

**Submission to the Foreign Affairs, Defence and Trade Committee
on the Free Trade Agreement between Australia and Korea**

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Introduction

On 27 March 2014, the Senate referred matters relating to the Korea-Australia Free Trade Agreement to the Senate Foreign Affairs, Defence and Trade References Committee for inquiry and report. This submission to the Foreign Affairs, Defence and Trade Committee on the Free Trade Agreement between Australia and Korea is being made on behalf of the Australian Wine sector by the Winemakers Federation of Australia.

The Winemakers' Federation of Australia (WFA) is the national peak industry body for Australia's winemakers.

Our objectives are:

- to represent the interests of Australian winemakers and grape growers of all sizes on national and international issues affecting the Australian wine sector, through a single organisation;
- to actively promote and protect the reputation and success of the Australian wine sector;
- to encourage unanimity of opinion and action amongst Members in all national and international matters pertaining to the Australian wine sector;
- to initiate legislative or other regulatory activity, or government response or action, or otherwise facilitate any outcomes, deemed desirable by the Association for the benefit of the Australian wine sector in Australia;
- to provide a medium through which opinions of Members may be ascertained or expressed;
- to provide relevant information to Members;
- to foster co-operation and goodwill between viticultural and oenological research and education bodies and all other bodies relevant to the Australian wine sector;
- to encourage good practice and standards of winemaking and wine business management within the Australian wine sector;
- to administer funds collected from Members in support of the activities and objects of the Association;
- to protect and enhance community and Government support for the Australian wine sector;
- to promote economic, environmental and social responsibility in the production and consumption of wine in Australia; and
- to promote the interests of the Association and to do all such other lawful things as the Association may consider incidental or conducive to the attainment or advancement of the objects of the Association.

WFA is incorporated under the *SA Associations Incorporation Act 1985* and is a representative organisation for the purposes of the *Primary Industries and Energy Research Development Act 1989*. We are recognised by the Australian government as representing the interests of all winemakers – the levy-payers who fund the Grape and Wine Research and Development Corporation.

Wineries and exporters fund the Wine Australia Corporation. For the purposes of the *Wine Australia Corporation Act*, the WFA is a declared winemakers' organisation representing the interest of all winemakers. Government recognition of WFA as a representative organisation is on the basis that WFA represents the whole of the winemaking sector including non-members.

WFA membership represents over 80% of the national wine grape crush and we have over 370 wineries as members.

WFA represents small, medium and large winemakers from all across Australia's wine making regions. The Board is made up of equal representation from each of these groups and reflects the diversity of the industry itself. Any policy decision made by the Board requires 80% support, meaning that no sector can dominate the decision-making process. In practice most decisions are determined on a consensus basis.

WFA works in partnership with the Australian government and our sister organisation Wine Grape Growers Australia (WGGA) to develop and implement strategy and policy in the wine sector's interest.

The Federation's activities are diverse but centred on our core activities of providing leadership, strategy, advocacy and support for our members and the broader industry

Background

The wine industry has earned the reputation of being one of Australia's most significant globally competitive industries. This achievement reflects decades of investment, hard work and collaboration by winemakers and growers and many others across Australia. This international reputation and collaborative approach will be an advantage when competing in new markets well into the future.

Wine is a truly value-added Australian Export. No other commodity carries its Australian heritage in quite the same way as a bottle of wine. Australians are rightly proud of their wine industry and how it has managed to take on the Old World and produce wines of exceptional quality across all price points.

The wine industry is also a significant contributor to the national economy both in terms of creating direct and indirect employment, and generating export and tourism revenues. In 2012-13, it was estimated that the industry directly employed more than 16,000 people in grape growing and winemaking activities. Both export volume and value grew by 3% and ranked the industry 6th among the country's major agricultural, fisheries and forestry commodities exports.

The wine industry also continues to significantly contribute to tourism. For year ending September 2013, there were 684,018 international visitors to wineries. This is up by 3% from the previous year and represents 12% of the tourism market. The estimated overall visitor expenditure, both from international and domestic visits, is AU\$7.68 billion.

Detailed data on the industry can be found in Table 1.

Snapshot of the Australian Wine Industry			
Wine Producers			
Wineries		Value	% change over last 12 months
2012	number	2,572	1.6%
# Increase	number	40	
Wineries by Size of Crush (2012)			
< 500 tonnes	number	2,243	1.9%
500-4,999 tonnes	number	173	-6.0%
5000-9,999 tonnes	number	16	-11.1%
>=10,000	number	31	0.0%
Unspecified	number	109	12.4%
Direct Employment			
2012-13	number	16 055	-2.3%
Viticulture			
Winegrape Crush			
2013	'000 tonnes	1 830	10.6%
Winegrape Price			
Australian average, all varieties (2013)	\$A	499	9%
Environment			
Water Use (2012-13)			
Megalitres per hectare	ML	2.52	21.7%
Beverage Wine Production			
2012-13	million litres	1 231	0.4%
Sales & Trade			
Domestic Sales - Volume			
2012-13	million litres	455	-0.9%
Domestic Sales - Value			
2012-13	\$A million	2 369	-5.2%
Imports - Volume			
2012-13	million litres	84	2.2%
Imports - Value			
2012-13	\$A million	577	8.8%
Imports share of domestic market			
2012	%	19	
Exports - Volume			
2012-13	million litres	684	3.0%
Exports - Value			
2012-13	\$A million	1 781	3.0%
Exports - Value per Litre			
2012-13	\$A/litre	\$2.61	0.0%
Wine as % of total value of crops export (fob)			
2012-13	%	8%	
Wine Exports' Ranking on major agricultural, fisheries and forestry commodities exports			
2012-13	ranking	6th	
Australian Wine's Contribution to Value of World Wine Trade (2012)			
Ranking	ranking	4th	
%	%	6%	
Tourism			
International visitors to wineries (2013)	no.of people	684 018	3.0%
Domestic visitor overnight trips to wineries (2013)	no. of trips in '000	2 672	14.6%
Estimated tourism revenue generated from international and domestic visits (2013)	\$A billion	7.68	8.6%
Consumption			
Wine Consumption Per Capita			
2011-12	litres	29.89	0.40%
Taxation			
Net Wine Equalisation Tax 2012-13	\$A million	445	-0.7%

