
The Parliament of the Commonwealth of Australia

Inquiry into the Wine Australia Annual Report 2011-12

House of Representatives

Standing Committee on Agriculture, Resources, Fisheries and Forestry

June 2013
Canberra

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Foreword

In November 2012, the House of Representatives Standing Committee on Agriculture, Resources, Fisheries and Forestry resolved to inquire into the Wine Australia Corporation (Wine Australia) Annual Report 2011-12.

Wine Australia is the Australian Government entity responsible for providing strategic support to the Australian wine industry. Wine Australia's four key roles are enabling trade and market access; regulatory services and export assistance; market development; and wine sector intelligence. In achieving these roles, Wine Australia works collaboratively with a range of government and industry stakeholders.

The Committee's inquiry canvassed a range of issues – wine industry strategy and policy; tourism; industry development, growth and challenges; and research and development.

In strengthening Wine Australia's strategic role, the Committee's report highlighted the Minister for Agriculture, Fisheries and Forestry's recent approval of the merger between Wine Australia with the Grape and Wine Research and Development Corporation (GWRDC), the statutory authority charged with managing the Australian Government's research and development investments assisting the wine industry. The Committee considers that this merger will significantly improve the Australian Government's ability to service the wine industry.

Australia is home to some 60 wine producing regions, many of which rely on tourism to supplement their wine production operations especially in smaller States and smaller wine regions. The Committee's report highlighted Wine Australia's recent partnership with Tourism Australia, aiming to increase both domestic and international focus on Australian wine related tourism. The

Committee's report also outlined independent initiatives by Wine Australia to increase wine-related tourism – Savour Australia and Aussie Wine Month.

In promoting Australian wine to an international audience, Wine Australia has developed Savour Australia to be held in September 2013. This Adelaide-based, international convention will bring together international wine industry representatives from key markets. The convention will showcase the Australian food and wine industry including wines, wine regions, winemakers and innovative approaches to winemaking.

Aussie Wine Month, is a domestic initiative that was held in April 2013. It consisted of some 100 events showcasing wineries, wine regions and restaurants in every State and Territory. The Committee believes that such events will serve to promote and benefit Australian wine producers, regions and associated businesses such as restaurants.

The longer term development of the Australian wine industry is central to Wine Australia's goals. The Committee's report considered a range of matters critical to the industry's development, including: international marketing - especially to those emerging nations like China and India that have considerable opportunities as their economies strengthen; exports of Australian wine; and domestic and international competition in the wine sector.

The Committee is pleased to see Wine Australia actively working to promote and develop Australian wines in key established and emerging markets. This push comes in parallel with a reported drop in export levels of Australian wines as a result of factors including the high Australian dollar. It is the Committee's belief that the outlook for the sector can be improved through entry into emerging markets. This is dependent on the Australian government and recipient countries developing mechanisms to reduce trade barriers.

The Committee's report considers some of the difficulties encountered by wine producers in the domestic market. In particular the Committee highlights concerns that wine producers have difficulty competing in a retail space dominated by two major retailers in an extremely competitive marketplace. This is particularly so for the 'premium' category of wines of which Australia is a significant producer as are a number of European producers. The Committee's report calls on Australian wine producers to ensure their product remains competitive in the 'premium'


space. Where wine producers feel that retailers are impeding competition, the Committee supports actions to produce a stronger evidence base in this area.

The Committee's report also identifies competition from emerging wine producing nations such as China as having an effect on the Australian wine industry. The Committee's report notes that while these nations may produce wines at lower cost than Australia, they have yet to reach the 'premium' standard of Australian wines. The Committee believes that Australian wine producers should take note of this competition and continue to improve the quality and competitiveness of their own product.

Finally the Committee considered issues relating to research and development in the Australian wine industry. It was noted that Wine Australia works collaboratively with a range of organisations including the Australian Wine Research Institute and GWRDC, with which it will merge in 2014. Together, these organisations provide a range of research and development services to the wine industry. The Committee was pleased to see that Australia has begun to develop its next generation of winemakers through courses offered at the number of tertiary institutes. This will ensure the longer-term outlook for the industry.

I would like to thank representatives of Wine Australia for their assistance to the Committee during the course of its inquiry. It is clear that Wine Australia have made significant inroads into the promotion and development of the Australian wine industry. The Committee hopes that the upcoming Savour Australia convention will continue to build upon Australia's already considerable reputation for excellence in food and wine.

