a need to increase controls on advertising as alcohol consumption in Australia recently reached 50 year lows¹³.

Accolade Wines, in common with other major wine producers is a signatory to the existing Alcohol Beverages Advertising (and Packaging) Code (ABAC) scheme, through our membership of the Winemakers' Federation of Australia.

The ABAC Scheme involves all major Australian alcohol beverage industry associations and key advertising, media and consumer bodies and includes Federal Government representation.

To summarise the Code aims to reflect community expectations and "present a mature, balanced and responsible approach to the consumption of alcohol beverages... not have a strong or evident appeal to children or adolescents... not suggest that the consumption or presence of alcohol beverages may create or contribute to a significant change in mood or environment.."

Accolade Wines is one of the many major responsible companies that submit advertising to ABAC's Alcohol Advertising Pre-vetting Service before publication to ensure that we do not inadvertently breach ABAC guidelines.

We find the ABAC pre-vetting process, which is a user pays scheme, is a useful filter and adjunct to our own internal vetting processes. If the ABAC pre-vetting process identifies a potential issue that we had not considered in putting together a marketing campaign we amend our concepts to address the potential issue before our material is exposed to the public.

We believe that the ABAC pre-vetting process is significant in ensuring that there are relatively few complaints to the Advertising Standards Bureau about alcohol

¹³ Australian Bureau of Statistics, *Apparent Consumption of Australian Alcohol, 2013 -2014*, Canberra 2015.

advertising. In 2013 according to ABAC there were 182 complaints received in relation to 78 advertisements or packages.

Liquor Licensing

One of the areas of regulation that causes confusion for the wine industry relates to liquor licensing which is controlled by state authorities.

Licensing regimes differ a from state to state but of equal concern across regimes are the constraints placed on wine retailers, without resort to public review or with little possibility of intervention.

For example in South Australia it is now routine for police authorities to oppose changes to liquor licenses or the issue of new liquor licenses, hence an established cellar door seeking to change its license to allow more frequent entertainment activities may face opposition, simply on the basis that every change to an application is opposed.

While the South Australian government has supported the development of a 'vibrant laneway' culture within Adelaide by considering innovative licensing structures there has been less support for existing businesses seeking to extend their offering.

Code of Conduct

Accolade Wines is acutely aware of the need for sound relationships between grape growers and winemakers, particularly as we more than any other large winemaker rely on external contracts, with only 5pc of our grapes sourced from our vineyards.

For this reason we were one of the original signatories to the Wine Industry Code of Conduct (the Code), which was jointly developed winemaker and grapegrower organisations.

We strongly hold that a voluntary code, regularly reviewed and agreed by winemaker and grapegrower organisations and broadly adopted by industry is the most effective mechanism to ensure good conduct within the industry.

Government intervention in price setting mechanisms is not consistent with ensuring a strongly competitive international industry, would conflict with international treaties and would undermine Australian free market tenets. The diversity of the industry also precludes a standard industry contract although recommended clauses and payment terms as recommended in the Code are useful guides for growers and winemakers.

4. Grape grower profitability and steps to enhance profitability

Low profitability is an issue for the whole industry - wine producers, suppliers and grape growers. It is unlikely that grapegrowers returns will be increased without seeing greater profitability return to the industry generally.

As noted in section 2, Centaurus Partners 2013 review of the industry found that gross margins for the whole industry had diminished substantially since 2007.

Accolade Wines is taking steps to enhance grower profitability by developing new markets and strengthening key brands in significant markets such as the UK.

Over the past three years Accolade Wines has significantly increased its investment in the Hardys brand to increase consumer loyalty and to allow the growth of profit margins for the brand.

This process will not eventuate in higher grape prices overnight, but will require investment over years if not decades to build the brand.

Accolade Wines has taken a series of steps over the past five years to improve the efficiency of its business.

These steps have included the sale or removal of vineyards, the mothballing of brands and the closure or sale of wineries (Stonehaven, Coonawarra; Leasingham, Clare; Amberley, Margaret River).

