Australian Government

Australian Wine and
Brandy Corporation

Our Ref.

18 July 2005

Mr P Corish
Chair
Agriculture and Food Policy Reference Group
GPO Box 858
CANBERRA ACT 2601

Dear Mr Corish

Re: Submission to the Agriculture and Food Policy Reference Group

Thank you for inviting the Australian Wine and Brandy Corporation to make a submission to the Agriculture and Food Policy Reference Group. We wish to make the following comments on the paper *Ensuring a competitive and sustainable agriculture and food sector in Australia: Issues for consideration.*

Wine is very much an agricultural product and it is also part of the broader definition of a "food". Due to the fact that it is a highly transformed product directed to the market via sophisticated marketing, it can at times be excluded from the two subject categories of the Reference Group's charter. Many of the challenges and issues identified in the terms of reference document supplied are directly relevant to the Australian wine sector.

While the domestic market has remained relatively stable during the past decade, exports have continued an extraordinary growth period that commenced in the mid 1980's. From an export value of approximately $20 million in 1985, exports have grown to $2.75 billion today, which makes it the third largest agricultural export product and twelfth overall amongst Australia's commodity exports.

The benefits of wine exports to the Australian economy are leveraged greatly by the fact that there is a comprehensive manufacturing process that takes place in Australia prior to export. Given that most of this occurs in rural Australia, the principal economic benefits of employment and infrastructure accrue to where it is most needed. The export success has been well recognized in many of these export markets such as the United Kingdom, United States of America, Canada, Europe and Japan. This recognition does much to enhance the overall perception the rest of the world has of Australia, particularly as the role of technical innovation is understood to be the foundation of this success.

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It is true to say that the Australian wine sector is an independent industry with markedly lesser financial support from Government than other agricultural exports. Furthermore, the tax regime for Australian wine sold domestically is greater than every other wine producing country in the world. The Australian wine sector funds its own regulatory processes and generic marketing activity which further distances it from its principal competitors.

Like many of the other agricultural exports, Australian wine is facing difficult trading conditions due both to the cyclical nature of yields and a dynamic and increasingly competitive global marketplace. The structure of the wine sector is such that production volumes are concentrated in the hands of the top three producers which are complemented by a high number of smaller producers with "niche" market wines. These large producers are globally diversified with the capability of investing in the countries that will provide the best long term competitive proposition. Thus, over the medium term, there is mobile capital on an international scale according to relative production and market conditions.

The major issues and challenges include the following:

- Maintaining a competitive production cost base requiring comprehensive and efficient infrastructure:
    - Fundamental physical infrastructure such as roads etc
    - Transport network
    - Communications network
    - Education and training facilities – rural location as well as city based
    - Effective regulation to support quality and integrity
    - Access to sustainable and affordable water supply

- Continued investment in research and development to maintain innovation as a key competitive advantage.

- Reliable market access in view of the potential for protectionist measures to limit the progress of free trade.

- Australian wine must be produced in an environmentally responsible manner.

- Overproduction in Australia and internationally results in reduced grape prices and competitive trading conditions.

The Australia wine sector enjoys a constructive relationship with the Australian Government which is a feature valued by both parties and envied by foreign competitors. The benefits of the industry that accrue to the Australian economy are clear, as is the phenomenal growth experienced over the past 20 years. This paper provides an outline of the sector that may be elaborated further if so required.

It is critical to recognise the pace of change as competitor countries strive to emulate Australia's success. This dynamic environment presents a significant risk to an industry

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that has long lead times from planting to a consumer sale, and yet is subject to consumer fashion trends. The success achieved to date does not ensure continued success in the future and therefore the health of the Australian wine sector relies upon a determined and concerted effort by all participants.

Should you have any queries regarding the issues raised in the submission, please do not hesitate to me.

Yours faithfully

Sam Tolley

Sam Tolley
Chief Executive