



TREASURY
WINE ESTATES

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Agriculture Competitiveness Taskforce
Department of Prime Minister & Cabinet
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**Submission prepared by Treasury Wine Estates Ltd for Agriculture
Competitiveness Green Paper**

'Delivering a globally competitive Australian wine and agriculture sector'

Treasury Wine Estates (TWE) is the world's largest pure-play wine business, and a company that is extremely proud to call Australia home.

Our business looks after some of our nation's oldest and most iconic wine brands including Lindeman's, Wolf Blass, Rosemount Estate, Yellowglen, Seppelt, and Penfolds. We also own or lease more than 9,000 hectares of prime winegrowing land in Australia; sell more than 30 million cases of wine each year globally, with more than 60% of our Australian produced portfolio exported overseas; and employ over 3,000 people - winemakers, viticulturists, sales, distribution and support staff - over 2000 of which are based here in Australia.

We are also active promoters of 'Brand Australia' internationally and provide an example of an Australian business that is exporting to, and winning in, markets all over the globe.

- **Introduction**

TWE fully endorses the wine industry's approach to agricultural competitiveness, and the specific points relating to the wine sector, reflected in Winemakers Federation of Australia's (WFA) submission to the Agricultural Competitiveness Taskforce. We also submit the following views, in our own right, highlighting additional opportunities for the Government and industry to adopt policy measures that will benefit Australia's agricultural economy generally, and its wine industry specifically. These views are motivated by a desire to create an internationally recognised, and globally competitive, Australian wine industry. An industry that addresses persistent inhibitors to



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profitability such as oversupply, and one which embraces quality, premiumisation and export as the foundation for its future. TWE would welcome the opportunity to provide more information on any aspect of our submission, as required by Government.

1. Infrastructure

Effective and efficient infrastructure, particularly transport related, is crucially important to all agricultural businesses, and TWE is no exception. As a Company whose sourcing and production footprint is spread across many States it is vitally important that road, rail and maritime hubs support the distribution and logistics requirements of the wine industry, particularly given the time constraints and quality credentials associated with the product. As indicated above, over 70% of TWE's domestic wine production is exported internationally, with domestic rail and port infrastructure particularly essential to ensuring the Company's premium wine exports arrive at their destination on time.

A consistent and integrated approach to port infrastructure is essential to TWE's export business. The Port of Adelaide has recently been extremely cooperative in assisting TWE's partners to establish a rail solution into their port, and TWE would be keen to see a similar approach adopted by other key ports, particularly the Port of Melbourne. To date, this has proved to be difficult.

Road congestion in and around key maritime ports continues to be a concern for our Company, and others. Direct access of trains into the wharfs would improve lead times, capacity and the turnaround time of equipment. A reduction of road transport, with all its associated environmental consequences, would we believe be welcomed by a wide range of agricultural businesses and city-based populations.

2. Biosecurity

Disease and biosecurity threats do not recognise State or regional boundaries, as a consequence nor should the Federal Government's response. TWE is a strong supporter of a Federal approach to crucial issues of biosecurity, particularly in relation to Phylloxera. If not controlled, Phylloxera has the potential to ravage/decimate some of the historic premium grape growing regions with old heritage vineyards that are 50-120 years old. Whilst coordination and information sharing between wine producing States has improved in recent years, the need for a comprehensive and aligned national strategy to combat issues like Phylloxera, fruit-fly and related quarantine issues remains.

TWE also firmly believes that Australia's approach to biosecurity, given the potential consequences to agricultural economy should a 'worst case' scenario of a major pest or disease incursion occur, requires considerably more Government focus and related resourcing. In recent years State based funding for biosecurity measures, including Phylloxera control, has reduced. TWE would like to see an integrated and 'whole of Government' approach on such matters, where agreed biosecurity priorities were funded end-to-end from a research, prevention and mitigation perspective.



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A national approach to managing and improving the national germ plasm or vineyard planting material is fundamental to ensuring premium and productive vineyards are planted/replanted. Australia has some of the best heritage planting material and this resource needs to be protected. Access to quality virus free planting material is a necessity for Australia to remain internationally competitive.

3. Competition, Regulation & Price Transparency

As one of the largest purchasers of grapes in Australia, TWE both understands and supports the need for clear market information on pricing. However, whilst grapes may appear to be just another agricultural product, it is important to note that wine itself is not a commodity product, with only lower grade/quality surplus bulk wine being traded and priced as a commodity.