Hon Dick Adams MP
Chair



Membership of the Committee

Chair Hon Dick Adams MP

Deputy Chair Mr Alby Schultz MP

Members Mr Darren Cheeseman MP

Mr Rob Mitchell MP

Mr George Christensen MP

Mr Dan Tehan MP

Mr Geoff Lyons MP

Committee Secretariat

Secretary Mr David Brunoro

Inquiry Secretary Mr Muzammil Ali

Administrative Officers Ms Jazmine Rakic

Ms Karen Underwood



Terms of reference

On *Thursday, 29 November 2012*, the Standing Committee on Agriculture, Resources, Fisheries and Forestry resolved to inquire into the 2011-12 Annual Report of Wine Australia.



List of abbreviations

ABS	Australian Bureau of Statistics
AWRI	Australian Wine Research Institute
EU	European Union
GWRDC	Grape and Wine Research and Development Corporation
RDCs	Research and Development Corporations
R&D	Research and Development
WFA	Winemakers Federation of Australia
WGGA	Wine and Grape Growers Australia



List of recommendations

NIL

Introduction

Adoption of inquiry

- 1.1 On 28 November 2012, the House of Representatives Standing Committee on Agriculture, Resources, Fisheries and Forestry resolved to inquire into the 2011-12 Annual Report of Wine Australia.
- 1.2 Standing Order 215(c) of the House of Representatives allows a standing committee appointed by the House to:
 - ... make any inquiry it wishes to make into annual reports of government departments and authorities and reports of the Auditor-General presented to the House.¹

The Committee's inquiry

- 1.3 Following the adoption of the Committee's inquiry, the Committee wrote to inform the Minister for Agriculture, Fisheries and Forestry that the inquiry would be conducted and that Council representatives would be called to give evidence.
- 1.4 The Committee held a public hearing for the inquiry on 5 June 2013 in Canberra at which representatives of Wine Australia appeared. Details of witnesses who appeared before the Committee are in Appendix A.

1 House of Representatives Standing Order 215(c).

Background

- 2.1 Wine Australia Corporation (Wine Australia) is a statutory authority of the Australian Government responsible for providing strategic support to the wine industry. It plays a lead role in maintaining the reputation of the Australian wine industry, removing market access barriers, providing export assistance and developing overall demand for Australian wine.
- 2.2 Established under the *Wine Australia Corporation Act 1980 (Cth)*, Wine Australia's key responsibilities include:
- international and domestic marketing of Australian wine;
 - export regulation and compliance;
 - wine sector information and analysis;
 - maintaining the integrity of Australia's wine labels and winemaking practices;
 - protecting the names of the wine producing areas of Australia and other countries; and
 - assisting in negotiations to reduce international trade barriers.¹
- 2.3 Wine Australia has four key roles in supporting the Australian Wine industry. Each of these roles entails a number of activities:
- trade and market access
 - ⇒ addressing market access barriers
 - ⇒ removing trade impediments
 - regulatory services and export assistance
 - ⇒ export approval and facilitation
 - ⇒ advisory service to ensure compliance with domestic and international regulations to protect the reputation of Australian wine

1 Wine Australia, Annual Report 2011-12, p. 4.

- market development
 - ⇒ building the reputation of Australian wine
- wine sector intelligence
 - ⇒ providing information and analysis that supports informed decision making.²

2.4 In achieving these aims, Wine Australia works collaboratively with a range of government and industry stakeholders including:

- the national, state and regional wine producer associations and bodies;
- wine grape growers and their national, state and regional associations;
- liquor boards, authorities and overseas governments;
- importers, distributors and retailers; and the wine trade, sommeliers, wine educators and
- other influencers.³

2 Wine Australia, *About* (20 June 2013)
<<http://www.wineaustralia.com/en/About%20Us.aspx>>

3 Wine Australia, Annual Report 2011-12, p. 4.

Issues and analysis

- 3.1 The Chapter will cover the following issues:
- Wine policy and strategy
 - Wine Tourism
 - Industry development, growth and challenges
 - Research and development

Wine policy and strategy

- 3.2 Policy and strategy relating to Australia's wine industry is guided by a range of Australian government agencies in collaboration with industry participants. This section considers the role of Wine Australia and its interaction with the broader wine industry.

