

CHINA DOUBLES DOWN ON TRADE DISPUTE

Chinese authorities have launched a second probe into Australian wine, claiming government subsidies could infringe on current trade rules.

As reported by *Vino Joy News*, the Chinese Ministry of Commerce posted a statement on its website announcing the launch of an anti-subsidy investigation into Australian wine exports in two litres or less.

The investigation, like the anti-dumping probe, will last for at least a year and could be extended to February 28, 2022 if needed under special circumstances, the Ministry says.

Australian Grape and Wine (AGW) has released its response to the news, saying the organisation is "well placed to respond to this investigation".

"AGW acknowledges the Chinese Ministry of Commerce has now formally launched a countervailing duties investigation on Australian wine in China," the statement reads.

"This was flagged on 18 August 2020, at the time MOFCOM announced it would be launching an anti-dumping investigation on Australian wine in China.

"The Australian grape and wine sector is well placed to respond to this investigation. AGW will collaborate with wine businesses and the Australian Government to ensure we cooperate fully throughout the investigation process.

"China is an important market for Australian wine and our wine is in demand from Chinese consumers.

"Australia has a large number of exporters with close cultural ties to China. The Australian industry welcomes the opportunity to build on these ties and work with the Chinese industry and government to further technical cooperation and develop lasting relationships."

Meanwhile, Australian Trade Minister Simon Birmingham told Channel 9's *Today* that the second announcement has not triggered the same reaction because Chinese authorities had informed the Australian Government of the planned second probe into Australian wine two weeks ago.

"We see here today there is a report released by the Australian Strategic Policy Institute which identifies that many countries around the world are facing some of these types of challenges and issues in relation to their engagement with China – Australia is not alone in that regard," he said.

"I've been very concerned at the number of different trade issues that have come our way this year that I think changes the risk profile for Australian businesses in engaging with China, and I'm very concerned that many of them lack what I think is substance in terms of the claims that are made.

"That's why we're working so hard to defend our wine industry, indeed all of our exporters, who engage very much on commercial terms in the way in which they operate in China or any other nation."

Minister Birmingham added that the Australian Government is working hard to have government-to-government discussions with the Chinese Government.

"At government-to-government levels, we are open to have mature discussions to work through difficult issues at the Ministerial level," he told Channel 9's Karl Stefanovic.

"The engagement there is extensive and ongoing, but it is important those government discussions happen – that is what mature nations should do to work through points of difficulty, and the Australian Government under Scott Morrison stands very, very ready to have those discussions."

Source: *Daily Wine News* 1st September 2020

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BOARD ACTIVITIES REPORT



HACCP and ChemCert Rebates

Following some simple marketing the office is now receiving copies of 3rd party HACCP Certificates and ChemtCert refresher courses.

Growers are reminded that the Board will reimburse you \$150 for 3rd Party annual HACCP audit expenses and \$100 for ChemCert certifications.

If you are paying for your staff to undertake ChemCert refreshers you can also receive a rebate.

Review of the Wine Grapes Marketing Board

The Board are pleased that the NSW Government has given it comfort that the work it undertakes is of value. All growers that contributed to the review process are to be congratulated and thanked for your commitment and support.

A full report and details of the correspondence received from the Minister can be found on page 7 of this edition of the Vine Chat.

If you would like a copy of the final review document please contact our office.

Development Officer Funding Proposal

The Board reconfirmed its financial commitment to part fund the NSW DPI Regional Development Officer - Viticulture position. Part of the deal with these funds is that the person will be employed in the region and not Wagga based. The funds injection in the NSW DPI should also allow for the government to engage more staff in the area of biosecurity readiness that is sorely needed with the NSW Wine industry.

AWRI Irrigation Survey

Board staff will be undertaking a survey for the AWRI on growers irrigation systems in the coming weeks.

NWGIC ONLINE WINE RESEARCH UPDATE

When: Wednesday 28 October 10am- 11:30am

Registration link: <https://www.csu.edu.au/nwgic/resources>

Grape growers and winemakers will be able to tap into research from the vineyard to the bottle in a free online event to be hosted by the National Wine and Grape Industry Centre (NWGIC) on Wednesday 28 October.