In stark contrast to many other agricultural items, wine pricing ranges from a base of \$5 per bottle to upwards of \$1000 per bottle for premium offerings. Payment for grapes is therefore much more directly tied to the quality of the resultant wine than traditional agricultural items such as wheat, dairy or barely. It is also crucially important to note that there is not always an obvious quality outcome until the grapes are converted into wine, with early commitments to final pricing consequently likely to be highly speculative and given the conservative uncertainty, potentially damaging to both grape grower and wine producer.

TWE strongly believes that grape growers are best rewarded by pricing structures and payment processes that reward wine quality. However, as there are currently no effective indicators of grape quality/price before conversion to wine it is highly unlikely that a pre-harvest quality index that crosses regions, styles of wines could be created for any single grape variety, let alone across grape varieties.

Australian wine remains an agriculturally produced product that is produced, marketed and sold on the basis of regional differences, style differences and varietal differences. It is a value added product that relates to the region it is grown in. The wine industry is a high tech industry that produces a quality product with a high proportion exported. Accordingly, a one size fits all approach to pre-vintage grape pricing would be both unrealistic and potentially highly damaging.

4. Cooperative Bargaining

With regards to cooperative bargaining for growers, TWE believes that such a model can work in certain agricultural industries, and should be considered where appropriate. For wine, however, it is imperative to recognise that each grower, and even each block within an area of grapes farmed by the same grower, can be highly variable in terms of both production quality and yield. As referenced above, regionality and the blending of difference varietals are the cornerstone of the Australian wine industry and provide the sector with a competitive advantage. This would be severely compromised



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or lost entirely were there an excessive focus on cooperative bargaining, with prices dictated across differing regions, varieties and quality standards.

Cooperative or standardised pricing could act as a disincentive to producers trying to achieve higher quality wines – typically with lower grape yields, as returns would be lower if high quality/low yield was not recognised.

5. Regulation

At a macro-economic level TWE supports moves by the Federal Government to lessen the burdens placed on agricultural businesses by decreasing the cumulative effect of regulation imposed upon such businesses. However, as a Company whose future depends upon sustainable production and high standards of environmental care, TWE does not want a knee-jerk reaction to cutting ‘green-tape’ en masse and asks that regulatory reform in this area is very carefully considered and undertaken in close consultation with the wine industry and other agricultural sectors.

TWE is also a strong supporter of clear and independently enforced regulation across all sectors of the economy. In particular, the Company asserts that a regulatory framework which embraces competition at its heart is to the benefit of all parties, particularly those involved in the production and supply of products to the major retailers both domestically and internationally.

Therefore, in line with recent submissions to the Federal Government by the Winemakers Federation of Australia, TWE supports moves to bring Australia’s wine industry in under the Supplier Code recently agreed between major retailers and the Australian Food & Grocery Council (AFGC).

6. International Trade/Market Access

Ultimately, in order to be successful, most Australian agricultural producers need to embrace international markets rather than rely simply on meeting the demands of domestic consumers. Accordingly, a key component in the future competitiveness of Australia’s agricultural businesses is the ability for Australian produce to compete on fair and equitable terms with its trading partners.

Wine remains a crucial component of ‘Brand Australia’ overseas, and TWE welcomes the focus placed on securing Free Trade Agreements by the current Government. Recently concluded FTAs with key markets such as Japan, Korea and, particularly, China are crucial to the sectors future and need to be supported by further focus, from both Government and industry, to fully realise the benefits of such Agreements.

TWE urges the Federal Government to continue the process of removing tariff barriers to Australian agricultural exports in key international markets over the coming years. TWE wines already win more medals and awards than any other company at the world’s leading wine shows, and it is essential that a level playing field in international trade exists if we are to fully realise the benefits of Australia’s quality credentials.



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7. Taxation

Whilst TWE recognises that the Government is shortly to consult on a range of tax reform measures, the Company would like to place on record at this time the importance of an efficient and appropriate tax regime for the competitiveness of Australian wine industry, and the wider agricultural economy.

The tax regime for alcoholic beverages has a fundamental influence on the structure and sustainability of the Australian wine industry. Particularly in the context of the industry's current oversupply challenges, TWE believes serious and progressive reforms are required to establish a wine industry that is economically successful and socially responsible.