Role of Wine Australia

- 3.3 Wine Australia advised that it operated across four key dimensions – market development, developing the reputation of the Australian wine industry, wine sector intelligence and trade and market access issues.¹
- 3.4 Expanding on these, Wine Australia stated that its role in market development entails:

... promoting the Australian wine industry generally in our key export markets and building reputation and convincing

1 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 1.

consumers in key export markets that they should try Australian wine rather than wine from other competitor countries ...²

- 3.5 To ensure that Australian wine maintains its reputation, Wine Australia has a strong label integrity program, enshrined in its legislation to track Australian wine through its supply chain – particularly with respect to ‘vintage, variety and regional claims’.³ This function is also supported by Wine Australia’s Geographical Indications Committee that:

... is a committee of three, with representatives nominated by the peak industry bodies, being the Winemakers Federation of Australia and Wine Grape Growers Australia. That body is charged with running the process to officially determine Australia's wine regions, both the name and the official boundaries.⁴

- 3.6 Wine Australia also focuses on ‘wine sector intelligence’ where data is gathered, pooled and analysed to help wine businesses make better commercial decisions.⁵ To assist Australian companies in overcoming some of the trade and regulatory issues that occur in export markets, Wine Australia provides companies with assistance to ensure their compliance with Wine Australia’s label integrity program.⁶

The broader wine industry

- 3.7 The Committee’s public hearing highlighted a number of other key industry participants – in particular, the Winemakers Federation of Australia (WFA) and the Grape and Wine Research and Development Corporation (GWRDC).
- 3.8 The WFA is the national industry body for Australian winemakers. It provides leadership, strategy, advocacy and support to assist its members in building sustainable businesses and in turn strengthening the wine sector.⁷ Its primary activities include government relations, trade and market access, business development, wine tourism development, environmental sustainability, research and development, biosecurity and vine health, and packaging. It is not responsible for overseas marketing,

2 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 2.

3 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 1.

4 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 2.

5 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 1.

6 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 2.

7 Winemakers’ Federation of Australia (20 June 2013) <www.wfa.org.au>

export regulation, industry statistics or resource allocation for research and development.⁸

3.9 The GWRDC:

... invests in and directs research, development and extension (RD&E) along the whole value chain 'from vine to glass' to enhance the profitability, competitiveness and sustainability of the Australian wine sector.⁹

3.10 GWRDC is one of Australia's 15 rural Research and Development Corporations (RDCs) which is funded by a levy on Australia's grapegrowers and winemakers – this is matched by the Australian government.¹⁰

3.11 To improve the strategic development of the Australian wine industry, a proposal to merge Wine Australia and the GWRDC was made by key industry participants. Wine Australia's Annual Report states:

Wine Australia has continued to collaborate with other national, state and regional industry bodies to move towards delivering an aligned strategy from vineyard to marketplace. Central to this, is national reform that would see Wine Australia merge with the Grape and Wine Research and Development Corporation to better align wine sector investment and priorities. We acknowledge the broad industry support for this reform and we are working with the Winemakers' Federation of Australia (WFA), Wine and Grape Growers Australia (WGGGA), Grape and Wine Research and Development Corporation (GWRDC) and the broader industry to achieve this outcome.¹¹

3.12 The proposed merger was approved by the Minister for Agriculture, Fisheries and Forestry in December 2012. In approving the merger to commence in July 2014, the Minister stated:

The new authority will enable important links between the investment initiatives and functions of the GWRDC and Wine Australia under a unified strategy ... The industry supported proposal will improve service delivery and provide greater efficiencies.

8 Winemakers' Federation of Australia (20 June 2013) <www.wfa.org.au>

9 Grape and Wine Research and Development Corporation, *What We Do* (20 June 2013) <<http://www.gwrdc.com.au/about-gwrdc/what-we-do/>>

10 Grape and Wine Research and Development Corporation, *What We Do* (20 June 2013) <<http://www.gwrdc.com.au/about-gwrdc/what-we-do/>>

11 Wine Australia Corporation Annual Report 2011-12, p. 8.

Moves are already being made by industry to streamline processes, such as sharing office space to reduce administrative burdens – this merger is the next step.¹²

Committee comment

- 3.13 The Committee notes Wine Australia's significant supporting role for the broader Australian wine industry. In particular, the substantial assistance is provided by way of market development, maintaining the reputation of Australian wines, and assisting Australian wine businesses with information to make improved commercial decisions. This assistance can only strengthen the outlook for the industry.
- 3.14 The Committee notes the Minister's recent approval of the merger between Wine Australia and GWRDC to take effect from July 2014. In the Committee's view, bringing together two of the key government agencies servicing the wine industry is a positive step. The merger will bring together the Commonwealth's ability to provide quality control, marketing intelligence and research support for the wine industry. It will also create a centralised point of assistance. However, the Committee hopes that the recent announcement of the resignation of Wine Australia's Chief Executive does not have a material effect on the merger process.¹³

Wine Tourism

- 3.15 Tourism is a significant factor for many of Australia's wine producing regions. As identified earlier, Wine Australia has played a role in the identification of the different official Australian regions through its Geographical Indications Committee.
- 3.16 This section will consider Wine Australia's recent partnership with Tourism Australia and a number of self-initiated ventures to better promote Australian wine.