We also took the extremely challenging decision to shutdown our own bottling, packaging and warehousing operations at Reynella, our headquarters in South Australia, entering into a partnership with Treasury Wine Estates (TWE) which saw them bottling for us in Australia, while we bottled TWE products in the United Kingdom.

This decision was a most difficult one for the company as it resulted over 270 redundancies at the Reynella site, involving many employees who had served the business for decades. The decision was driven by the businesses' need to achieve broader efficiencies so that we could remain competitive in tough export and domestic markets.

5. Impact and application of wine equalisation tax rebate

Accolade Wines supports the WFA position on the WET Rebate, which is a recommendation that the government review the operation of the rebate to move it closer to its original intent of safeguarding regional wine businesses and cellardoor, by removing the rebate on bulk and unbranded wine.

WFA's position will be articulated in detail in its submission to the Federal Government Inquiry on the WET Rebate, launched in May 2015 as an adjunct to the Government's broader tax review, Re:think.

We support WFA's stance that while the rebate should be retained as it is an important revenue source for small and medium winemakers, there is room for reform.

Concerns about the WET rebate have been driven by the fact that although the amount of wine produced has remained relatively static the number of claimants has increased substantially, with an average annual increase according to WFA estimates of close to 12pc.

The availability of the rebate on bulk and unbranded wine has served to drive down wine prices as producers seek margin by claiming the wet rebate on grapes processed and sold as bulk and unbranded wine, which then is available as retailers' own brands in competition with branded wine producers who have the additional costs of supporting their brands through marketing and promotion.

Retaining the WET rebate while reforming it would tackle the problem of wine price intervention while preserving the benefit of the rebate's original intent, maintaining a diverse regionally based industry that is a major source of income in regional areas both directly and indirectly through the tourists that winery cellardoor draw to their regions.

The broad availability of the WET Rebate has helped fuel the growth of retailers own brands, which compete against branded wine sales.

Private label wines, which unlike the grocery sector, are not labelled as store brands, now make up nearly 18 pc¹⁴ of the retail market by volume, but as can be as high as 30 pc in some of the major retail chains

¹⁴ AZTEC MAT, April 19, 2015

6. Industry representation at regional, state and national level

There is a significant degree of duplication within the wine industry in relation to representation at the national, state and regional level.

Accolade Wines pays both statutory and voluntary fees at all levels.

National

Australian Grape and Wine Authority

At the national level we contribute to the statutory marketing, research, development and regulatory authority, the Australian Grape and Wine Authority (AGWA) through a range of fees:

- the promotion component of the Wine Grapes Levy in a stepped amount per tonne.
- the Wine Export Charge on wine produced in and exported from Australia. The amount of levy payable is based on the free-on-board (FOB) sales value of wine for the levy year.
- the Grape Research levy (\$2 per tonne of winegrapes crushed that we produce) and the R&D component of the Wine Grapes levy (\$5 per tonne on all winegrapes crushed).
- regulatory fees on a cost-recovery basis, per activity.
- Pay-to-play contributions for specific market development activities.

Accolade Wines contributes more than \$2 million annually to AGWA, predominantly through the Winegrapes Levy, the Wine Export Charge and regulatory fees, however we also participate in specific market development activities, working closely alongside AGWA.

We have a strong relationship with the AGWA, often working cooperatively to address specific trade issues.

Winemakers' Federation of Australia

We are also members of the Winemakers' Federation of Australia (WFA), paying a voluntary membership levy. We are active members with direct representation on WFA's board, as part of the large winemakers group, and also through representation on various sub-committees such as environment, packaging and so on.

State

At the state level we voluntarily contribute to the West Australian, South Australian and Tasmanian state wine associations.

We do not contribute to the New South Wales, Queensland or Victorian wine associations as we do not have a significant presence in any of those states.

Regional

We currently¹⁵ contribute to regional associations in those regions where we have significant involvement:

- WA: Swan Valley and Margaret River
- SA: Riverland, Barossa Valley, McLaren Vale and to a lesser extent Clare Valley and Adelaide Hills

Efficiency

We are concerned that the multitude of representational levels is not an effective use of industry resources. We are working closely with industry bodies to cooperatively achieve better industry structures and as such welcome the proposed industry summit in August, which will address the issue.

