



TREASURY WINE ESTATES

SUBMISSION TO THE JOINT STANDING COMMITTEE ON TREATIES INQUIRY INTO THE TREATY TABLED 17 JUNE 2015 (THE CHINA-AUSTRALIA FREE TRADE AGREEMENT)

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WINE ESTATES**

ABOUT TREASURY WINE ESTATES

Treasury Wine Estates (TWE) is one of the world's largest winemakers, a company that is publicly listed on the Australian Securities Exchange (ASX), and a business that is extremely proud to have its global headquarters in Australia. We are active promoters of 'Brand Australia' internationally and an example of an Australian business that is exporting to, and winning in, markets all over the globe.

TWE crafts some of Australia's oldest and most iconic wine brands including Lindeman's (founded in 1843), Penfolds (1844), Wolf Blass, and Wynns Coonawarra Estate. TWE owns or leases more than 9,000 hectares of prime winegrowing land in Australia. We directly employ over 3,000 people - winemakers, viticulturists, sales, distribution and support staff - over 2000 of which are based in Australia, and through our supply chain we support thousands more jobs across Australia.

TWE is one of the world's largest wine companies, selling more than 30 million cases of wine each year globally, with more than 60% of Australian produced wines exported overseas. Access to export markets and strong value growth in those markets is critical to our business.

EXPORTS TO CHINA AND THE ChAFTA

Of all global export markets, Asia is the world's fastest growing imported wine market, with China and Japan together making up approximately 90% of the region's demand.

The Australian wine industry is benefiting from this growth, with Wine Australia's Wine Export Approval Report (July 2015) showing that the strongest growth for Australian wine exports was to Asia – with the value of exports to China increasing by 32% to a record A\$280m, and bottled exports growing by 34%. The report confirmed that China remains the biggest market for exports >\$7.50 a litre.

TWE is already making significant headway in the Chinese market. We are targeting significant annual sales growth over the next five years, and are tripling our marketing budget over the next two years to help capture this growth. In addition, we are relaunching Wolf Blass, and are holding the annual launch of the Penfolds collection in Shanghai for the first time, in October 2015. Within five years we expect our China business to overtake the UK as the third biggest market for our wines, and key to this is the tariff reductions agreed in the China-Australia Free Trade Agreement (ChAFTA).

TWE strongly supports the signing of the ChAFTA, which has already contributed to an enhanced interest of Chinese partners in our brands. One such partnership was that announced recently by JD.com, which has created an 'Australia Mall' aimed at selling more Australian products to Chinese consumers, including Penfolds and Wolf Blass.

The Australian wine industry, and TWE as its largest contributor, sees significant potential in the China market, however in order to grasp this opportunity and capitalise on the growth opportunities, the tariff reductions and preferential rules of origin promised by the ChAFTA must be recognised.



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The phasing out of tariffs – from 14% to zero over 4 years on bottled wine – under the ChAFTA is both welcome and significant for TWE. Importantly, the Agreement will level the playing field with Australian wines' major competitors, NZ and Chile, whose producers who already enjoy tariff free entry into the Chinese market as a result of their own countries' free trade agreements. Tariff reductions will also be essential to ensuring our ongoing competitiveness with other export countries who have lower input and production costs, and greater direct Government support.

TWE urges the Government to ratify the ChAFTA before the end of 2015, allowing the Australian wine industry to access immediate benefits from a reduction in tariffs.

THE NEED TO INCREASE DEMAND

In order for the full benefits of the ChAFTA to be realised by Australian wine producers, TWE would like to note the importance in building 'Brand Australia' at the premium price points Chinese consumers are demanding.

With the current growth rates in the Chinese market; significant oversupply and unprofitability in bulk wine in Australia; coupled with the ChAFTA reductions in tariffs, there is a real possibility that Australia will repeat past mistakes and commoditise its product in the Chinese market.

It is imperative that the Government, through Wine Australia and Austrade, assist the Australian wine industry to build and maintain a 'Brand Australia' reputation as a clean, green and premium producer across its Asian export markets.

Wine Australia, which is responsible for domestic and international marketing; research, development and extension; and regulatory services, has very limited resources for an industry the size of ours. For context, TWE spends more on marketing its brands in export markets alone than the total of Wine Australia's budget for the three roles which it undertakes on behalf of the entire Australian industry, made up of over 2000 winemakers.

TWE considers that the Australian Government should consider providing an additional appropriation to Wine Australia to capitalise on opportunities for Australian wine exporters to China at this critical time. This support should also be considered for Japan, where the industry is similarly trying to capture the gains made by the JAFTA, but is finding it difficult to achieve 'Brand Australia' recognition. The promotion and marketing of the Australian wine category as a premium product is essential to maintaining industry profitability, ensuring the future success of the sector.

In conclusion, TWE would like to express its thanks for the work undertaken by Australian Government officials to conclude this agreement after 10 years of negotiations. It is vital now that the ChAFTA is ratified to allow Australian companies to realise its benefits.