The NWGIC, an alliance between Charles Sturt University, the NSW Department of Primary Industries and the NSW Wine Industry Association, will showcase its research to benefit the wine sector.

The NWGIC Research Update will feature four research projects:

- The development of a smartphone app to identify and manage nutrient deficiency in grapevines - Dr

Suzy Rogiers, principal research scientist NSW DPI

- Techniques for determining the levels of grey mould contamination of grapes- Professor Chris Steel, Charles Sturt
- Measurement of different forms of Cu in wine- Dr Andrew Clark, Charles Sturt
- Benchmarking regional and sub-regional Shiraz fine wines- Dr John Blackman and Dr Sijing Li, Charles Sturt.

The online event will be held on Wednesday 28 October from 10 am to 11:30am and people can register here <https://www.csu.edu.au/nwgic/resources>

Contact: nwgic@csu.edu.au



HOW IS THE DOMESTIC MARKET PERFORMING

Editors Note: This is an excellent report by Wine Australia into the consumption and buying behaviour within the domestic market. Published on their website www.wineaustralia.com *Market Bulletin 217*.

The first half of 2020 has brought with it many disruptions to the wine sector. The influence of COVID-19 lockdowns, social restrictions and panic-buying has now largely stabilised and so we'll take a longer-term look at how the domestic wine market performed in the financial year 2019–20, to see if some of the short-term changes from the past few months had a significant influence on the whole year.



Did wine sales increase?

The first stages of lockdown across Australia saw an initial rush of panic-buying and the total closure of the on-premise (restaurant and bars). There were big reported increases in wine sales in the retail off-trade. As we reported earlier this year, in the week ending 22 March 2020, wine sales in the liquor retail off-trade increased by 39 per cent compared with the same week 12 months before, according to IRI MarketEdge scan data.

However, the size of this increase has not been sustained. Overall wine sales in the retail off-trade increased by 9 per cent in volume in the June quarter and by just 3 per cent when measured across the whole 2019–20 financial year. The positive growth rate is significant, as it reverses a trend of declining volumes over the past two years, but it is not enough to replace volumes lost in the on-trade over the three months of

lockdown in most states and territories. The on-premise is estimated to account for 20 per cent of wine sales volume normally. Therefore a 25 per cent estimated loss in the on-premise (due to a 3-month complete lockdown) would equate approximately to a 5 per cent overall loss to the market, more than off-setting the 3 per cent increase in the off-trade.

Another channel where wine sales are expected to have increased in 2019–20 is direct-to-consumer – particularly online sales from wineries' websites. Figures are not yet available to measure this effect; the annual Wine Australia Direct-to-Consumer survey is currently collecting information from wineries and will be

published in October. Anecdotal feedback suggests that while online sales are up, competition has greatly increased in this channel and margins reduced for businesses that traditionally rely on direct sales. Cellar door sales were negatively affected by lockdowns, but some are reporting strong rebounds with new practices such as a requirement for bookings and seated tastings leading to increased sales.

Did people drink more often?

With the highly publicised short-term increase in retail alcohol sales came some concern expressed in the media that Australians had increased their overall alcohol consumption in response to the pandemic and associated restrictions. A study conducted by the Alcohol and Drug Foundation reported that 12 per cent of people in Australia drank more alcohol during lockdown. However, counteracting that, 20 per cent of respondents in the study reported decreasing their

HOW IS THE DOMESTIC MARKET PERFORMING - CONTINUED

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drinking and a further 4 per cent stopped drinking altogether, making it very unlikely that overall consumption increased.

Wine Intelligence collected data shortly after the start of the first lockdown, which showed that there had been an increase *before* lockdown in the proportion of Australian regular wine drinkers that reported drinking most days/every day, compared with the previous 12 months, leading to an increase in the average consumption frequency year-on-year. However, during lockdown, there was a slight reduction in the overall average consumption.

The overall reduction in average consumption frequency during lockdown was a result of a reduction in wine consumption frequency among Gen Z consumers, partly offset by an increase among Gen X regular wine drinkers.

