



In conversation with Treasury Wine Estates CEO Tim Ford

Speakers: Mr Tim Ford CEO, Treasury Wine Estates

Moderator: Ms Glenda Korporaal, Adjunct Industry Fellow, UTS:ACRI; columnist, *The Australian*

May 16 2023

UTS Business School and online

[E&OE | Check against delivery](#)

Professor James Laurenceson:

Good evening, everyone. Let's make a start.

Welcome, all.

My name is James Laurenceson, and I'm the Director of the Australia-China Relations Institute here at the University of Technology in Sydney. Tonight we are co-hosting this event with the UTS Business School.

Let me immediately hand over to my colleague, Associate Dean of Research and Innovation, Kathy Walsh, to deliver some opening remarks. I'll just note for everyone that Kathy Walsh is a professor who is also an expert on the Chinese economy and financial system. It's lovely to have you in particular to deliver these remarks, Kathy. Over to you.

Professor Kathy Walsh:

Thank you. Much appreciated.

I might just stand here actually. Good afternoon, evening, I suppose, ladies and gentlemen.

Before we begin the proceedings, and on behalf of all those present, I would like to acknowledge the Gadigal people of the Eora Nation upon whose ancestral lands our city campus now stands. I'd also like to pay respects to the Elders, both past and present, acknowledging them as the traditional custodians of knowledge for this land. Now, I understand that people are coming in from online as well, so I also pay respects for the Elders past and present of the people on whose lands you may be coming in from.

Welcome to all members of the audience here joining us both in-person and online for this joint event between the UTS Business School and the Australia-China Relations Institute.

As James said, my name's Kathy Walsh and I'm the Associate Dean of Research and Innovation. I also have a research focus on Chinese capital markets. This event is very close to my heart. I'm very excited about being here today and enjoying the discussion.

UTS Business School is a bit of a different type of business school. We're actually dedicated to developing and sharing knowledge for innovative, sustainable and a prosperous economy – pause – in a fairer world. We're very much into making sure that what we do is for impact in a very positive way. We do this by leading education and research that enables business and organisations to contribute to the public good. Consistent with ACRI and their approach, we contribute to public debate with an open mind and an evidence base. It's very important to us, and I know that's very important to ACRI. And we're delighted to co-host the event today.

I'd like to introduce our speakers today. We have Tim Ford and Glenda Korporaal. Thank you for coming. Mr Ford has been Treasury Wine Estate's Chief Executive Officer since 2020, and since joining in 2011, he has had key roles across the business' global operations. Mr Ford has more than 20 years experience in the wine, food, beverages sector, with a strong track record for disciplined execution of strategy, driving growth and building high performing connected teams. Prior to joining TWE, he held senior management roles in National Foods and CUB, and actually mentioned he worked very close to here a number of years ago.

Mr Tim Ford:

Across the road.

Professor Kathy Walsh:

Across the road until they shut it down. Moderating the discussion today is Glenda Korporaal – thank you for coming – an Adjunct Industry Fellow with UTS:ACRI. Ms Korporaal is a Sydney based journalist with *The Australian* newspaper, specialising in business, financial affairs and international relations. She's a former London, Washington and New York correspondent of *The Australian Financial Review*, and was the China correspondent for *The Australian* in 2018 and 2019. Timing is everything, I suppose, isn't it? She's the author of several books and was awarded an OAM for her contribution to print journalism in the Australia Day honours of January, 2019. So thank you for coming.

I'd also like to extend a special thanks to the honorable Mr Jason Yat-sen Li, Member for Strathfield, joining us today.

Just a quick note that audience questions are welcome at the end of the panel session today. We'll be taking questions from both our in-person and online attendees. For online attendees, please submit your questions via the Q&A tab at the bottom of the screen. For anyone in person, we'll be coming around with microphones. Just please speak very clearly and directly into the microphone so the online attendees can actually enjoy the questions as well.

Thank you very much for coming, and I now invite Ms Korporaal to begin today's discussion. Thank you.

Ms Glenda Korporaal:

Thank you. Thanks very much.

I think I'm really pleased, this is, I think one of – this is an event between ACRI, Australia-China Relations Institute, headed by the very hardworking James, and the Business School because as we know, China is Australia's largest trading partner. The two-way trade is worth more than \$200 billion. I've written that many

times, that trips off the lips, but the reality is that trade relationship is made up by many, many individual products that are sold back and forth – many, many trading relations.

Here we've actually got someone who has actually been at the coal face of this relationship and certainly been through a bit of a bath of fire perhaps over the past few years. But thank you very much for coming.

I just want to start, we'll get into a bit of background, but it's great timing now because Don Farrell, the trade minister, has come back from China. First visit by an Australian trade minister, I think, since 2019. But some people said he's come back empty-handed, he hasn't come back with any deals. How significant do you see that visit?

Mr Tim Ford:

Thanks Glenda. It's nice to see everyone. I won't speak so loudly into the microphone.

Hugely significant, I think the weekend visit was, from a symbolic nature, but also the process that's been going through between the two governments now where the first step had to have our trade minister travel to China and meet with his counterpart, and the delegations that exist. We've all been waiting for that for a number of months as another step in the right direction. There's some commentary that it's a 'disappointing outcome'. I don't concur with that. I think it's a really important visit.

Ms Glenda Korporaal:

Did you think he might come back with a few deals in his pocket?

Mr Tim Ford:

No. No, I didn't because there's a process. These things took years to be put into place. There's a commonly held view that all these tariffs were implemented overnight and the relationship turned sour overnight. That wasn't the case. I think we all know that. And it's going to be months and conversations and actually having conversations and talking that's going to unlock these things. So no, I wasn't surprised.

Ms Glenda Korporaal:

I noticed he comes from South Australia and he has a special affection for wine.

Mr Tim Ford:

He does.

Ms Glenda Korporaal:

So that stands well in your stead.

Mr Tim Ford:

It does. It helps. No, and look, I was a little disappointed he handed over a bottle of his own wine, but he knows that. But no, look, he has an affinity for the sector as well, which does help, but also for all sectors.

Ms Glenda Korporaal:

Now, we want to go back a little bit into your background because you've got a bit of a long history in dealing with China. You were appointed CEO in July 2020, but can you tell us a little bit about your career to date? Because you've been I think with TWE now for 12 years.

Mr Tim Ford:

Yeah.

I joined Treasury when we demerged from Foster's. So as the wine business was demerged out of the beer business, which was ironic given I did used to work for the beer business back a long time ago, and I was one of those people in the beer business that thought the wine business was not a great fit. So ironic that I ended up here and then now as CEO.

But 12 years in the business, lots of different roles, but spent some time in the US in 2014, '15, '16 in our business over there. And then as I returned from the US, more in a supply chain background in my first four or five years in this company, and then took on more regional roles. Started traveling to Asia from the end of 2016, 2017, and then China in earnest from halfway through 2017. I think over that two and a half year period, it was about 22 trips to China over that period of time. And every one of them was a learning experience, fair to say.

