

Regional Development and Decentralisation Submission

Company Brown Brothers Milawa Vineyard Pty Ltd.

Background – Brown Brothers

Brown Brothers is a third and fourth generation regional business founded in 1889 and located in North East Victoria with domestic and export markets with a turnover of \$110M and employing 200 regionally and 320 in total. The company owns vineyards, manufactures wine that it sells and markets in the domestic and export markets. Cellar door tourism is one of our key marketing initiatives initially at Milawa in North East Victoria, but also at our Tasmanian home for the Devils Corner and Tamar Ridge brands. We also own the Innocent Bystander brand in the Yarra Valley where we have a new cellar door attracting upwards of 250,000 visitor's per year.

In total we draw more than 400,000 visitors to our cellar doors, all regionally based. Hence we see ourselves as being a leading example of active Regional Development and Decentralisation. We create employment in vineyards, also winemaking, bottling packaging and marketing, resulting in front line and executive staff across a multitude of disciplines largely regionally based.

We are but one example of how the Australian Wine Industry drives tourism, creates regional employment and generates sales of a life style product within Australia and overseas. Every bottle of wine exported is equivalent to an Australian Post card inviting visitors to regional Australia.

Current Opportunity - Prosecco

Our principal Victorian growing area, the King Valley, is the Australian home for Prosecco. There is a new fashion shift in consumers drinking to Prosecco. It is a \$60M category with the King Valley having a 50% market share. We estimate that this can grow to \$200M in the next 6 years but this will require both Federal and State government assistance.

Ultimately Prosecco in the King Valley could be as significant as Sauvignon Blanc is to Marlborough in NZ. (that has claimed 45% market share of Australian white wine production). This is a very significant opportunity and the ramifications for Regional Development is huge for production but also in driving a life style tourism boom.

Federal & State Government Action

There is a real threat that from current FTA negotiations' that the use of the name Prosecco could be compromised by commercial demands by the Italian industry. There is a serious lack of knowledge in Canberra about this enormous regional growth opportunity as it has

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emerged relatively quickly, and there is a fear it could be negotiated away at the stroke of a pen. Export to Asia and China is immediately under threat. We foresee that this category has the potential of having the value of \$500M to the Australian wine industry. If this was to occur there would be a huge loss and industry disruption.

Recommendation: That the Department of Trade in their EU FTA negotiations be directed not to yield to pressure to accept Prosecco as a name owned by Italy but maintain that Prosecco is a grape variety in the same way as Chardonnay and Shiraz. We need unfettered market access domestically and internationally.

Current Opportunity – Prosecco 2

The growth of Prosecco has enormous benefit both to the Australian Wine Industry and the King Valley region that currently has a 50% market share of the domestic Prosecco category, and growing at 56%.

The region has done it tough for the last 10 years with many uneconomic vineyards however the Prosecco phenomena is seeing these vines grafted back to profitability. Significant bottling and winemaking capacity investment will be required to maximise the opportunity. Tourism around Prosecco Road, an area marketing collective, will also be need funding to leverage the lifestyle consumer engagement of the visitors.

Federal & State Government Action

The allocation of significant funds to be available from both through State & Federal agencies where there is a significant regional and individual company opportunity to capture major new growth. Given 10 years of depressed industry conditions in this Region it is very difficult for individual businesses to finance new vineyards, as well as invest into winemaking, packaging and marketing. The Economic regional value of this proposition is very significant and will only be fully leveraged by external funding.

Recommendation: Ensure structured Federal Funds are available for Regional Growth Opportunities where there is demonstrated broad Regional Economic Benefit.

Current Opportunity – Research & Development

In Brown Brother's centenary year the company built a Kindergarten winery, a small, scaled-down, state of the art winery for doing R&D focused on consumer taste. This is a unique to Australia and there are perhaps only a couple like this globally.

Today Brown Brothers is regarded as the leader in bringing new and different wines to market. Today 70% of the varietal wines we sell we did not make 30 years ago. We have

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emerged as the category leaders in Moscato, Prosecco, and fruity Red wine. This is a total different offer to our peers, who still rely on Shiraz, Cabernet and Chardonnay as their prime offer. We also take these unique offerings to our Export markets especially China, with encouraging success, as our global competitors are focused on tradition rather than consumer taste.

In the past we have had some access to Federal Government R&D deductions however over the last 3 years the process has become onerous beyond commercial value. Significantly R&D has its focus around developing IP and fails to recognise this has little value unless taken to market. This is a major cost and often the stalling point for commercial success.

Federal & State Government Action

Current R&D legislation is geared to the large organizations making it virtually impossible for smaller businesses to access support. It is the small agile businesses that often create the leading new ideas, as we have experienced at Brown Brothers. Bring new IP to market where the pay-off lives, is not recognised, and in export markets it is even more difficult, given lag times from introduction. The current R&D support needs to be greatly simplified so smaller organizations can access support. It also needs to recognise that marketing is a critical component of the R&D process, with a special emphasis to export.

Recommendation: Redesign R&D support through the eyes of small agile enterprises and ensure it embraces not only research but also supports initial marketing entry.

Current Opportunity – Wine Taxation

For a life time Wine Taxation has been the most destructive Government sponsored threat to our industry creating disruption and uncertainty. In the last 12 months legislation maintaining a WET rebate at \$350,000 and a regional development fund of up to \$100,000 per company has been established. There has also been a \$50M wine growth fund established for the next 3 years that has a strong export focus. This structure has broad industry support, creating an environment and frame work that allows us to invest, and get on with our domestic and export business.

Federal & State Government Action

To create long term certainty for industry taxation, recognising we are firstly a weather dependant farming enterprise, with long lead times, having a regional manufacturing base and is an enormous tourism facilitator. Furthermore have an export base that exceeds \$2.9B.

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Recommendation: Ensure Wine Industry Taxation is strategic, both in implementation and support, especially around Regional Development and Export.

Current Opportunity – Regional Tourism Infra Structure

Driving regional tourism is generally limited by infra structure to accommodate and to engage the visitor. The biggest growth of inbound tourism is from Asia with few travelling more than 100 km from State capitals.

To grow inbound and local tourism compelling regional destinations is the key, and this must have high quality lifestyle accommodation, restaurants and engaging facilities. This involves significant capital investment, ahead of engaging with the customer and hence a classic chicken and egg dilemma. I can't get customers unless I invest, I can't invest until I have customers?

Federal & State Government Action

Historically accelerated depreciation by Government has driven targeted investment in areas of specific need, resulting in significant commercial activity with a defined national investment return. Introducing accelerated depreciation on tourism infra structure would result in fast tracking investment and increased tourism engagement. The current level of investment in Regional Tourism Infrastructure is totally inadequate in meeting known future demand, resulting in the employment opportunity and regional relocation being missed.

Recommendation: Instigate accelerated depreciation of Regional Tourism Infra Structure based on post codes.

Thank you for the opportunity of making some high level observations and recommendations as Regional Growth and Decentralization is close to our heart.

If I can personally present these ideas at any time it would be my pleasure.

Ross Brown