Results are not yet available for the rest of the year, but based on the above, it is likely that there will have been a slight increase in average number of occasions in which regular wine drinkers drink wine in 2019–20, but it is clear that lockdown did not contribute to any overall increase in consumption frequency.

Did Australians drink more local wine?

In its recently released *Global Trends 2020 Report*, IWSR identified six key macro trends that are driving and shaping the global alcohol market and assessed the impact that COVID-19 will have on these trends.

One of the trends is **Sophistication and Premiumisation: the search for authenticity and status**. IWSR predicts, as part of the COVID-19 impact on this trend, that local products will increase in popularity, accelerated by travel restrictions and closed borders during the pandemic.

IRI MarketEdge reported that Australian wine's share of total domestic retail off-trade wine sales increased by 1.5 percentage points during March 2020, supporting this prediction of a move to 'buy local'. However, this has not persisted across the longer term. In the year ended June 2020, imported wine sales in the off-trade grew by 7 per cent in volume, compared with 3 per cent for domestic sales, and increased its share of total off-trade wine sales from 12 per cent to 13 per cent.

Did consumers drink cheaper wines?

In the early days of the pandemic in Australia, there was evidence of 'trading down' in the off-trade wine retail market, while Wine Intelligence found that Australian regular wine drinkers generally reduced their spend per bottle of wine during lockdown, compared with their pre-coronavirus behaviour.

However, this is another change/observed effect that appears to have been short-lived. Across the 2019–20 financial year, value of wine sales in the off-trade increased by 6 per cent and average value by 3 per cent, while all price segments above \$10 per bottle grew overall. Cask sales declined by 2 per cent in volume, while bottled wine grew by 5 per cent.

Something to celebrate?

Wine Intelligence found that regular wine drinkers in Australia said that they were buying less Champagne and other sparkling wines during the lockdown in March.

However, figures from IRI MarketEdge show that total sparkling wine sales in the off-trade in Australia grew by 8 per cent in value and 3 per cent in volume in 2019–20. This was slightly higher than the growth for still wine, and the greater increase in value compared with volume shows a premiumisation trend – ie 'trading up'. Prosecco and sparkling rosé were the main drivers of the overall growth, which is good news for Australian Prosecco, which made up 80 per cent of the volume and 77 per cent of the value of total Prosecco in the off-trade.

Underlying trends outweigh short-term COVID-19 effects

In summary, despite the significant short-term disruptions to the market, the 2019–20 financial year saw a continuation of the trends that have defined the past few years in the off-trade: premiumisation, an increase in the share of imported wine and very moderate (if any) volume growth.

Editors Note: *The uncertainty for many within the country impacted by COVID, job losses etc may be a cause for a reduction in at home consumption of wine. However for those still employed the funds saved by not travelling may be a reason for them to try different wines, i.e. imported wines. If you cannot visit a country you can still try the wine*

MEMBER BITES



As I write this we are in the early stages of our response to China's investigations into anti-dumping and countervailing duties (subsidies). The anti-dumping investigation was launched on 18 August and the countervailing duties investigation on 31 August. Australian Grape & Wine is coordinating our responses to these investigations and will assist those companies that are participating, as well as making our own submissions.

One of the misconceptions is that these investigations are solely targeted at the ten companies named in the complaint. This is incorrect - the complaint is made across the entire Australian wine sector, including all producers and exporters. The complaint was made by the Chinese Alcoholic Drinks Association (CADA) who seek a 200% tariff + import duties. The details of these investigations including FAQs and Key Messages are available on our website.

Australian Grape & Wine has created a dedicated project team to achieve the best possible result from these investigations. We are under no illusions what the imposition of additional import duties could do to sales in the China market, and the flow on impacts on other markets, including the domestic market, and grape prices. We have engaged legal teams in both China and Australia and are throwing everything at this one. We will provide continual updates to our members on our progress as the case unfolds. Wine Australia is also providing valuable assistance on the data collection side.

However, there are other significant issues that continue to engage our attention. The Wine Grape Code of Conduct has gone through important revisions, providing a platform for building better commercial relationships between growers and wineries. It is important that not only do we get a significant number of signatories to the revised Code, but all wineries adhere to the spirit and intent as well as the letter of the Code. We will be seeking this over the next few months.