Despite the concern expressed above we do feel that our industry organisations generally function well. We strongly support WFA and the state and regional organisations, but encourage them to avoid duplication of effort.

When industry organisations have agreed a future structure there may be capacity for government to assist by provide a framework for fee collection in a similar manner to existing industry levy structures, implemented at state and national level.

¹⁵ At the moment the WA Wine Industry Association is negotiating with the WA Government to introduce a new levy system which would see our business contributing to regional associations in the Frankland River and Great Southern regions

7 AGWA Levy collection information

AGWA is funded principally through levies that are collected under the Primary Industries Levies and Charges Collection Act 1991, by the Department of Agriculture.

Currently it costs close to a \$1 million to collect around \$18 million in levies.

AGWA considers that it can reduce the cost of collection substantially by collecting they can make a substantial cost saving from collecting the export levy directly, given they already operate an export licence system and collect FOB export values through their Wine Export Approval System.

AGWA suggests this reform will deliver a more efficient and effective savings of approximately \$200K to \$250K per annum being available to provide enhanced services for the grape and wine sector.

AGWA understands that the Primary Industries Levies and Charges Collection Act 1991 provides the Secretary of the Department with power to authorise another body such as AGWA to assume responsibility for levy collection, provided the relevant industry bodies are consulted before changes are made.

WFA and the Wine Grape Growers of Australia (WGGA) have both expressed their support for this initiative and we endorse their position.

8. Power and influence of retailers

Over the past decade there has been a significant consolidation of retailers, within Australia.

Centaurus Partners in its research for WFA, estimated that Coles and Woolworths liquor groups between them sold up to 77pc of all wine sold off premise (retail chains) in 2013 an increase from about 60pc in 2007.

In contrast to the highly concentrated retail sector the wine production sector is highly fragmented with just under 2500 wine producers¹⁶ and over 30,000 retail stockkeeping units (skus)¹⁷. The four largest Australian wine producers account for just 40.8pc of the industry by revenue, in contrast the top two beer producers account for about 65pc of industry revenue¹⁸

The virtual oligopsony amongst retailers and the fragmentation of the wine production segment, exacerbated by the vertical integration of the bigger retailers creates an extremely challenging retail environment.

The degree of challenge is not likely to diminish, even as new retailers such as Aldi enter the market.

As a major supplier to the UK market, where we are the largest wine company, we have closely observed the impact of the entry of Aldi and Lidl into the retail environment. While greater competition has delivered lower prices to consumers to date it has been funded by further reduced margins for suppliers.

Our experience has also shown that the private, or store label, category has grown as retailers strive to deliver cheaper products to the consumer who has relatively little brand loyalty.

¹⁶ Winetitles, *Australian Wine Industry Directory*, Adelaide, March 2015 2481 producers

¹⁷ Centaurus Partners (2013), *Wine Industry Report: Expert Report on the Profitability & Dynamics of the Australian Wine Industry*, (August, 2013), P 27

¹⁸ Winemakers Federation of Australia, '*Submission to the Australian Government's Review of Taxation*' 2015 p17

9. Adequacy and effectiveness of market signals

It is generally agreed that effective market signals are required to allow market supply and demand to align in an efficient manner.

Clearly, the Australian wine market has not aligned supply and demand over the past decade as grape production continues to exceed demand levels.

AGWA and Riverland Wines are funding a pilot project to try and create a web based information source to help growers better understand world supply demand, and domestic supply/demand conditions.

Accolade Wines supports this approach however, we would caution that even with a broader range of data available a certain degree of experience and expertise will be required to interpret the data.

The operation of the Australian Stock Exchange with data freely available on a daily basis and mandated disclosures of material information is a clear demonstration of the difference between the availability of data and difficulties in interpreting that data for long (or even short-term) decision making.

10. Extent of benefits for regional communities

The wine industry is a significant contributor to regional economies as its production base is almost entirely regional with wineries located in close proximity to vineyards.