Ms Glenda Korporaal:

What was your perception then? We're trying to go back pre-COVID, pre-degeneration of political relations.

Mr Tim Ford:

No, it's an important bit of context, I think, because it was only the most unfortunate part for our company, anyway, one of the most unfortunate parts, with the breakdown of the relationship and then the tariffs that were put in place was, it felt like we actually had really only got our brands and business going quite strongly in China in the six, 12 months leading up to it. The love of brands, the consumer demand for brands in that market is just like no other market in the world. To understand how you engage with consumers and build luxury brands in a market like that actually taught us a lot with a brand like Penfolds, which we own, that we could take to other parts of the world. That was the first important point.

The second one is relationships are everything. I think we'd built some really strong customer relationships. We had some fantastic partnerships that went on for 10 years, 12 years in China and continue to this day. The importance of spending time with those partners and building their business as well with our brands, was again, I think next level to anywhere else in the world where it is so transactional in a number of other countries.

Ms Glenda Korporaal:

And so here we are in July 2020, and at that time, China was enormous. Well, I think 30 percent contributed to your profit, I'm not quite sure if you ever revealed at them. When you took over, how important was China to TWE?

Mr Tim Ford:

That's about right. It was about a third of our business, and about 80 percent of our growth over the previous three years, and I'll probably argue at that point in time, about 95 percent of the investment thesis for

investors in our company, because we had really profiled that as the growth engine of Treasury Wine Estates because at that point we had quite a struggling US business. So for all those reasons, it was pretty important to us.

Ms Glenda Korporaal:

And now, tell us, I think it was August that there was the first rumblings that there might be some problems with China.

Mr Tim Ford:

I remember –

Ms Glenda Korporaal:

What happened?

Mr Tim Ford:

How long have you got? I remember this in some detail. You go back 18 months, two years, and it's probably important to get context, is there had been issues in the past whereby we had six, eight week periods of time where Australian wine wouldn't get through the ports. It was held up in customs. This wasn't the first time there was rumblings. It wasn't a new environment we were operating in, but it was obviously exacerbated at that point in time with COVID happening at the same time as well.

Six weeks into the job, first full year results, I was doing. Every August we do our full-year results, which as a first time CEO was probably the most nervous thing I've ever done. And was pretty happy with my performance day one, I must admit.

Ms Glenda Korporaal:

I'm sure it was great. Yeah.

Mr Tim Ford:

The investors were happy with what we explained, et cetera. And then driving home that night, on the Friday night after we did our results, my general counsel rang me and said: 'Oh, there's rumours in China that there's going to be some problems over the next week or so.' Of course, there's always rumors in China. And so I didn't take it with a grain of salt. You know that can't be good. And the following Tuesday morning, I was on a call with investors as part of our roadshow we do, explaining our results. And one of the investors actually said to me: 'Have you read *Bloomberg*?' I said: 'No, I'm talking to you. Of course I haven't read *Bloomberg*.' And that's as my EA came into the room and said: 'I think you need to step out.' And that was it. That was the announcement of the anti-dumping investigation.

So no tariffs at that point in time, but clearly, share price drops. I think it was about 34 percent that day. And any positivity we had from the previous week or so was struggling to see that at that point.

Ms Glenda Korporaal:

But what did you think? Because when people said Australian wine, it was an anti-dumping investigation, in fact, the wine we're selling into China was more high-end. It wasn't mass volume wine. Could you first of all have thought: 'Well look, really, they can't prove – there's no substantial grounds for anti-dumping?'

Mr Tim Ford:

Yeah, and we knew that was the case from the start, which then suggested it was a broader context to why this was happening. If it was purely an investigation into absolute dumping of wine below cost, and when we knew that the price of wine was the highest of any market going into China, then we would've had a lot more belief. So we clicked into gear pretty quickly that there was going to be some form of impact, likely tariffs. You've seen this, it's happened before in other industries and other markets. So we realised pretty quickly that that's what was going to occur.

Ms Glenda Korporaal:

What happens then, seeing you here on the spot, do you liaise with government or what happens when you get hit with a – well, as a wine industry per se, gets hit with an anti-dumping?

Mr Tim Ford:

Our relationship with governments was already relatively transparent and strong at that point of time. So clearly, there's a government-to-government relationship that sits in the middle of that. And then the investigation unfolds.

We were one of three companies chosen to provide data to the investigation. So we did that. We had a team of people working for six weeks and produced two pallets of paperwork and information, that I've still to this day got a photo of, that clearly was not really worth the paper it was written on at the end. So then we submitted that and that was the process that was taken through culminating in tariffs being announced. When was that – March?

Ms Glenda Korporaal:

I think there were tariffs announced in November. And then –

Mr Tim Ford:

November was the interim tariff. That's right.

Ms Glenda Korporaal:

Yeah. And then by March you got the actual –

Mr Tim Ford:

That's right. That's right.

Ms Glenda Korporaal:

– how much percent, you were 170 percent I think, or its immaterial.

Mr Tim Ford:

Whatever. It didn't matter when it got passed, about 80 or 90. 170, I think it was. We were working on different scenarios. It's interesting because it switched our mindset. We did the work that said the biggest tariff, barley had happened at that point.

Ms Glenda Korporaal:

Yes, of course.

Mr Tim Ford:

And we looked at other tariffs and other trade disputes that had happened with China in other countries and wine and we thought 80 percent was probably the extreme end. So we did a lot of work on scenarios of what would we do, what would our business look like at an 80 percent tariff. We got our mindset really clicked into, we actually could still have a really reasonable business here, even if it gets to that level, given the price that consumers are prepared to pay for luxury wine. So we talked ourselves into the fact that this still could be a reasonable path, albeit not ideal. And then the final tariff came in and it shut the book on that idea.

Ms Glenda Korporaal:

By this time the relations were at a very low end, shall we say, with the Morrison government. It's almost like every week there was some new issue. How much did you see it as political? You have to go back to the Australia-China Free Trade Agreement [that came] in 2015. Suddenly, there's an enormous increase in Australian exports and we're trumpeting how wonderful – Australia was the biggest single wine exporter to China. How much of it was political and how much do you think could have been a little bit of protectionist backlash from the Chinese industry?

Mr Tim Ford:

Look, it's hard to give a percentage, but my opinion on it would be, I think there was certainly an angle from a point of view of the industry, because not all products have been impacted by tariffs. Not all products have been impacted, or industries or commodities, have been impacted by the trade dispute that has been going on.

There's others that are more important than what wine was. Wine was seen as somewhat dispensable as part of this process, which was broadly political, but it also is a lesson in that, we hadn't necessarily invested the time and effort in the local industry in China for the five to 10 years leading up to these tariffs like we had started to do.