12 Minister for Agriculture, Fisheries and Forestry, 'Merger to create new and improved wine industry body' (Media Release, DAFF12/439L, 11 December 2012)
<http://www.maff.gov.au/media_office/media_releases/media_releases/2012/december/merger-to-create-new-and-improved-wine-industry-body>

13 Wine Australia, 'Wine Australia announces the resignation of its Chief Executive (Media Release, 14 May 2013)
<http://www.wineaustralia.com/en/News%20and%20Events/~/_media/0000Industry%20Site/Documents/News%20and%20Media/News/Media%20Releases/2013/MR%20-%20Wine%20Australia%20CEO%20140513.ashx>

Partnership with Tourism Australia

3.17 In an effort to increase tourism related to the Australian wine industry, Wine Australia entered into a partnership with Tourism Australia in 2012.¹⁴ The three-year partnership aims to increase both domestic and international focus on Australian wine tourism. On launching the partnership, Wine Australia's Chief Executive Officer said:

We are currently developing a campaign together with Tourism Australia and our industry partners, to build a higher value premium perception of Australian wine and develop our food and wine offering to be more relevant to the decision making process for travel to and within Australia.¹⁵

3.18 Wine Australia told the Committee that the partnership developed as a result of a range of factors, but in particular, the heightened perception from international visitors to Australia about the food and wine sector.¹⁶ This perception, according to Wine Australia, stems from the synergies created when combining 'fantastic restaurants and world-class wines'.¹⁷

Wine Australia initiatives

3.19 To take advantage of growing interest in Australian wine, Wine Australia have launched a number of key initiatives, including Savour Australia and Aussie Wine Month.

3.20 The wine industry convention, Savour Australia, is to be held in September 2013 and is aimed at the international market. Wine Australia suggests that Savour Australia will be:

... a complete immersion into the Australian wine industry, including our wines, wine regions, winemakers and innovative approaches to winemaking, presented by Australia's leading winemakers and international wine personalities.¹⁸

3.21 Wine Australia advised that Committee that:

14 Wine Australia, New partnership with Tourism Australia (20 June 2013) <<http://www.wineaustralia.com/en/News%20and%20Events/News/November%20December%20News/New%20Partnership%20with%20Tourism%20Australia.aspx>>

15 Tourism Australia, 'New partnership to bolster Australia's wine and tourism marketing push' (Media Release, 6 December 2012) <<http://www.tourism.australia.com/news/1421-2747.aspx>>

16 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 7.

17 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 3.

18 Savor Australia 2013, *What is Savor?* (20 June 2013) <<http://www.savour-australia.com/en/What%20is%20Savour%202013.aspx>>

We are investing a significant amount of money and resources, along with Tourism Australia. We are bringing 100 VIPs out – key influences, key people from the trade, from a range of key markets. And there will be industry delegates there – around 800. It is not just a wine convention. It is both food and wine – a world-class affair. We are endeavouring to put on something that people will walk away from saying, 'Wow!' It is just a fantastic offering, and there is so much potential here in the market and in what Australia has to offer.¹⁹

- 3.22 To promote the Australian wine industry to the domestic market, Wine Australia held Aussie Wine Month in April 2013. Aussie Wine Month included some 100 events held throughout every Australian state to showcase wineries, wine regions and restaurants to a domestic audience.²⁰ The promotion was described by Wine Australia as:

... the ultimate chance to celebrate all that is unique about Australian wine, including the faces behind the great brands; welcoming cellar doors nestled among the picturesque vines and diverse surroundings; the stories about the wines; ultimate long lunches and the list goes on.²¹

Committee comment

- 3.23 The Committee is pleased to see Wine Australia's strong focus on the issue of tourism associated with the wine industry. In particular, the Committee considers that the newly-announced partnership with Tourism Australia will provide significant tourism benefits to the approximately 60 wine producing regions in Australia. The Committee hopes that the partnership will not only raise the profile of Australian wines but also the profile of regions that many international visitors to Australia may not be aware of. The partnership will clearly also have benefits for the domestic tourism

19 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 3.