The wine industry is Australia's fifth largest agricultural exporting sector, in the 12 months to the end of March 2015 wine exports were worth \$1.85 billion¹⁹.

The industry is comprised of around 2,500 individual wineries and some 6,300 grape growers over 65 distinct wine-producing regions across Australia. The industry directly employs approximately 16,122 people, again, mostly in regional Australia.

Grape purchases remain the single highest expenditure for our business, and the majority of those funds are retained in the regions.

In addition, Accolade Wines directly employs 445 people directly in its cellar doors and wineries which operate in three states.

In WA there are two wineries. Historic Houghton, has been at its site in the Swan Valley for close to 180 years, as a result the cellar door is a significant regional attraction. We have a cellar door at Brookland Valley in the Margaret River region and a winery at Nannup further south-east which crushes grapes from Margaret River, Frankland and Great Southern regions for a number of our labels.

Our major winery at Berri in South Australia is one of the largest in the Southern Hemisphere, but we also have smaller wineries in the Barossa Valley (Grant Burge Wines) and at McLaren Vale, which is the historic home of the Hardys brand, and one of the first wineries in the region.

In South Australia, we have cellar doors at Banrock Station in the Riverland, at Grant Burge Wines in the Barossa and at Hardys in McLaren Vale.

We also have a winery and cellar door at Bay of Fires in north-eastern Tasmania.

Banrock Station's winery and wetland complex provides a destination for over ninety thousand visitors annually, and is recognised as a major drawcard for the region.

Banrock Station has one full time manager supported by eight casual workers, two permanent part time, one full time Wetland manager and one full time Ranger. Our on-site caterer has three permanent chefs with eight casual workers.

¹⁹ Australian Grape and Wine Authority, *Wine Export Approval Report March 2015*, May 2015

In recent years there has been a trend to open “cellar doors” in metropolitan areas, however the vast majority of cellar doors are true to name located in close proximity to operating wineries.

We have plans in hand to significantly upgrade our operations at Hardys in McLaren Vale so that it too can attract similar numbers of visitors to the region. As one of Australia’s best known international wine brands Hardys has the capacity to draw as many visitors as Banrock Station, if not more with its closer proximity to Adelaide.

The capacity of our cellar doors to draw visitors is not unique with WFA estimating the industry contributes \$8.2 billion in tourism expenditure.

Tourism Australia figures for the year ending September 2014, indicated there were 696,602 international visitors to wineries. This is up by 1% from the previous year and represents 11% of the tourism market. The estimated overall visitor expenditure, both from international and domestic visits, is AU\$8.20 billion.

11. Other issues

Accolade Wines is an original signatory to the Wine Industry Code of Conduct (the Code). The Code was developed jointly by winemaker and grapegrower organisations in 2009 and is supported by the Australian Government's Department of Agriculture, Fisheries and Forestry.

The Code establishes a common Australian wine grape supply contract framework; and provides a dispute resolution system to manage disagreements which arise over price or quality assessments.

The vast majority of Accolade's contracts with growers require us to offer our best estimate of a fair market price for the grape variety being purchased. In seeking to offer a fair market price we take account of industry conditions like levels of stock and likely remaining surplus wine from prior vintages, prevailing market prices for bulk wine both domestically and internationally and our best estimate of likely demand for each varietal from the region.

Under the Code and our contracts any grower who is dissatisfied with the price offered is entitled to dispute the price and refer it to expert determination.

12. Conclusion

Accolade Wines contends that low grape prices in some wine regions in Australia are not the result of market failure, but are in fact the result of an efficient market, in economic terms, reflecting changes in demand and competing sources of supply.

There are a range of factors in play that have both influenced demand domestically and abroad, and also supply both domestically and abroad.

The government, rather than intervening in the market, should address its attention to supporting people and communities and, where appropriate, assisting the transition to new income sources.

We thank you for the opportunity to provide comments on the wine industry in Australia. We note that this is just the beginning of this process and we look forward to further discussion on the issue.