I think there is an element of, you put the hat on if it was happening to us here in Australia as an Australian wine industry and there was another, French, for example, was just killing it in this market and they were getting 80 percent growth on an annual basis and our local industry was going backwards, I reckon we might be carrying on a little bit too here. So there's an element of, I think we've got a responsibility and we do it in all the other wine markets around the world that we operate, California and New Zealand, here, France now, where we see ourselves as really helping to build the wine category in the wine industry in those markets. That's a really big learning, I think for China.

Ms Glenda Korporaal:

I think one of the things Australians forget, of course, I remember when the anti-dumping tariffs were placed on barley, that Australia actually had a string of anti-dumping investigations against Chinese products, including steel. It was quite regular that Australia would take anti-dumping moves against Chinese products. But when it happened to us, we were a little bit more alarmed, perhaps.

Mr Tim Ford:

Affronted.

Ms Glenda Korporaal:

But anyway, when you learn that you've got an impossibly high level of tariffs, were people saying to you, 'Well, just forget about China now'? Were people just thinking: 'Well, okay, just write that off'? How did you start to recalibrate your strategy?

Mr Tim Ford:

Lots were. It happened before the tariffs came on.

Within a week of the anti-dumping investigation, you go away, you do your scenarios, you get your team together, and it's like: 'Well, where do we go from here?' I certainly wasn't going to do that on my own. The team is quite inspiring when they said: 'Look, there's a consumer demand in that market for our brands. Whatever the outcome is, it's probably for a period of time. Let's not lose sight of the long term and the end game from that perspective.'

We'd already started to produce wine in France and America with a view of that could actually go for Penfolds for the main brand in China, with the view that that would help build, diversify our sourcing into that market as well. So double down on that, how do we create a market, how many years will it take us to get back to certain levels and rebuild our business in China with a view that we'll be back to the number one luxury wine business within probably seven to 10 years, was the –

Ms Glenda Korporaal:

So that was your thought, even back then in the dark days of –

Mr Tim Ford:

Well, we'd just done our strategy. I was six weeks in. The number one was: leading luxury brand in China. I wasn't going to give up that quickly after six weeks. But it's what the fun of business, in a lot of ways, is, that you didn't have that and you go, right, well, you have to rethink and you go back to your fundamentals – today it's a China discussion, but a business discussion as well – it was a great opportunity to go the fundamentals of that market there, we'd build demand, we'd build a fabulous business. Our brands were strong. You don't just walk away just because of factors that are out of your control. The mindset around that really gave us a much more longer-term view to make those right decisions.

Now, we had to cut people, we had to cut sourcing, we had to cut all sorts of things to deal with the short term, but that's just a reality. Whereas we flip pretty quickly to how do we build it back. And what are the things we are going to do while the tariffs are on that when they do change at a point in time, that we can get back in that market and we haven't lost the credibility, we haven't lost our brand presence? All those sorts of things.

Ms Glenda Korporaal:

You already had operations, I think in France and in America, and so the shift was to step-up production from those markets and sell them into China. Were you already going to do it or did you step it up?

Mr Tim Ford:

Yeah, we'd already started. So it was something that started about five years ago in France and about 15 years ago in America. It just took us a while to get the Americans excited about it, but we got them there in the end. So we're stepping that up, number one. I think the other big part of it for us was we had confidence that, you're talking about 600,000 cases of \$100 bottle wine and above. That's what was going to China or planned

to go to China each year for the next two or three years. And with wine, just to give it a context, what you make today, you sell in three years' time. From that perspective, we'd already made three years of 600,000 cases of Penfolds that was destined for China.

Ms Glenda Korporaal:

Wow.

Mr Tim Ford:

Fortunately, we thought there was demand in other markets around the world that we hadn't satisfied, particularly in other Asian markets where they'd been growing. And we'd been there for a decade, but we hadn't had enough wine to really grow those. So the luck, good management, whichever you want to call it, but the demand was there, so we could redeploy that wine to other markets, which helped a lot. But for China itself, it was about really bringing the French, American. And then we fast tracked the development of our Chinese wines as part of that too.

Ms Glenda Korporaal:

Just getting to that point, when you had been hit with these tariffs, what was it like for your people inside China? Were you worried that the Treasury Wine Estate brand, that was it? Or what feeling did you get from the authorities in China?

Mr Tim Ford:

The good part was because of the strength of the relationships we had in China, particularly with a variety of state-owned and private enterprises, but particularly the big state-owned customers, they were very strong with us. There was nothing to do with Treasury. The connection we had in the market up there made it quite clear that this was not a Treasury Wine Estates issue, this was an Australia issue. The fact we could get our other products still in, et cetera as well, we certainly confirmed that.

So we were worried about it, but from the point of the team on the ground, never were concerned about it. We've maintained a team of 100 people in China since this happened. They're all the same people, we've got the same relationships. And that's held us in good stead. We've got a lot of credit from our partners in that market that we've stuck the course over that period of time with the same team and the same people. Smaller, but a number of key people.

Ms Glenda Korporaal:

But you're obviously having to ship in more wine from France and America. Did that change the cost base for you? It would've changed the economics of it then perhaps.

Mr Tim Ford:

Changed the economics. There was a misheld view that we sold product in China for a higher price than everywhere else around the world, which isn't the case, and wasn't the case, and doesn't remain the case today. So fortunately, we had a pricing architecture that allows us to have consistency of pricing around the different parts of the world. From that point of view, we maintained our margin structure, which is clearly one of the key strengths of our Penfolds business.

Ms Glenda Korporaal:

I think during this time, I remember there was a counterfeiting case. You've had long – Everyone talks –

Mr Tim Ford:

Just one, there's about 100.

Ms Glenda Korporaal:

Certainly when I was there, you could go into all sorts of wine shops and see little fake labels and things like that. At the same time as you've got the tariffs there, you're still working with Chinese authorities on this counterfeiting issue.

Mr Tim Ford:

Yep. We were, and that's another good proof point to why we knew this wasn't a Treasury Wine Estates issue, so to speak, that was being the cause of it. It was more political and Australia-based, because all the courts, the police, all the local authorities almost doubled down on their efforts with us to stop the counterfeiting of that brand as well. We've had fantastic support over the last couple of years to deal with that.

I think it's a misnomer that counterfeiting is an accepted and encouraged practice on these brands in China. We certainly haven't found that with our brands. So they've been very strong. We've continued to invest millions of dollars every year to protect the IP, and we still have lots of court cases ongoing on a monthly basis.

Ms Glenda Korporaal:

Because there was another company that registered as Penfolds or whatever the Chinese roughly equivalent of it is. I think you had to take court action against them as well.

Mr Tim Ford:

Yeah. Ben Fu. That's right. Rush Rich was the – It's quite a publicised case. I'm not naming just for the sake of it, but yeah, no, we did and we've just finalised winning that case after five years, which is great.