20 Wine Australia, 'April equals Aussie Wine Month - its time to raise a glass' (Media Release, 20 December 2012)
<<http://www.wineaustralia.com/~media/0000Industry%20Site/Documents/News%20and%20Media/News/Media%20Releases/MR%20-%20Aussie%20Wine%20Month%20201212.ashx>>

21 Wine Australia, 'April equals Aussie Wine Month - its time to raise a glass' (Media Release, 20 December 2012)
<<http://www.wineaustralia.com/~media/0000Industry%20Site/Documents/News%20and%20Media/News/Media%20Releases/MR%20-%20Aussie%20Wine%20Month%20201212.ashx>>

sector. The Committee looks forward to seeing an evaluation of the partnership in the future.

- 3.24 The Committee is also pleased to see the significant work Wine Australia has devoted to the Savour Australia and Aussie Wine Month initiatives. In particular, the Committee hopes that Savour Australia will be effective in sparking even greater interest in Australian wines, our amazing restaurants and our world class tourism destinations. Developing an awareness of Australian wines, in the Committee's view, will not only have flow on effects for the tourism and wine industries but will also have benefits for those involved in logistics, transport and export of Australian wine. The Committee looks forward to seeing the outcomes and economic benefits as a result of the two initiatives.

Industry development, growth and challenges

- 3.25 One of Wine Australia's primary objectives is assisting the Australian wine industry to develop. In particular, this includes assistance with marketing Australian wines to international markets, support in exporting Australian wines to key established and emerging markets.
- 3.26 Wine Australia has stated that the key major export markets for Australian wine include the US, UK, Canada and China.²² Wine Australia told the Committee that some of the key emerging markets include Brazil, Mexico, India and South Korea.²³

Marketing of Australian wine in international markets

- 3.27 The Committee's public hearing heard evidence relating to the marketing of Australian wine. A number of positive initiatives have emerged to improve the success of the Australian wine industry. In particular:
- with the assistance of Wine Australia, Australian wine producers engage in a collaborative manner with respect to marketing and brand awareness with a view to promoting Australian wine;²⁴
 - differentiating Australian wine from overseas wines, such as that produced in Europe, through labelling;²⁵ and

22 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 3.

23 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 8.

24 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 7.

25 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 7.

- locating Wine Australia staff in key markets around the world such as the UK, US, Canada and China.²⁶
- 3.28 The evidence relating to promotion of Australian wine in international markets was strongly linked with tourism initiatives and influencing key international commentators.²⁷

Exports of Australian wine

- 3.29 The export of Australian wine is affected by a range of factors. Wine Australia highlighted a number of these including:
- ... the high Australian dollar, which is a factor for a whole range of exporting communities; the economic situation in our key global markets, notably the United Kingdom and the United States; and increasing competition from other supplying countries.²⁸
- 3.30 Wine Australia highlighted that one of the key challenges to the success of exporting Australian wines are the tariffs on imports imposed by emerging nations.²⁹ Wine Australia also advised the Committee that wine producing competitors have gained a foothold into some emerging markets as they have free trade agreements allowing for the reduction in tariffs. Using China as an example, Wine Australia stated:
- The Chileans and the Kiwis have been able to get tariff preferences into there. In fact, New Zealand is zero and the Chileans are moving to zero in 2015.³⁰
- 3.31 Wine Australia outlined to the Committee some of the work that has been conducted in trying to reduce export barriers into emerging nations. Of Brazil, it was noted that one Australian wine maker has exported their products and:
- ... just to get the product in the market, they found it is not so much the tariff barriers but some of the non-tariff barriers, such as certificates et cetera. I met with the Brazilian authorities to try to facilitate trade and to lower some of these barriers. We are part of a group called the World Wine Trade Group, essentially the new world wine producers, and we have negotiated a whole range of agreements to streamline import processes and remove barriers to

26 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 7.

27 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 3.

28 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 1.

29 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 8.