Food Standards Australia and New Zealand (FSANZ) are about to announce consultations on nutrition labelling panels for alcohol beverages, labelling of calories, added sugars (think dosage) and sugar. These will all have potential large impacts on the wine industry. Following the pregnancy labelling decision, we engaged in a frank and robust debate with FSANZ about how we could ensure a more transparent process into the future. This was a very positive discussion and hopefully will usher in a more cooperative approach on these issues.

The Australian Grape & Wine Board met on 2 September. While as expected, the China issue took up a fair amount of discussion, other serious issues also had the full attention of the Board. These included a discussion of a review of biosecurity, issues surrounding the future of our marketing programs, the Wine Grape Code of Conduct and of course the threats presented by the anti-alcohol lobby.

The Australian Government has announced a second round of public consultations for industry to provide input on how a future Geographical Indications (GIs) framework could work. The consultations will continue for three months and will ensure that our input is heard. We must ensure the right to label wines with common grape variety names is preserved. You can read more on this in the Trade & Market access section below.

The China anti-dumping and subsidies investigations will take up a lot of time and resources. We are acting on behalf of the whole sector and will provide members with regular updates. We would also ask that existing members who are intending to renew please do so, and other industry members please consider joining. This will help us to help you.

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CHINA ISSUES

In 2017 Australian Exports into China were worth \$116 billion (this figure includes all products). In 2017 it Australia accounted for 30% of the total imports into China. By 2019 this figure had risen to \$169 billion or a staggering 34.3%.

However looking at 2020 the trade into China despite all the trade issues they have raised the total value of goods exports to China remains steady and similar to the same period the prior year. This is despite COVID19 and an international economy that has been in a deep recession.

While the biggest driver of these figures has been strong demand by China for Australian iron ore wine sales to China have actually inched upwards according to *James Laurenceson, write with "The Interpreter" a daily online media published by the Lowy Institute.*

He writes that: China's actions to date are also being beamed around the world, casting significant global doubt on its reputation as a reliable trading partner that plays by the rules. In July, US Secretary of State Mike Pompeo took pleasure in declaring that "the United States commends the Morrison government for standing

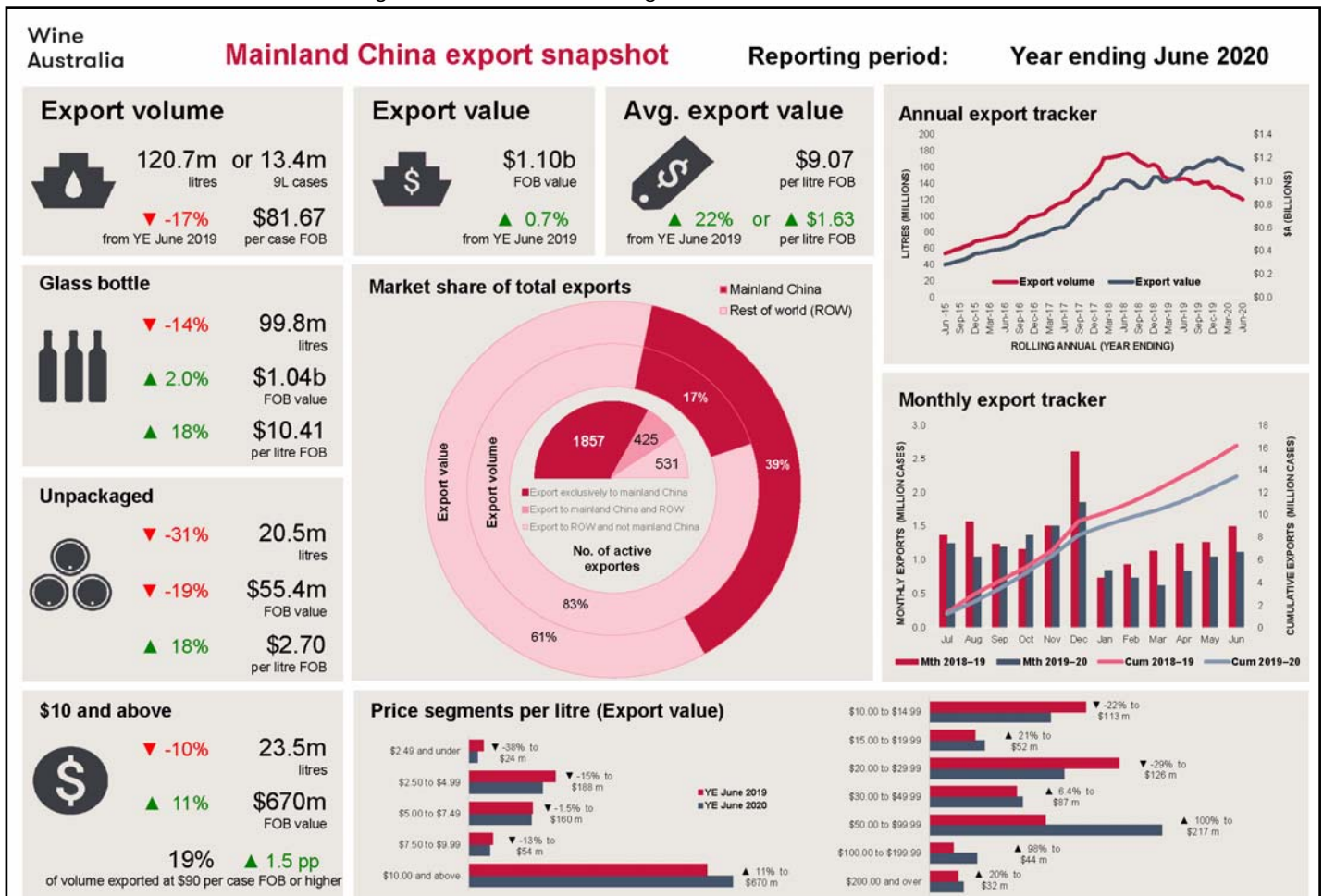
up for democratic values and the rule of law, despite intense, continued, coercive pressure from the Chinese Communist Party to bow to Beijing's wishes".