Ms Glenda Korporaal:

Wow. People say you don't win court cases in China, but it sounds like you have.

Mr Tim Ford:

I don't think you ever win them, but we're on top at this point.

Ms Glenda Korporaal:

But of course, you're a big company and there were a lot of Australian small wine companies that just had their – and a lot of them were focusing very much on the Chinese market. How did they feel? How did you feel for them? Because I think their market was –

Mr Tim Ford:

Oh yeah, absolutely.

It's tough, and it's a balancing act, because we've navigated our way through this relatively well as TWE. One, we're proud of that. But on the other hand, we know it's been a big impact on the industry. We've done that by having a negative impact on some of the growers, for example, by getting out of contracts and those sorts of things. Not getting out of ones we had, but not renewing contracts with growers. There's lots of growers hurting in the wine industry at the moment on the back of it.

The branded companies, the smaller wine producers, they've certainly had their profits squeezed. China was a high profit market for a number of small wine companies who would sell 80 percent of what they make here in Australia and the 20 percent they'd send to China would be how they'd make their profit. So from that point of view, it's certainly hurt the industry.

But again, a lot of the good luxury brands have done pretty well. I think the lower end, below \$10 wines, that were big volume. Rawson's Retreat, for example, was the brand we had.

Ms Glenda Korporaal:

That was my favourite.

Mr Tim Ford:

I'm sure you wouldn't have drunk it then, Glenda. You would have been at a much higher price point, I'm sure. But those brands are gone nowhere. So that's where there's surplus inventory in the industry still, which is a challenge more for the growers.

Ms Glenda Korporaal:

Mike just was expanding on that because I suppose we think it's the wine companies, but that does flow in. What you're saying is still hitting the wine growers in Australia.

Mr Tim Ford:

Lots of growers have exited the industry.

Ms Glenda Korporaal:

Wow.

Mr Tim Ford:

Because there was just no demand for their grapes, which is a shame. A lot of them have redeployed it to their land, to other agriculture and horticulture in some cases. But there is still some that certainly would be marginal in terms of covering their costs at the moment.

Ms Glenda Korporaal:

Wow. The other issue is COVID, and that meant you couldn't go to China for – and we'll talk about your recent visit a little bit later – but what was it like running a global business and what you're hoping as a major market? You actually physically can't go there.

Mr Tim Ford:

Yeah, well that's true. I forget about COVID a bit. It didn't seem to have been such a major impact at the time. But it was difficult from a perspective.

Luckily, we had leaders up there that were strong in China, and same all around the world. Every business went through that. And in some cases not having your corporate team being able to travel to the markets, they actually probably enjoyed it, I must admit. But I think we managed that relatively well, given as you're – and it allowed genuine focus of what you were doing and how you communicated. We got used to that.

I don't think that really constrained us that well because we had people on the ground that had the relationships. From that point of view, I don't think it was a negative. As the CEO, you want to go and make sure your teams are right, et cetera and spend time with them. But just no one could do that at that time.

Ms Glenda Korporaal:

I suppose it's now been a year since the Albanese government was elected. Do you feel that there's been a change of tone? Take us back to a year, were you thinking there might be an improvement in the relationship and there might be some improvement in your prospective business?

Mr Tim Ford:

Not really. If you go based on the timeline, so you go back and say by March 2021, it was done and dusted pretty [much] at that perspective. We got on with life at that point of view. You then get to the change of government last year. And I banned any talk within our business of 'what if China comes back for Australian wine?' We just didn't talk about it. We literally did not talk about it. Our board members liked to ask every now and then, but I banned them, which didn't stop them asking. But it just wasn't part of what we talked about. We just moved on.

But I always made sure the decisions we were making around how we were building the business again in China were the right decisions. Because we just had a view that in 10 years' time we're going to be back to what we were in 2019, and how do we do that incrementally each year?

And so the change of government, there was always speculation on will that change. And it was only December last year where I finally allowed us, allowed myself and then the rest of the business to go, okay, this could change, because the dialogue was there. There was a sentiment shift from our government, clearly. And I think they've really driven that strongly and diplomatically. But also from China, there was clearly from our customers up there, it was recognised in that market that the relationship could change going forward as well.

We locked ourselves away for three days, a core group of that team, and said: 'Alright, let's not distract the whole business here. Let's start a – what would we do if it did change?' We had that plan ready to go. And when it happens, if it happens, we'll know what to do and we're very ready for it. But we're not spending much time on it at the moment.

Ms Glenda Korporaal:

But at the same time as we've got COVID and as you've got the tariffs, you committed yourself to developing or being a player in the development of the Chinese wine industry.

Mr Tim Ford:

Yeah. It was a bit of a leap of faith because we didn't know how much of the right quality to meet Penfolds style and our brand styles. So really important for us is we're very fortunate we have a brand that consumers love in most markets, but particularly in China. That brand is based on a house style that's sourced from the best vineyards originally in Australia, but now the best vineyards from anywhere around the world. So it's got the credibility and the authenticity, the brand, to be able to just take the best grapes.

So with the assistance of the first instance, the Ningxia government in China, we signed a partnership with them to explore how we could work with the Ningxia provincial government and the Ningxia wine industry. And we had our guys go up there and do vineyard after vineyard visit to find the quality of grapes that we thought we could find to produce the right style and quality of Penfolds. And they came back and said, 'Yeah, we can do it.' It sounds easy. They came back, they went through three hotel quarantines and all that other stuff you had to go through.

Ms Glenda Korporaal:

So they were going from here into China?

Mr Tim Ford:

Yeah, they were gone for about four and a half months. No, they don't thank me for it. I must have to admit. But they're groundbreaking. What they did was trailblazing. So they're thankful they did it now, not at the time. But it was, can we do it? Come back, yeah, we can do it. And so then we set our mind to how we're getting going, build the relationships to get the sourcing we needed to make the wine, which we made and released. First one was what, six months ago.

Ms Glenda Korporaal:

Oh, right. This was Penfolds China wine?

Mr Tim Ford:

Penfolds One. Which is a \$30 wine. It's a \$30, \$40 wine. So it's not a bin, \$100 and above, because we could make that in the timeframe because of the age of release of the wine. So we've made that and it's a terrific wine. And it's got the Penfolds credibility. It looks and feels a bit different on the label and all the rest of it, but it tastes like Penfolds. And fair to say, the consumers in the market, it didn't last long, what we made.

And now we've made a next level up wine as well, that \$100, \$150 price point, which we'll launch in the near future as well, which is pretty exciting. We're not the first to do it, but it's really changing the perception. It's interesting. You go to different parts of the world and you're applauded for doing this. Here in Australia it's like, 'Oh, you can't make decent wine in China.' It's complete crap. You can.