30 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 8.

trade. I was trying to convince the Brazilians they might want to consider that approach. There is a strong protectionist element there which makes life difficult.³¹

- 3.32 Similarly, Wine Australia highlighted the case in India, where due to tariff barriers, no international wine producers have gained an advantage. However, it was stated that:

... the EU discussions are more advanced, and there has always been chatter around what they may get through that agreement. If they do get an early advantage then, obviously, they will be able to make the most of that. India is a market where people see opportunity, but it is just very hard for you to hit the price points that you have to hit in that market. I have been there once and have seen the prices that the wine has to sell at, and it puts it out of reach for many purchasers.³²

Export levels of Australian wine

- 3.33 Wine Australia's Annual Report 2011-12 noted that there has been a decline in the volumes of exported Australian wine. Wine Australia's Annual Report 2011-12 notes:

According to the Australian Bureau of Statistics (ABS), domestic sales of Australian wine declined by 0.3% to 457 million litres in the 12 months ended March 2012. Red wine sales declined by 4.2% to 166 million litres while white sales increased by 4.0% to 222 million litres. Sparkling wine sales also declined but at a marginal rate of 0.7% to 35 million litres.³³

- 3.34 Countering the drop in export levels, Wine Australia notes that there have been increases in the 'per litre' value of wine:

The average value per litre for Australian wine has been increasing with bottled wine up 4% to A\$4.40 per litre and bulk wine up 4% to A\$1.01 per litre.³⁴

- 3.35 The Committee was interested in why some Australian wines seemed comparatively cheaper in international markets. Wine Australia responded that a range of reasons existed for this, and using the US as an example, stated:

31 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 8.

32 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 8.

33 Wine Australia, Annual Report 2011-12, p. 11.

34 Wine Australia, Annual Report 2011-12, p. 11.

... it has been successful for some major companies at the lower end in terms of price points, but there is a real opportunity in the \$15 to \$20 bracket in the United States. And we can fill that void, and that is a market you want to be in, because it is sustainable and you are generating a good margin. So, that is where we are identifying the opportunity and looking at some of the barriers – at why we cannot get into that segment of the market.³⁵

- 3.36 Wine Australia told the Committee that changing demand for Australian wine can be due to shifting international trends and fashions:

Anyone who was drinking Australian might start to move on to something else, because fashions change, so they might move on to another country of origin. That is what a lot of our marketing efforts have been focused on, trying to reignite that chatter and the excitement around the Australian category and get some of the key influences in those markets, because they are the gatekeepers to get to consumers. Often consumers find it hard to decipher the world of wine. If you get some of the key influences – people who write in newspapers and magazines – to start talking up the Australian category and say, 'Yeah, you should come back to it,' that will hopefully take us in the right direction.³⁶

Competition

- 3.37 The Committee's hearing raised a number of issues relating to competition issues for the wine industry. In particular, issues of domestic retail competition and the ability of Australian wine producers to compete with emerging wine producers in other nations based on quality and production costs.

Domestic competition

- 3.38 In terms of domestic retail sales of Australian wine, Wine Australia advised the Committee that Australian wine producers are facing significant competition with 'own brands' and challenges due to the small number of major retail outlets.³⁷ Australian winemakers have suggested anecdotally that this has caused some difficulty in having their products available in the marketplace. Wine Australia suggested to the Committee that Australian wine producers feel as if they are 'getting squeezed' by

35 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 4.

36 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 2.

37 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 3.

Australia's major retailers and are unable to compete.³⁸ This it was noted by Wine Australia, was anecdotal in nature and is not yet based on specific information.³⁹

- 3.39 Another growing concern for the wine industry is the issue of Australian wines being repackaged and resold domestically by third parties not involved in the winemaking process.⁴⁰ Wine Australia suggested to the Committee that:

It is a difficult issue at an industry level to try to work through all the competing interests. There is a view that it has distorted the supply base. I know that the Winemakers' Federation are looking through the evidence around that issue so they can formulate some policy decisions around it, which they can then have discussions with the government about. So it is a key issue. It is difficult for me to say much more in my capacity of being involved with Wine Australia.⁴¹

International competition

- 3.40 Regarding Australia ability to compete with emerging international producers, the Committee's public hearing was told that Australia does not see itself in direct competition with emerging wine producing nations; as these nations typically produce wines at lower costs that are not in the same 'premium' category as Australian wines. In this regard, Wine Australia advised the Committee that:

... we cannot compete as a low-cost producer; that is not where our niche is and that is not where we are going to get the value that we need. It is around the premium end and convincing the marketplace – whether that is through restaurants or supermarkets – to spend up. We want people to know that if they are going to spend more on a bottle of wine they should not by default defer to a top end Italian or French wine. There are reasons to go for some of the Australian wine that is in the market.⁴²

- 3.41 Wine Australia noted however that while Australian wines fall into a premium category, this does not mean that other wine producing nations who have not yet met that standard will not do so in the future. Over time

38 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 4.