None of this to suggest that Australia can afford to be complacent or arrogant. The costs of trade disruptions imposed by China are real, especially on individual Australian companies and specific regions, even if they are not as large as commonly imagined.

And "own goals" ought to be avoided.

Australia's agricultural sector has fair reason to be disappointed by inexplicable decisions made in Canberra around foreign investment.

There is also a difference between making considered statements that defend Australian interests and megaphone diplomacy. Last week, former foreign affairs minister Julie Bishop said, "In my experience, it is possible to have robust private discussions with Chinese officials about all aspects of the relationship ... They react badly when such discussions are in the public domain, particularly if such matters were not first raised in confidence."



REVIEW OF THE WINE GRAPES MARKETING BOARD

The review of the Board commenced in 2017 and the Board is relieved that it is now completed and all that has to be undertaken now is the waiting on a draft of the revised legislation. The Board received the following in a letter from the Minister, the Hon Adam Marshall MP, Minister for Agriculture.

I have accepted the findings and recommendations from the NSW Government review into the performance of the Riverina Wine Grapes Marketing Board and enclose herewith a copy of the final report.

As noted in the report, the review recommendations will require changes to the Agricultural Industry Services (Wine Grapes Marketing Board) Regulation 2015. The process to make these changes was initiated in February 2020 and I will ensure you are kept well-informed of progress.

In addition to the recommendations contained within the final report, I would like to take the opportunity to provide further detail on the types and range of activities that the Board might seek to include under each of these new industry service functions and also outline some suggested changes to the Board's governance structure.

Industry Service Functions - Board Activities

I note the review made several recommendations to extend the Board's operations and service delivery at a local level and facilitate the evolution of its activities in line with the ongoing requirements of growers under the charter - that being independent, warm region wine grape growers.

Below is a suggested list describing the scope of activities and projects (but not limited to) which would be appropriate for the Board to facilitate and support under each new industry service function:

(a) Promotion of an open, fair and transparent MIA wine grape market:

- ◆ Promotion of the national Code of Conduct
- ◆ Provision of indicator prices (where available)
- ◆ Industry benchmarking
- ◆ Grape quality/colour testing
- ◆ Develop and encourage activities that promote or facilitate a better relationship between growers/Board/processors.