Ms Glenda Korporaal:

But what's the risk though? Penfolds is one of the leading brands in the world. Was it a risk that if you got it wrong, then people could point the finger at you?

Mr Tim Ford:

I probably wouldn't be here. It was a risk, but it was a less risk because we'd done it out of Napa Valley and we'd done it out of Bordeaux. So the credibility from wine creeks around the world was such that they believed us that we would only hit a quality standard.

And so when we went to China and did it, they also expected us to find the right grape to make the right wine that then would get hate scores on wine normally. But when you get them on a new wine like a Penfolds out of China or Bordeaux or California, it certainly helps credibility. We'd already built that credibility. Probably would never have probably done it first in China without having done the US, Bordeaux to go with our Australian wines.

Ms Glenda Korporaal:

Before that, you had already launched products very specific to the Chinese market, the mixture of wine and baijiu, which I think might be very unique, shall we say?

Mr Tim Ford:

Well, it was one of your favorites, wasn't it? There's still plenty of it if you were –

Ms Glenda Korporaal:

I went to the launch, I think at some exotic nightclub in Beijing.

Mr Tim Ford:

I might ask you some questions.

Yes, no, we did. And Penfolds is known for innovating. And in that market as well, obviously everyone knows baijiu, the strength of baijiu and the ceremony that goes around baijiu, linking those to ceremonies of wine, the gifting, the occasion that goes with wine with baijiu, we thought was a good idea to try and create a hybrid category. That'll take decades to stick if it does. And so we're still selling that there. It's still going reasonably well. It's been one of those products that's allowed us to keep the brand alive with the product in the market as well, not just PR and marketing, which, because these launches we did back when you were there, which hopefully you remember them.

But we've still done them in the last couple of years, even though we've only been selling very small amount of wine just to get the PR, because it's all digital media. It's all the digital activation you do. Our brand awareness in China's gone up in the last two years on Penfolds. So it's been a worthwhile investment. But products like the Lot 518 and 618, they're unique for the –

Ms Glenda Korporaal:

Do you use influencers?

Mr Tim Ford:

Yes, we do.

Ms Glenda Korporaal:

KOLs [key opinion leaders].

Mr Tim Ford:

KOLs, yes. It's a word I've learned. It's another way. The thing you learn when you go to China is we see the value of KOLs and how you build brands and how they endorse brands, but also how they immerse themselves in the brands that you build in that market. And now we've got different ones in different Asian markets. KOLs in Malaysia and Thailand and Vietnam that work with us as a real core part of our marketing campaigns, and we're doing in other parts of the world. And we've got Snoop Dogg on a label –

Ms Glenda Korporaal:

Yes, the 19 Crimes.

Mr Tim Ford:

19 Crimes in America. So it's a different way for wine connecting with consumers, younger consumers in particular. But it works.

Ms Glenda Korporaal:

Yes. Well, I suppose we're used to celebrities endorsing brands, but you've got to get the right celebrity.

Mr Tim Ford:

Yeah, we get the right one. We get it most of the time, not all the time.

Ms Glenda Korporaal:

Let's take us to early this year then.

Things are a lot better in the relationship. Albanese's met President Xi and Penny Wong's gone up to China. And then earlier, it wasn't that long ago that I think they announced on barley that there would be a bit of some negotiations on that.

You said by the end of December you'd start to be more optimistic. When you heard about the barley negotiations, essentially both barley and wine, the government complaint to the WTO [World Trade Organization], barley was ahead of wine, so they're ahead of you. And there was a draft report I think came out on barley, a draft WTO finding, which is still secret to the parties. But the government announced there would be private negotiations to see if it could be resolved. Anyway, so when you heard that, did you start to get a feeling of a little bit more optimism?

Mr Tim Ford:

Yeah, certainly when we heard that, but also I think you talk about the current government, but also the Departments of Foreign Affairs and Trade, et cetera. We work pretty closely with them. One was sharing information with them and what they need to know. They've been really engaging with us around the process they're going through as well. I'm not going to share all that today. But we had a fair view that barley and wine were going to be treated the same way. At this stage of time, it looks like that's playing out that way. So we're

watching the barley process pretty closely. It's fair to say. Those negotiations are continuing and the trade minister said it on the weekend, but they're on track.

So from that point of view, it's a sequence you'll go through. There's legalistic processes to go given it as a WTO dispute to unlock that. But I know our government are very, very keen to make sure that it doesn't land in the WTO to resolve this. We need to resolve it together first. That's a good sign.

Ms Glenda Korporaal:

So you'll see the barley situation and then they'll turn to the wine. How does the year play out? Obviously, you're sitting on the sidelines or can you be providing advice to the government?

Mr Tim Ford:

Well, we can provide advice, but it's probably better to be on the sidelines. I'm not sure they'll appreciate that. But no, we do, but it's in their hands now and it's not in their hands based on hope. There's just a process that's got to be gone through. Hopefully it ends up in a positive outcome. We don't know. That's what I say it is sitting on the sidelines to a degree and just letting that happen.

Ms Glenda Korporaal:

Let's say, would you think there's a chance that the tariffs could go overnight or could they be phased out? What's your plan A or plan B and plan C?

Mr Tim Ford:

We've got all the scenarios as you can – been pretty good at scenario work over the last couple of years. But no, my view would be is that the tariffs would go away, but if they were 50 percent, 80 percent, we still got different scenarios for that if it was to occur that way. We'd still be able to rebuild the Australian source business in a meaningful way at those levels.

Ms Glenda Korporaal:

And have you got wine ready to go or is that –

Mr Tim Ford:

Well, this is the problem is we've done pretty well in relocating all of this wine.

So if there's investors listening – just to be clear – this isn't going to be a big tap that gets turned on overnight for us. We don't have incremental wine sitting there ready to go at the \$100 and above. If it's a \$30 level, we'll be able to start supplying that to China pretty quickly. But it's going to take us two, three, four years to really start building up the Australian side of it again, because we're not going to go back to where we were, which was supply China and then five, 10 percent growth in all these other markets around the world. We've worked too hard to build the brands and build our markets outside of China to turn that off overnight. We're not going to do that.

Ms Glenda Korporaal:

You were recently in China your first time in a few years. I think you visited your operations in Shanghai and you were at the Boao Forum in Hainan Island. What was that like? How did you find China having been away for so long?

Mr Tim Ford:

I got reacquainted with baijiu, which was a culture shock for me, but it was –

Ms Glenda Korporaal:

Practice makes perfect.

Mr Tim Ford:

I'm not sure I'll ever be perfect at that.

The team, amazing. The five days I spent there, and I'll go through a bit of the sequence, because it was really fascinating, I was really looking forward to – obviously I hadn't been there for three and a half years – and so the team, we've still got, I said 100-odd people up there, probably 80 of them are in Shanghai when myself and Tom King who runs Penfolds went up and who used to live there. And spending a day with the team, the positivity, the energy in the city and within the team, six weeks after COVID lockdown finished, was quite incredible. Just a forward view of we're getting on with life and what's happened in the past has happened in the past and get on with it, which was pretty inspiring, number one.