Sources: ABARES Commodity Statistics, Australian & New Zealand Wine Industry Directory, IBISWorld Industry Report, Tourism Australia, Entwine Member Database, ABS Domestic Sales and Import Statistics and Wine Australia Export Approval Database via Winfacts Statistics; ABS Catalogue No: 1329.0 Australian Wine and Grape Industry, ABS Catalogue No: 8504.0 Shipments of Wine and Brandy in Australia by Australian Winemakers and Importers, ABS Catalogue No: 4307.0.55.001 Apparent Consumption of Alcohol, Wine Australia and Treasury (Budget and Mid-year Economic and Fiscal Outlook)

Australia-Korea FTA

The Korean economy, comprised of almost 50 million consumers, has been growing rapidly for decades and is now placed among the developed economies, with per capita income above those of many European countries and nearing that of Spain. As a relatively large and

relatively high-income country with a well-developed food and fibre distribution system, Korea is a major market for agricultural goods. As the country has become more developed overall, Korean agriculture has increasingly been losing competitiveness. Korea is now an urban country with relatively little arable land per capita. Because per capita income is high by world standards, Korea's many small farms have relied on high domestic commodity prices to maintain farm incomes comparable to the rapidly improving urban incomes. Nonetheless, farm population is aging rapidly and agriculture as a share of the population and the economy has been declining rapidly.

Despite high import tariffs, tight import quota quantities and restrictive sanitary and phytosanitary regulations, South Korea has become a major agricultural importer, with imported products comprising an increasing share of the food consumption expenditures. Korea is an important export destination for many products. With lower import barriers that accompany a Korea -Australia Free Trade Agreement, there is a significant potential for expanding Australian wine exports to Korea.

Korea has experienced phenomenal change in the last half century. It has gone from an extremely poor agrarian economy using 19th century technology at best, to a wealthy modern society at the cutting edge of applied science and with some of the world's most advanced technological firms dominating the economic landscape. In two generations, Korea went through changes that took 100 years or more in the United States and Europe. As GDP doubled, and then doubled again and again, annual income went from only a few hundred dollars per capita to more than \$21,000 per capita now. Meanwhile, manufacturing and services expanded and the share of agriculture in the economy declined from about 30 percent in 1970 to just over 3 percent now.

The changes in eating patterns in Korea were equally rapid. As recently as 1982, about 32 percent of monthly food expenditures was spent on cereal (mostly rice) consumed at home. By 2005, that share had fallen to just six percent.

Consumption of all other products at home, except processed products, has also fallen somewhat, while food consumed away from home has jumped from just six percent of monthly expenditure to about 46 percent (Choi). The huge shift in expenditures on food away from home also indicates the nature of Korean society where most people live in urban area apartments. They spend long hours away from home at school, work, commuting and at other activities. Of course, much of the food expenditures away from home are for food preparation and related services that are not included in food costs for home consumption.

Australia is the sixth-largest wine exporter to South Korea. Australian sparkling, red and white wines are currently subject to a tariff of 15 per cent but wine from the US, EU and Chile enter duty free. The FTA will provide a boost to the wine industry, whose exports to Korea have been steadily decreasing since 2007. With this deal, Australian wines have the best chance to take advantage of a growing market.

INVESTOR-STATE DISPUTE RESOLUTION

Investor-state dispute resolution clauses are found in a number of international trade agreements. Typically these clauses empower businesses from one country to take international legal action against the government of another country for alleged breaches of the agreement, such as for policies that allegedly discriminate against those businesses and in favour of the country's domestic businesses. The rules most commonly referred to are

those developed by the International Centre for Investment Disputes (ICSID). Australia has ratified the ICISID convention which means Australia must enforce arbitral awards.

In the past, Australian Governments sought the inclusion of investor-state dispute resolution procedures in trade agreements with developing countries at the behest of Australian businesses. From a wine sector perspective, inclusion of investor state provisions in FTAs give some protection against sovereign risk due to the introduction of social engineering policies and legislation.

A significant number of investor-state cases taken under NAFTA have involved environmental regulation. However, tighter drafting of provisions in more recent FTAs have largely overcome the issues that concern our government, and we have no concerns with these provisions.

Conclusion

WFA has publically welcomed the finalisation of negotiations with Korea on the Free Trade Agreement. The elimination of the 15% tariff that Australian wine faces in Korea will bring us into line with our key competitors Chile, the EU and USA who pay no import tariff by virtue of their Free Trade Agreements and have gained market share at our expense as a result.

We would like to urge the government to ratify the agreement rapidly. Korean wine consumption is expanding rapidly as the burgeoning middle-class starts to appreciate Australian wine. Australian winemakers have already identified this opportunity and are working hard to exploit it. Currently Australia is the 6th highest importing nation into South Korea, by value, with a 5.7% share of total imports behind France, Chile, Italy, USA and Spain. For the Republic of Korea, the fall in the retail price due to the elimination of tariffs is expected to stimulate stronger demand for Australian wine.