In particular, with regard to future competitiveness, TWE submits the following points with regards to taxation reform:

- Changes to the incumbent tax regime for wine must be transparent, easy to administer and equitable.
- Changes need to recognise the once a year, seasonal and very capital intensive nature of wine versus other alcoholic beverages.
- Taxation reform should focus on creating a tax system that supports a sustainable and globally competitive Australian wine industry, rather than the current model which effectively penalises those Australian companies seeking to produce premium quality wines for the domestic and export markets by taxing wine on its value.
- Changes to wine taxation will inevitably have an impact on a wide range of industry participants; it is therefore essential that targeted assistance is provided, on a transition basis, to help those adversely impacted adjust their business model or exit the industry.
- Reforms to the taxation of wine, and related industry assistance, should be broadly revenue neutral to Government. TWE believes that savings delivered through changes to the WET rebate should, where appropriate, be used to support wine makers transition away from the current tax model and to support broad longer term demand stimulation.
- Wine tax reform should contribute towards the premiumisation of the wine category as a whole; and TWE believes that such reform is best delivered through a carefully crafted volumetric tax system. However, a single volumetric tax applied to all alcohol categories (beer, wine, and spirits) is not appropriate as this does not reflect the high cost of production of wine.
- TWE is open to working with Government on models that transition the sector from tax status quo to a more sensible and mutually beneficial tax environment.

8. WET Rebate



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Further to the points made on taxation (see above), TWE strongly asserts that changes be made to the incumbent WET Rebate regime in order to drive competitiveness and profitability within the Australian wine industry:

TWE believes that the current WET Rebate is acting as an agricultural subsidy that effectively supports uneconomic wine production, and been a contributing factor in the excess supply that has damaged the profitability and reputation of the Australian wine industry. Furthermore, the Rebate is restricting industry consolidation and value creation in the Australian wine category.

The increasing costs associated with the WET rebate are unsustainable and are at odds with the premiumisation of the Australian wine category. Accordingly, TWE believes that the WET Rebate should be removed, or as a minimum be substantially reformed so that it is consistent with its original policy intent, i.e. targeted support for Australian primary producers, particularly those who can help stimulate regional tourism.

The Rebate is also a tax instrument that has been widely rorted with costs increasing from \$220m upon its introduction, and now forecast to reach \$310, in 2015/16. This includes an approximate \$25m paid to competitor winemakers from New Zealand. Whilst recent action by the Australian Tax Office to clamp down on rorting and double-dipping of the Rebate is warmly welcomed, TWE maintains that fundamental reform of the Rebate is required.

The maximum size of the Rebate should also be reviewed as it is large enough to encourage new virtual business models designed to extract its maximum potential value. In contrast, most small regional producers only claim a small portion of the maximum Rebate.

9. Water

Consistent with other key sections of Australia's agricultural economy, the future quality and competitiveness of the Australian wine industry is highly dependent upon access to water. Unlike other sectors of our economy, Australian agriculture retains Mother Nature as a business partner and security of water resources across seasons, and throughout extreme climatic events such as droughts, is as important to deliver as it is difficult.

TWE believes that the improved management and control of water allocations will be increasingly important for the security of permanent vine plantations, and a wide range of other agricultural products. Again, this is an area where incumbent State interests may need to be better coordinated and aligned through a Federal process, whilst recognising an ongoing role for local and regional input.

- **Summary**

Treasury Wine Estates welcomes the Government's Green Paper on Agricultural Competiveness and believes that now is the right time to for both Government and industry look critically at the drivers



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of Australia's agricultural economy and the steps that need to be taken to ensure its future vibrancy and success.

In general, TWE believes that the Government's policy agenda is headed in the right direction, however we strongly urge that agricultural competitiveness is considered as part of a range of incumbent policy reviews, in particular the forthcoming tax reform process, rather than looked at in isolation.

Trade, environmental and foreign policy will also have a key role to play in establishing the framework for a highly productive and internationally competitive agricultural sector over the coming decade; accordingly TWE would like to stress the importance of Government adopting a joined-up approach.

As an Australian business that is already exporting to, and winning in, markets all over the globe TWE remains deeply committed to working with Government to showcase both the very best of Australian wine and the competitive nature of our nation's agriculture.