We've met a lot of the Australian business people who were in Shanghai who we hadn't seen for three or four years as well. We gave them a tasting of the Chinese wine. We had some Australian advocates there that actually believed us, that it's a good wine. So they do. I noticed there's a couple of them on the livestream today as well. I look forward to their endorsement on that. And then we met with customers for a couple of days. Big customers, they're state-owned and a couple of private customers who were just talking about what's the future look like with us. There was no come back and see us in a few months time. It was really, we don't know when things are going to change, but when they do, what's your commitment going to be? How are you going to come back into the market? What are we going to do together?

It was quite a remarkable shift in their mentality than what we'd had over video. But face-to-face was really great. We met with the China Alcohol Drinks Association, we've been working with them in the last couple of years as well, who ironically are the complainant in the anti-dumping investigation. They've been working really closely with us to help build out our Chinese wine to enable some positivity in the wine industry, because the wine category shrunk in China since we've been locked out of there with the Australian portfolio. So the category's struggling. They want us to help work with that. So they were again, very much around what we going to do in the next three, five years, continue to support or are you going to invest in China, what are you going to do? What's next? The first three days was fabulous from that point of view. And then I went to the Boao Forum, which was a unique experience.

Ms Glenda Korporaal:

Hainan Island. That's China's Hawaii?

Mr Tim Ford:

Yeah. It was very diplomatic forum that – [we] went with a delegation that had Andrew Forrest and a lot of the mining and energy people as part of that as well. I think I was invited so it gave them an excuse to have some decent wines at dinner or something like that. But it was a fabulous thing to be part of. It was with our assistant trade ministers, with our ambassador. It was quite an important show of –

Ms Glenda Korporaal:

Australian presence.

Mr Tim Ford:

– commitments. I was really, really pleased to be invited to be there and to be part of that as well. I felt that was really interesting. I've never been through one of those for the format and the formal nature of some of those processes. So that was good. I walked away very positive or flew away very positive. I'm back in two weeks' time.

Ms Glenda Korporaal:

Wow. We'll get to questions in about five minutes time, so get your questions in mind.

But it's interesting, the Boao Forum was actually – one of the early people involved was Bob Hawke. And people forget Bob Hawke's relationship with China. I can remember being at Boao Forums and Bob Hawke would sing Waltzing Matilda. So that was a long time ago.

Mr Tim Ford:

I did hear all those stories. There was maybe a rendition or two.

Ms Glenda Korporaal:

What lessons have you learned over this time and what lessons are there for Australia in going through this process?

Mr Tim Ford:

Look, it's the buzzword of politics in the last 12 or 18 months, diversification, which frustrated the hell out of me, I must admit, two years ago. When we got told, 'You just need to diversify your business,' it's like, well, we have been for the last 20 years. But the reason why we've managed to navigate through this with a level of success over the last couple of years is we do have a diversified business, diversified markets, diversified sourcing for us from a wine industry point of view, because not everything's going to go right every time and every market with every product every year.

I think the strength of that, and really doubling down on that as a strategy, I used the analogy that you might not get 100 percent of every opportunity in a year, but if you get 95 percent of it five years straight, you're better off than the 100, 150. So just the whiplash effect that creates across your business.

I think having that as the mentality of how you run your business, it's part risk mitigation, but it's also just part sensible, I think, how you run the business. And you look at it from a consumer – the biggest risk for us, geopolitics is always risky. And we're in 70, 80 markets around the world and there's tax regimes change and there's all these things that you sort of have to try and look around corners to see what's coming. But for us, the consumer's still the biggest risk. If a consumer falls out of love with a brand or a product that's on fire for us, then all of a sudden. So you need different price points, different brands, et cetera, as well. I think diversification's always part of it, but actually really bringing that to the fore is pretty important.

I think the other one is you invest in relationships before you need them. That's probably a really big learning. Someone told me this. I can't remember, I wish I remember who told me this about 15 years ago. When they

said it, I probably didn't listen as hard as I should have at the time. But having those relations, whether it be government, whether it be customers, whether it be suppliers, if you've got those relationships and you come into a situation where you have got issues like this magnitude of nature, you've got that relationship to build and have the conversations you need to have, and you can work through them where you've got trust, where this might benefit me today, but you tomorrow, is really important. And it's maybe missing out on a short term opportunity every now and then, but I think that's one thing I've learned over this period of time.

Ms Glenda Korporaal:

I'll just ask you a couple more quick questions, then we'll go to the audience.

What do you see as the role of government in trade and also free trade agreements? You've obviously connected with government over this and now you've got government to government on this WTO thing. What's the role of government? Do they help or they hinder, or both?

Mr Tim Ford:

Depends which government.

Look, government's got a really important role, I'd say, to unblock blockages. That's not a very technical term I know, but that's government's role is to make sure the doors open for us as businesses to walk through and take advantage of it. It's not their job to build brands, it's not their job to create demand. It's not their job to do all those other things. That is what we are all in business to do. So I think FTAs [free trade agreements] is a good example. Just because you've got an FTA doesn't mean that the door's open or unlocked. China's a good example. We've got an FTA with China, not so good. UK we had new FTA that we've been trumpeting. All of a sudden then on the local policy level, there's taxation changes that mitigates all positive impacts for wine, for example, on the FTA.

There's always other factors. I'm not being critical of them. They're one element. But I think government can increasingly play a greater role in, from an Australian perspective, what are the key markets? India's clearly one of those for a lot of products, commodities, et cetera. I understand that, but is the next one Vietnam, is the next one Indonesia? And what role are we all trying to play in that so we're connected and we go to these markets, particularly in Asia, which is so important for our growth as a country, but also all of us as businesses, and build brands in those markets. It's more than just commodities.

So we've got a wonderful opportunity to build brands in these markets that I don't think we are taking advantage of collectively. And government can play a role to really channel the resource towards that. And they've got to pick winners. Not everyone's going to be happy when they pick the winners. And I'm not saying it should be us or someone else. I think that's probably the other role. But what I've learned with the government dealings is, you never set out to be in the middle of what we're in the middle of at the moment, having a conversation like this with a bunch of people talking about politics in China and government and all the rest of it. But here we are.

And the thing I've learned is the governments where they ask questions to get the information, it's a two-way dialogue, but at the end of the day, we're both trying to achieve different things really. But to answer your question, unblock blockages.

Ms Glenda Korporaal:

Okay, well let's hope they can. I've still got plenty more questions, but we'll take some questions from the audience first.

James, do you want to start off? Yes.

Professor James Laurenceson:

Very happy to, Glenda. Thanks.

