



4th April 2014

Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
agricultural.competitiveness@pmc.gov.au

Dear Taskforce

Cider Australia appreciates the opportunity to make a submission on the Agricultural Competitiveness Issues Paper.

Cider Australia is the national body that represents the cider and perry industry in Australia. We have more than 50 member organisations including Australian agricultural producers, local and international cider makers, manufacturers and distributors. These businesses directly employ hundreds of people in regional areas across Australia and indirectly support the employment of thousands of others.

Cider Australia's primary concern as an organisation is to build a sustainable category through maintaining and improving the quality of ciders produced and marketed in Australia. Our key functions are to advance the industry through policy development and promotion, educating consumers about production and responsible consumption, and creating marketing opportunities and strategies to assist producers to grow their businesses.

Cider production is making an increasingly significant contribution to the Australian apple and pear industry by boosting demand for juice quality fruit. Demand is expected to become more pronounced as local production and consumption of cider grows. Cider currently makes up a relatively small part of the alcohol market in Australia at around 3 per cent, but its share grew by 42 per cent last year and this trend is projected to continue.

Besides the significant benefit to growers, cider production brings a further degree of diversity and stability to the rural economy. It allows businesses to expand and diversify their operations, and cideries are also becoming a substantial force in regional tourism.

Sustained development of the Australian cider industry has the potential to:

- **Enhance food security** – cider production enables growers to maintain and potentially expand horticultural production in Australia.
- **Improve farm gate returns and agricultural competitiveness** – by offering an alternative market for produce and improving the ability of growers to negotiate fair returns, and an alternative avenue to value add and diversify farm businesses. Expansion of the juice market further benefits the Australian horticulture industry by removing lower quality fruit from the whole fruit market, increasing the average quality (and price) of Australian fruit.

- **Contribute to regional communities** – cider production is an important stabiliser for growers by providing an alternative market for fruit, it offers new sources of employment (including for workers displaced from declining sectors) and is increasingly a drawcard for tourists.

The extent to which the cider industry can continue to contribute to improved agricultural competitiveness is heavily dependent on two issues – the integrity of labelling laws in Australia, and how cider is taxed.

Labelling

Integrity in labelling is crucial for the long term development of the Australian cider industry. To sustain growth and provide for a maturing market, consumers must be able to identify what they are buying, and producers must be able to differentiate their product. Current labelling laws do not achieve these objectives.

There are two different **definitions** for cider (and perry) in Commonwealth legislation. Labelling rules are governed by the definition in the Australia New Zealand Food Standards Code. Standard 2.7.3 permits cider to contain fruit juice and fruit juice products, vegetable juice and vegetable juice products, sugars, honey, spices, alcohol and water. In contrast, tax legislation defines cider as products made through the full or partial fermentation of apple and/or pear juice, with no added flavourings or colourings. Thus, many products defined as cider under tax law are not similarly defined under food standards, and vice versa.

Given the two quite different definitions, cider producers face a complicated and confusing task in complying with the law, consumers are unable to make informed choices about what they are purchasing, and the incentives to produce and market quality cider are reduced.

Strengthened **country of origin** labelling would benefit Australian producers and consumers of cider. Current laws do not allow a consumer to identify the origin of the key ingredient, the apple and/or pear juice. There has been a high level of media coverage about the use of imported concentrate in cider which indicates there is a group of consumers that would choose to purchase cider made from Australian juice if properly informed.

Given the strong projected growth in Australian cider consumption over the next few years, there is a substantial opportunity to expand the market for Australian fruit juice which would stimulate regional job creation. Introducing transparent country of origin labelling laws would place pressure on the major Australian producers to use Australian juice, encourage the producers that already use Australian juice to continue to do so, and give consumers greater confidence that the claims on labels are accurate.

To put into context the potential benefits of using more local juice in cider production, total annual apple production in Australia is currently around 300,000 tonnes, placing us as 33rd largest producer. In comparison, the largest producer is China at almost 36 million tonnes per year, and the second largest is the US at 4.2 million tonnes per year. Australian cider sales are around 120 million litres per year, requiring the equivalent of 160,000 tonnes of fruit. Cider Australia understands that a significant proportion of the cider produced in Australia is derived from imported concentrate, though is unaware of the exact proportion.