39 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 4.

40 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 3.

41 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 3.

42 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 5.

these other nations may therefore be in a position to compete with the quality of Australian wine. Wine Australia highlighted that:

China is probably the one to watch out for at the moment. They have significant plantings. In fact, on one level the numbers indicate that they have more vineyards planted than Australia does. A lot of the wine that is produced in China is at the lower end, going to a number of big brands at the lower end with the imported products competing at a different level. But I think over the next 20 or 30 years their production capacity will improve. Some of the bigger companies have a foothold there. Moët & Chandon, for example, have some facilities there. So I think there capacity will improve.⁴³

Domestic issues affecting the industry

3.42 The Committee was interested in some of the domestic factors affecting the Australian wine industry.

3.43 One issue noted by Wine Australia was the price of fruit, given the recent depressed situation facing the wine industry:

... it has been well known that there have been some challenging discussions between grape growers and wine makers about the price at which they are purchasing their fruit and whether it is sustainable for the grape growing community ...⁴⁴

3.44 The Committee suggested that, given there had been a surplus in grapes in Tasmania, that these could be used by wine producers in other parts of Australia. Wine Australia stated that the movement of grapes across Australia was commonplace although:

It is usually for the bigger brands – the multiregional blends. They will often take grapes from a whole range of vineyards and then move them to a central processing plant.⁴⁵

3.45 On addressing the issue of oversupply, Wine Australia noted:

On a national level, we are trying to constrain the plantings – the national vineyard acreage. There have been some vineyards pulled out recently because we have been in a situation of oversupply. Our view is that we are moving very much into balance now,

43 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 7.

44 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 4.

45 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 5.

which leads us to that line around cautious optimism in terms of where we are and how we will go forward.⁴⁶

Committee comment

- 3.46 The Committee is pleased to note comments from Wine Australia highlighting the levels of cooperation between Australian winemakers to promote Australian wines. On an international level, it is also encouraging to see initiatives that aim to differentiate Australian wine from those produced internationally and supported by the placement of Wine Australia staff in key overseas markets. The Committee considers that each of these activities not only contribute to the promotion of the Australian wine industry as a whole, but also complements the partnership between Wine Australia and Tourism Australia.
- 3.47 The Committee understands the concerns of Wine Australia and the wine industry more generally that global economic and other conditions have resulted in a decline in export levels of Australian wine. However, the Committee also concurs with Wine Australia's 'cautious optimism' for the future of the sector.
- 3.48 In the Committee's view, there are a number of ways that the outlook for the sector can be improved. In the first instance, the Committee believes that the Australian wine industry's push to enter emerging markets such as Brazil, South Korea and India should be encouraged. Obviously this would be improved by a willingness by the Australian Government and the recipient country to develop mechanisms to reduce export barriers. It is clear that export conditions to established markets will improve once global economic conditions allow.
- 3.49 The Committee notes comments by Wine Australia regarding wine producers 'getting squeezed' in the domestic retail market. Such comments are concerning. The Committee considers that there is a need to investigate and conclude whether the speculation is founded. Given Wine Australia's comments regarding the lack of data to inform specific investigations, the Committee would strongly support actions to produce a stronger evidence base in this area.
- 3.50 The Committee believes that Australian retailers should continue to promote 'premium' Australian wines, in particular to compete with premium European wines. However, there is also an onus on the

46 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 5.

Australian wine industry to ensure that its product is competitive in terms of price with international counterparts.

- 3.51 The Committee notes comments by Wine Australia about the emergence of newer wine producing nations such as China. The Committee understands that, while these nations may operate based on a lower cost of production (such as the cost of employment), the quality of the wines produced are some way from being at the 'premium' standard of Australian wines. For this reason, the Committee considers that while it is important for Australian wine producers to be aware of competition from overseas, the quality and appeal of its own product should not be underestimated. Nonetheless, the Australian wine industry should strive to ensure that its product remains of the highest quality and processes of continuous improvement should be pursued.
- 3.52 Domestically, the Committee notes that a combination of lower international demand and fruit surpluses have been a challenge for the industry. This obviously impacts a range of sectors including wine producers and associated communities, transport industries and logistics management. The Committee hopes that Wine Australia can work with industry as a whole to minimise disruptive shocks and overcome these difficulties before major industry upheavals are necessary as has been seen recently in some other industries, such as the canned fruit sector.