Tim, I want to ask you a question that I often hear people put. It's a criticism of businesses and I'd just like to get your reaction to it. I remember before the Chinese tariffs were put in place, I think you said about one third of TWE's profits were from China, and that broadly matches the industry as well. I can see from 2014, the proportion of Australia's wine exports going to China went from 12 percent in 2014 to 40 percent in 2019. Now some people would say, 'Well, it serves the industry right. They put too many eggs in the China basket and they got burnt.' What's your response to that? Is something being missed in that criticism? Well, business is just following the logical market that was there. I'd just like to get your take on that.

Mr Tim Ford:

Yeah, no, it's a fair question. I've been asked that I reckon about 180 times in the last three years. It's an absolute fair question.

And the answer is there's no specific right answer other than you don't want to have – it's back to my 9,500 analogy I was going with before, and China's a great example. The criticism is obvious, which is too many eggs in China baskets, so it shuts down and then – The reality is the rest of the markets for most of the wine industry collectively around the world, there wasn't a demand to cater for what was in China. It wasn't all eggs in one basket, it was eggs in the basket where there was demand. The key in my view is that as business leaders, et cetera, you go: 'Well, there's demand there. There's an opportunity. You go after it.' That's what we do. That's the way we're wired.

But do you go down a path where you're essentially putting your business at risk in total by going too far down a path? That's the judgment call each different business has to make. I'll look at it and go, well, two years later, we've recovered the profit that was gone. We've reallocated that wine. So you'd go, okay, well two years later we're a stronger business. I've got no doubt we're a stronger business as part of that. Could we have had less wine going to China and more to other markets for the two years before it? Probably a bit, but then we wouldn't have the pricing power we have that the demand in China created us for other markets as well. It's often a missed point. Wherever there's demand or the more demand, if you have demand ahead of supply, which we had, it allows you to create a pricing structure and a margin structure that enables you to be better in other markets. From that point of view, I don't regret anything we did. I don't think we got anything wrong other than we should have been investing in the local industry for the last decade, not the last three years, and been an important part of the local wine industry, with our expertise, what we do, that's the piece that I [inaudible]

From an economic point of view, because investors ask you that too, which I find quite – I'm sure a number of you in this room have dealt with investors over the years. It's like: 'Oh, you're too strong on that.' You go: 'Well, if I'd said to you I'm going to not have a 20 percent profit increase because I'm not going to go into China, all eggs in the basket.' What would you say? Go, 'Well we wouldn't have bought the stock.' You know what I'm saying? Six or one half a dozen the other. But it is business by business. You got to be careful. But I look at horizons to go, if you're in this path and something changes and you can course correct with your plan B or C within 12, 18 months, it's probably a reasonable window, I think from that point of view. That's how I've thought about it.

Ms Glenda Korporaal:

I'm just going to ask the questions that are coming in online as well, but one's from Will Glasgow, who is my colleague, so I'm going to ask it for him. He was the China correspondent based in Beijing and now is in Taipei. But anyway, it's a little bit of a repeat of what James asked: 'You said before the tariffs, a third of TWE's profit was coming from China. What is it now? Do you think China will ever get back to making up a third of TWE's profit, and do you think shareholders would, having a third profit depending on the state of Australia relations, concern them because of the risk it could happen again?'

Mr Tim Ford:

The first one is that China now is essentially zero profit for us. We've deliberately set out to achieve when the tariffs hit, yes, we're selling all these other wines in the market, but we're also carrying a team of lot of people. We're investing in A&P, we're investing in IP, et cetera. So we took a decision when the tariffs hit that we were going to make China a zero profit model. Whatever we made we'd reinvest in that market in marketing and keeping our brands strong with a view that at the end of three years, if there's no line of sight to tariff changes, then we'd review whether that's the right thing to keep doing. So from 30 percent to zero today, or basically, within a million bucks or whatever, so it doesn't really count. That was point one.

Point two is I don't think we could get back to 30 percent of our business in China or 30 percent of China being TWE profit in the next five or six years unless we undid all the work we've done in the other markets in the last two to three years, which we're not going to do. It will continue to build year on year on year, year four and five, year three into four and five. As we make more wine and get more grapes over the next vintages, we'll be able to build it back up again. But I can't see it getting to that point. The last point is I'm never going to explain China as a standalone business ever again. If anyone expects that from the investment community, it's not going to happen because it doesn't help anybody from that point of view.

So last one, Will, was the investors. Different investors will have different views. Some will say, you go back in as hard as you can – and they're going to be disappointed. And others will say it'd be balanced over five, 10 years. Depends on their investment thesis, what they think they're trying to create with their investment model.

Ms Glenda Korporaal:

Do we have any other questions from the floor here? Gentleman over there. Just wait for the microphone so our online people can hear you.

Audience question:

Hi, Tim. My name's Laurie Smith. Eight or 10 years ago, Treasury, or at least Penfolds and Wolf Blass, were star brands for China's best wine importer and distributor. And then you decided to go into the market and manage that yourself and build out your own capability. Could you talk about that process and the challenges, but also the benefits that have flowed from it?

Mr Tim Ford:

I think that's it.

A bit of a background to that, we had a single point distribution model into China. It was up until 2016, a company there. They essentially then would take the product all the way through China and distribute it on our behalf. The decision we took was go direct, get as close to the customer as you can, getting close to the end consumer as you can because there's less margin, there's less mouths to feed through the value chain as we

talk about, but also it allows you to build your brands yourself. So we took the decision to invest in people on the ground, not through a third party sales force, because we just backed the brand, that we thought had the strength and we thought it had the profitability and the margin structure to enable that investment.

And really, we started with tier one cities in China. Just started with the key tier one cities, moved into tier two. And when I said before, the business was just starting to really be in good shape from a growth point of view as we're starting to get into the tier three cities, which as everyone knows in this room, a tier three city in China has more people than most of our major cities here, and consumers that are moving up in luxury goods as well.

I think that was a game changer for us in China. That's how we built the success of the brand because we could have partners that were specific in these different cities as opposed to one partner who was then distributing all around. It gave us control of pricing, it gave us control of where our product ended up in the different distribution models, and enabled us to build distribution by an outlet by outlet level as opposed to just shipping product in.

That's a model we've now rolled out in a lot of the other Asian markets because one of the challenges I think for anyone doing business in Asia is you ship containers and you think you're building a business, but you're not really. You're actually just shipping volume and you're leaving it in someone else's hands to build your brand and build your distribution out. And how sustainable is that? Not sure. That's what we learned, that's why we did it. And certainly we think it's a really important part of building businesses in the Asian markets in particular.

Audience question:

It's a bit difficult marketing alcohol in Asia. India, they don't really drink alcoholic stuff, and the Muslim communities are very prominent, dominant in Indonesia. It's difficult.

Mr Tim Ford:

Not as difficult as you might think.