If it is assumed that 20 per cent (or 24 million litres) of the cider currently sold in Australia is made from locally grown fruit, and clearer country of origin labelling resulted in the use of Australian fruit doubling to 48 million litres, then cider producers would require an additional 30,000 tonnes of fruit per year. This potential demand represents approximately 10 per cent of current apple production in Australia, and if realised would have huge flow on benefits for regional apple producing communities around Australia.

Another key weakness in our labelling laws is that there is no **minimum juice content** requirement for cider produced and sold in Australia, which is inconsistent with the situation in other key cider producing countries such as the UK (where cider must contain at least 35% juice) and the US (where cider must contain at least 50% juice). Cider Australia supports the introduction of a minimum juice content requirement for cider to provide a measurable benchmark for producers and consumers, and proposes this be 35% to align with the approach in the UK.

Inadequate labelling laws will increasingly hamper competition, diversification and investment in the cider sector as the industry grows and matures. Cider Australia's position – consistent with the approach in many key cider producing countries and what we believe are the expectations of consumers – is that the Commonwealth should adopt a single definition of cider that is closest to the tax definition, along with strengthened country of origin labelling requirements and a minimum juice content.

Cider Australia is committed to work with Government to ensure labelling requirements evolve to support consumer choice, as has occurred in the wine industry.

The cider industry is exploring voluntary industry initiatives to better inform consumers about the product, such as adoption of Apple and Pear Australia Limited's "*Made with Aussie Apples*" logo to signify the use of 100% Australian juice. However, reform of the regulatory framework is a necessary complement to industry initiatives to enable consumers to make an informed choice.

Cider taxation

Maintenance of a fair and well-targeted taxation regime is fundamental to the Australian cider industry. Cider is a fruit wine and, like wine made from grapes, is produced by fermenting juice. Most 'traditional' ciders in Australia – those made with apples and/or pears and with no flavours or anything that adds colour – are taxed on a similar basis to wine under the Wine Equalisation Tax (WET). A rebate scheme for producers applies to a portion of the tax paid. Any 'cider' that does not meet this definition is taxed under the excise regime along with beer, spirits and ready-to-drink beverages.

Cider Australia supports the current approach and considers that cider produced in Australia should continue to be taxed in a similar manner to Australian wine given cider production is most closely aligned to that of wine. Cider Australia's position on the taxation of cider mirrors that of the Winemakers' Federation of Australia with respect to wine. Cider Australia also supports reforms to tighten eligibility and close any loopholes in the WET rebate scheme, such as those recently proposed by the Winemakers' Federation.

Reforms to the way cider is taxed could have substantial adverse impacts on the Australian cider industry, particularly the many smaller producers and rural and regional communities. Any reform proposals will require detailed consultation with the cider industry to ensure there are no unintended and potentially catastrophic impacts on the industry. Cider Australia notes that the Government has committed to produce a White Paper on tax reform and looks forward to participating in this process.

Other comments

Regulation and Government programs must support innovation and expansion of the cider industry. One area of particular concern among our members relates to the use of certain ingredients and processes in cider production and the implications for taxation and labelling. Cider Australia notes the efforts of the Australian Taxation Office in responding to queries from producers, but considers a more coordinated approach to enforcement between government agencies (including on food regulation) could reduce costs for industry and Government. A necessary precursor to cooperation would be reform of the definition of cider.

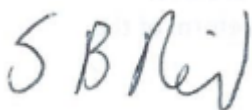
Cider Australia believes the Government should focus on actions to improve agricultural competitiveness in the existing and proven agricultural regions of Australia, rather than seeking to intervene to develop new sites, including in northern Australia.

Continued efforts by the Government to facilitate adjustments to structural changes in industries and changing employment patterns, such as provision of information and advice to employees and financial support for tourism and marketing related initiatives, is strongly supported.

Cider Australia also encourages greater investment in research and development related to the cider industry, given sustained growth in this sector will directly improve agricultural competitiveness.

Cider Australia would be pleased to discuss the issues raised in this paper or any other matters related to the competitiveness of Australian agriculture. Please do not hesitate to contact our Executive Officer, Jane Anderson on 0434 559 759 or office@cideraustralia.org.au if we can assist the Taskforce.

Yours sincerely

A handwritten signature in blue ink that reads "S Reid". The signature is written in a cursive, slightly slanted style.

Sam Reid
President