

SUBMISSION 11 – Winemakers Federation of Australia

Submission to the Joint Standing Committee on Treaties on the inquiry into the *Free Trade Agreement between the Government of Australia and the Government of the People's Republic of China* (Canberra, 17 June 2015).

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Introduction

The export market has always been critically important for the Australian wine industry. In 2012, 64 per cent of the wine produced in Australia was destined to be exported to other markets. What we are seeing now, however, is a step change in the opportunities presented to winemakers as the burgeoning middle-class in many Asian countries starts to appreciate Australian wine.

China has doubled its consumption of wine twice in the past five years and is expected to overtake the U.S. as the world's largest consumer of wine in 2016. China is now the third biggest export market for Australian wine, behind the UK and US. Exports to China were valued at \$242 million in the 12 months to March this year. Asia continues to be a key driver of growth with more than half of exports in the above A\$7.50 per litre segment shipped to Asian markets (up 13 per cent) with the average value of exports to Asia A\$18.77 per litre.

Growth in the last five years has been 8 per cent for volume and 17 per cent for value and Australia currently has the highest average-valued wine exports to China of the 10 largest bottled wine suppliers to that market. Overall exports to China were up 20 per cent last year to 44 million litres. Bulk exports increased 77 per cent to 5 million litres while bottled exports experienced record growth, up 15 per cent to 39 million litres.

Australian winemakers have already identified this opportunity and are working hard to exploit it. Whether it's through targeted marketing campaigns, building relationships with suppliers in key Asian markets or even making sure that the wines we are exporting are right for the market they are destined for the industry is proving itself nimble enough to take advantage.

The China-Australia Free Trade Agreement (CHAFTA) will provide a perfect opportunity to capitalise on the growth opportunities for wine into China

Who we are

The Winemakers' Federation of Australia (WFA) is the national peak 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 Australian Wine and 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 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.

Government recognition of WFA as a representative organisation is on the basis WFA represents the entire Australian winemaking sector, including members and non-members. WFA is recognised as a representative organisation under the *Primary Industries and Energy Research and Development Act* and the *Australian Grape and Wine Authority (AGWA) Corporation Act*. WFA is incorporated under the *SA Associations Incorporation Act 1985*.

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

WFA represents small, medium and large winemakers from across the country's wine-making regions, with each having a voice at the Board level. WFA Board decisions require 80% support so no one sector can dominate the decision-making process. In practice, most decisions are determined by consensus.

WFA works in partnership with the Australian Government and our sister organisation, Wine Grape Growers Australia (WGGA), to develop and implement policy that is in the wine sector's best interests.

WFA's activities are centred on providing leadership, strategy, advocacy and support that serves the Australian wine industry now and into the future.

Outcomes of CHAFTA

CHAFTA was signed on 17 June 2015. For wine and spirits tariffs of 14 (bottled) and 20 per cent (bulk) on wine and tariffs up to 65 per cent on alcoholic beverages and spirits will be eliminated within 4 years. The reduction for the first year shall take place on the date of entry into force of this Agreement; and the subsequent annual reductions shall take place on 1 January of each following year (Table 1).

Table 1: Tariff reduction schedule for wine

| HS Code | Description | Base rate (%) | Staging category | Entry into force | 1 Jan 2016 | 1 Jan 2017 | 1 Jan 2018 | 1 Jan 2019 |
|---------|--------------------------------|---------------|------------------|------------------|------------|------------|------------|------------|
| 2009.6 | - Grape juice (including grape | | | | | | | |

| | | | | | | | | |
|------------|--|----|-----|------|-----|-----|-----|---|
| | must): | | | | | | | |
| 2009.61 | -- Of a Brix value not exceeding 30 | | | | | | | |
| 2009.61.00 | Grape juice, of a Brix value not exceeding 30 | 20 | A-5 | 16 | 12 | 8 | 4 | 0 |
| 2009.69 | -- Other | | | | | | | |
| 2009.69.00 | Grape juice, (incl. must), unfermented, not containing added spirit | 20 | A-5 | 16 | 12 | 8 | 4 | 0 |
| 2204 | WINE OF FRESH GRAPES, INCLUDING FORTIFIED WINES; GRAPE MUST OTHER THAN THAT OF 2009: | | | | | | | |
| 2204.10 | - Sparkling wine: | | | | | | | |
| 2204.10.00 | Champagne & sparkling wine | 14 | A-5 | 11.2 | 8.4 | 5.6 | 2.8 | 0 |
| 2204.2 | - Other wine; grape must with fermentation prevented or arrested by the addition of alcohol: | | | | | | | |
| 2204.21 | -- In containers not exceeding 2 L: | | | | | | | |

| | | | | | | | | |
|------------|--|----|-----|------|-----|-----|-----|---|
| 2204.21.00 | Wine (not sparkling); grape must with by alcohol in:≤2l containers | 14 | A-5 | 11.2 | 8.4 | 5.6 | 2.8 | 0 |
| 2204.29 | -- Other: | | | | | | | |
| 2204.29.00 | Wine (not sparkling); grape must with alcohol in:≥2l containers | 20 | A-5 | 16 | 12 | 8 | 4 | 0 |
| 2204.30 | - Other grape must | | | | | | | |
| 2204.30.00 | Other grape must, nes | 30 | A-5 | 24 | 18 | 12 | 6 | 0 |

The other important part of the agreement concerns rules of origin. Preferential rules of origin (ROO) are used to determine where a good has been made so that only the products of countries that are party to a free trade agreement (FTA) obtain concessional entry under the agreement.

It is critical that the rules of origin permit wine that is exported to China via a third country still retain the preferential tariff concessions obtained under the CHAFTA. CHAFTA permits this.

Issues

Industry must be in a position to take advantage of the tariff reductions that accrues from an FTA, but also from the interest generated by the completion of negotiations. This means having a product that meets the market requirements, the ability and knowledge to market such a product, the understanding of the market dynamics and requirements, and in the case of the wine sector, the ability to financially support the collective marketing approach.

Australia is well paced to take advantage of the implementation of CHAFTA. As our third biggest market, our exporters have a strong understanding of the market conditions. In addition, the Australian Grape and Wine Authority (AGWA) the industry funded promotion and marketing body has incorporated activities into its forward marketing plan.

It is still critical that CHAFTA uses the goodwill and provisions within the TBT chapter to overcome some of the technical market access issues that exist within China.

Importantly, a rapid ratification of the agreement before the end of 2015, will permit Australian wine producers and exporters to take advantage of a second tariff cut on 1 January 2016, giving our producers a marked advantage in the market over some of our competitors and shortening the time for a level playing field with New Zealand and Chile.

Conclusions

The China –Australia Free Trade Agreement delivers real benefits for the Australian wine sector. We would urge the government to proceed as quickly as possible to ratify the agreement so that we can maximise the benefits to the sector.