(b) Provision and promotion of activities in relation to biosecurity and the facilitation of industry accreditation and best-practice programs:

- ◆ HACCP certification and other food safety requirements
- ◆ Chemical-use training
- ◆ Biosecurity best practice training and management
- ◆ Support/information for growers on Entwine/Freshcare/environmental credentials.

(c) The conduct and facilitation of research, development and extension projects and programs specific to warm region and MIA wine grape production:

- ◆ Could cover specific projects like regional varieties, water management/ efficiency, rootstock, drought tolerance, disease resistance.
- ◆ Delivery of the Wine Australia Riverina Regional program
- ◆ Scope to work with RWGG and RWA to develop projects with NSW DPI or other research organisations such as the National Wine and Grape Industry Centre.

(d) The representation of the MIA wine grape industry:

- ◆ Support for local events and field days
- ◆ Support and collaboration with the Inland alliance
- ◆ Development of new and support of existing industry leadership programs
- ◆ Representation on other industry committees and working groups.

(e) The provision of educational activities and information in relation to the matters referred to (a) to (d):

- ◆ Local market insights (localised information if available from wineries)
- ◆ Wine grape marketing (promoting and assisting growers with contracts).

Editors Note: The Board are relieved that the Review Process that was impacted by drought, bushfires and most recently COVID-19 is complete. We now await the redrafted legislation to review.

WINE GRAPES MARKETING BOARD

INDUSTRY CODE OF CONDUCT LAUNCHES SOON IN TIME FOR 2021

Australian Grape & Wine adopted a recommendation to 'substantially' strengthen the voluntary Wine Industry Code of Conduct (the Code).

A major part of the Code Review is to ensure growers are able to access market information independently from winemakers to assess prices. In addition to this, Australian Grape & Wine have commissioned research to develop industry guidelines for winegrape assessment and sampling protocols to increase transparency in these areas. These will be referenced in the Code. The Code has been redrafted to include these and the other measures below.

It is expected to have the Code and revised protocols in place for the 2021 vintage and for it to be continuously reviewed to ensure it delivers. The real test for the Code will be to ensure that we can get better coverage of signatories in the greater than 10,000 tonnes crush range.

The following policy principles have been supported by the committee:

- ◆ The price that is to be paid by the Winegrape Purchaser for the purchase of the winegrapes, or the pricing mechanism used to determine the price to be paid must be agreed prior to entering into the Winegrape Purchase Agreement.
- ◆ Where the Agreement requires a market-based pricing mechanism to determine the price for the winegrapes, the Winegrape Purchaser must provide this price:

by close of business on the second Wednesday of December each year for its Grower(s) in the Hunter Valley, Riverina, Murray Darling/Swan Hill and Riverland regions for each variety of winegrape; or by close of business on the second Wednesday of January each year for its Grower in all other regions.

- ◆ Downgrades that reduce the price that will be paid for winegrapes must not be imposed unless there has been a failure to meet agreed terms or objective specifications contained within the agreement.

- ◆ Disputes arising as a result of winegrape quality assessment, rejection or downgrade decisions will involve Independent Expert Determination by an Independent Technical Expert. Where market based pricing mechanisms are under dispute, the Code will refer the matter to an Independent Pricing Expert. It is likely that the Code will also outline a process for the treatment of other contractual disputes.

Payment terms – Code signatories will be encouraged to pay within 30 days from the end of the month during which the grapes were harvested. The minimum payment terms that will be accepted of Code signatories are the South Australian 3 payment standard.

Industry Guidelines and supporting information

AWRI is working on the development of Industry Guidelines for winegrape and wine assessments, the priority being reference methods for sugar, acidity and colour as well as validation of secondary methods for these measurements. AWRI are also in the process of developing protocols for sampling in vineyards, weighbridge and wineries including protocols for the assessment of material other than grapes (MOG) and pest and disease.

Pricing information

Wine Australia has developed a number of market reports tailored specifically for growers aimed at providing an indication of short to medium term price trends by variety and region. These are Grape Production and pricing which includes varietal and regional snapshots, Supply and demand: State of Play report and a gross margin ready reckoner.

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