Research and Development

- 3.53 Furthering the interests of the Australian wine industry is paramount to ensure that Australia continues to produce premium products in the face of growing international competition. Wine Australia works collaboratively with a range of organisations to ensure Australia's research and development (R&D) capabilities assist in the development of the Australian wine industry.
- 3.54 Commenting on these capabilities, Wine Australia stated the industry has:
- ... a heavy focus on our R&D capability. There are resources on tap to help the winemaking community to deal with any problems that they encounter during the winemaking process. It has been a key focus. One of the key planks of our success has been our ability to innovate and develop technical skills. That is now

apparent. The quality of Australian wine across all price points is something that we should as a sector be very proud of.⁴⁷

- 3.55 Some of the entities that Wine Australia is involved with include the previously mentioned GWRDC and the Australian Wine Research Institute (AWRI). The GWRDC, a statutory authority established under the *Primary Industries and Energy Research and Development Act 1989*, is a key investor in research for the wine industry. It is funded by industry levies which are matched by funding from the Australian Government.⁴⁸
- 3.56 The AWRI provides the wine industry with a range of services including R&D, information and knowledge extension, and commercial services.⁴⁹ Its research aims to assist grape and wine producers to more readily utilise new technologies to improve the quality and sustainability of their products.⁵⁰ Its current portfolio of research interests include grape and wine composition and production, smart technologies and microorganism culture collection.⁵¹ Wine Australia noted that a proportion of GWRDCs funding is directed to the Australian Wine Research Institute in Adelaide.⁵²
- 3.57 The Committee was also interested in how Australia develops and trains new winemakers. Wine Australia highlighted a number of courses conducted in Australia:
- ... there is one through the University of Adelaide at the Roseworthy campus and at the Waite campus. That is regarded as being one of the top training schools for winemakers ... Charles Sturt University in Wagga is also a great teaching institution for winemakers ...⁵³
- 3.58 The Committee was also interested in the market research conducted in relation to key export markets. Wine Australia advised:
- ... we have just commissioned some research in the United States to understand what the blockages through the supply chain are

47 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 5.

48 Grape and Wine Research and Development Corporation, *What we do* (20 June 2013) <<http://www.gwrdc.com.au/about-gwrdc/what-we-do/>>

49 Australian Wine Research Institute, *About the AWRI: Business model* (20 June 2013) <http://www.awri.com.au/about_the_awri/business-model/>

50 Australian Wine Research Institute, *Research and Development* (20 June 2012) <http://www.awri.com.au/research_and_development/>

51 Australian Wine Research Institute, *Research and Development* (20 June 2012) <http://www.awri.com.au/research_and_development/>

52 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 6.

53 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 5.

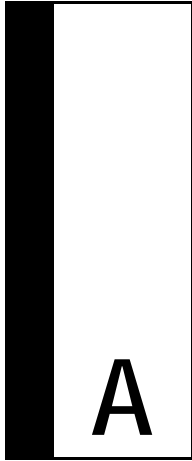
there – why some Australian wine is not getting on the shelves of some key outlets. They have a very complex distribution chain in the United States; it is called the three-tier system. So you need to work through all the levels to get the product in the market. With funding provided by them, we have commissioned an expert in the US to put together a review of some of those blockages and provide some analysis as to what we need to do to break through some of those blockages ... We have done similar exercises in China. China has been a very strong market over the last few years, but no-one has a complete understanding of what actually happens in the marketplace, of what happens to the wine once it gets there, of the distribution chain and who is drinking it. Is it repeat purchases? Is it real distribution and real sales, or is it going into one-off gift giving with no chance of follow-up sales?⁵⁴

Committee comment

- 3.59 The Committee is pleased to see that R&D in the Australian wine sector continues to be a priority. The Committee also notes the extensive collaborative efforts undertaken by Wine Australia. This can only be strengthened through the merger with GWRDC.
- 3.60 The Committee is particularly pleased to note that Wine Australia and the broader Australian wine industry continues to actively develop the next generation of Australian winemakers. It is through opportunities such as those provided at the University of Adelaide and Charles Sturt University that the wine industry will continue to succeed and produce high quality people and products.

Hon Dick Adams MP
Chair

54 Mr Andreas Clark, Wine Australia, Transcript of Evidence, Canberra, p. 6.



Appendix A – Public Hearing

Wednesday, 5 June 2013 - CANBERRA

Wine Australia Corporation

Mr Andreas Clark, Chief Operating Officer