There's probably more reality to that perception to be honest, where India's tough, but it's more of the economics of the wine category in India. Luxury wine in particular generally follows spirits about 10 years after. For spirits, which in India as we know is quite strong now, wine will follow, but at the moment – And females, it's becoming more acceptable for females to drink white wine in particular in India. So you look at that and there will be a market there I think over time. But the tariffs, even with the FTA, the domestic tariffs are still horrific, which make the economics hard.

But in a place like Indonesia, for example, we've seen some substantial growth, the gifting occasion of wine and the different occasions, not necessarily the large banquet consumption that you might see in other Asian markets with the Muslim communities, but there's still a lot of expats, there's still a lot of domestic consumption that goes on there. Is it going to be the same size as – even Thailand and Malaysia, they're growing significantly every month, every quarter. So they love brands. They still love brands. In a lot of ways it's less about the product and more about the brand in a number of these markets.

We think broadly about 40 to 50 percent of all luxury wine we're selling in a lot of these markets is for gifting. It's a very different model to what we're used to in Westernised markets. We're learning more and more of each of these. There's slight nuances in each market as well. But it's a bit of a perception. It's like the UAE. One says you can't sell any wine in Dubai and the Emirates, et cetera. We seem to be doing okay.

Ms Glenda Korporaal:

Gentleman over there had a question and then I've got some questions coming in online.

Audience question:

Very quick question. When the tariffs came on and that 30 percent, where did it go? Which countries did it go to? Did the consumers go somewhere else because that's where they were forced to go? Will they come back?

Mr Tim Ford:

The rest of Asia was the biggest beneficiary, and we were the biggest beneficiary in demand, particularly Southeast Asia. Thailand, Malaysia, Indonesia into China, around there it's a bit hard. That does cross a bit of borders in Indo China, but I think they're the big markets. Singapore, Hong Kong, we'd never really put big volumes into those markets. They're always strong, but they're more Westernised consumers. So we didn't think they'd increase demand significantly. But Singapore in particular has. Hong Kong's been up and down for a whole lot of different reasons, but Hong Kong actually being soft for us is not a bad thing because it helps build what I keep saying, which is all our wine's not still going through Hong Kong across the border. So that helps that fact.

Europe, we'd never really focused on Europe for Penfolds at any great level. Lots of different markets in Europe, we've spent a good chunk of time. Here in Australia, it took us 12 months for our customer base here in Australia to believe that we were back with Penfolds in this market because if you go back three years, we were probably rightly criticised for taking our eye off the Australian market a little bit for that brand. This market as well. US probably less so. US are going to take us I reckon a decade to create Penfolds as the brand we wanted to be over there. We've got lots of other US brands that we're driving over there, but Penfolds could be better there.

Audience question:

[Inaudible].

Mr Tim Ford:

The category's shrunk. So the category shrunk [inaudible]. Below 300 RMB, \$50 equivalent Aussie, I think it's close enough to the exchange rate today. A lot more French wine. And as you get lower, Chilean wine's taken that market. So where we used to have our \$30, \$40 entry level luxury, above that, the whole market's contracted quite significantly, which makes sense when you think about the Chinese consumers are – sweeping generalisation, so don't shoot me down – but to paint the picture, which is there's two big trusts markets when it comes to wine: French – Chinese consumers, have that trust in quality of French – and Penfolds. So yes, they like Australian wine but it doesn't have the same cache as luxury brands and luxury occasion as French does.

But then if you think about this happened two and a half years ago. So the French didn't have more wine to sell at that time anyway, so they couldn't actually fill that gap that existed. The whole market's contracted, which means it'll probably take a bit longer to build it back out once things do change in the future, I think. And then I'm sure lot of people in this room, I mean baijiu and the big brands in baijiu just continue to gather steam and share and they're powerhouses.

Ms Glenda Korporaal:

I've just got two questions coming in from online. Victor Peterson asked, 'What future do you see for white wine in China?'

Mr Tim Ford:

Thanks, Victor.

I'd love to see a bigger future than exists. Same in all of Asia. We're working pretty hard to try and drive some of our brands, particularly at a \$15, \$20, \$25 price point in Asia, because the climate is perfect for consuming white wine, but it's a red wine dominant market. In fairness, we just got to keep educating and keep driving it. I hope it's a bright future. Right now I see it as a pretty small percent of what's consumed.

Ms Glenda Korporaal:

And Jack Brady who ran the Australia Chamber of Commerce in Shanghai, and so he knows the market there well – he's working back here – says: 'Paul Keating helped launch the, or maybe open the Foster's brewery, they opened in Shanghai in the 1990s,' – and I actually saw that when it was there – 'Can we expect to see Albanese in Ningxia or maybe in Shanghai later this year?'

Mr Tim Ford:

He might be there, but he won't be there to open a winery. No, look, our model in China is, we will invest in assets sometime in the future, but we need to understand how much vineyards of quality fruit we can get access to. It'd be more probably for another 12 months or so. But we will look to have assets in China, I'm sure from a winemaking point of view particularly around Penfolds house style, you need that. Not this year though.

Ms Glenda Korporaal:

I noticed you actually gave the Chinese ambassador to Australia a few months ago, a copy of one of the first bottles of Chinese made Penfolds.

Mr Tim Ford:

It was the first bottle. I'm not sure if it was, but let's go with it. It was the first bottle. It was the first one I saw anyway. That was one of those moments where it was a opportunity to do so. But I think it was a gesture to show we were still committed to helping build out the Chinese wine industry and building our commitment to the market over there because it's a large consumer base. We want to be there for a long time. So he did appreciate and it was a pretty cool thing to do.

Ms Glenda Korporaal:

He's been a very busy ambassador. In fact, he came and spoke early on to UTS:ACRI, so that was quite interesting.

Got another question, Peter Arkell, another person whose name you know: 'How important was it being an Australian wine producer in China? Has your shifting to global winemaker changed your marketing?'

Mr Tim Ford:

Thank you, Pete. I think I get the essence of the question. Definitely, we're shifting the way we engage with consumers around the world because historically we've been an Australian wine company that exports product to different parts of the world. In the last decade, an Asian consumer in Asian markets, a US consumer in the US, which reality is, the least growth market for us in the next decade will be Australian compared to the other markets. That's not being disparaging. Not saying we're not going to try, but it's 27 million people and it's half the size of California.

From a market for us point of view, building brands that connect with consumers around the world has really shifted in the way we build those brands and how we do it. For an Australian wine company, you don't put Snoop Dogg on a wine. But in America it's now 2 million case business two years later because we've got 40 percent of new consumers in the wine that are African-American that didn't exist. That certainly has changed the way we build brands overseas.

Ms Glenda Korporaal:

We've just got a few more minutes. Are there any more questions from the floor? If not, I will ask a few myself.

The Chinese consumer, that's a broad statement, what is the kind of Chinese consumer that is buying wine, and can you give us some insights, how are they different to consumers elsewhere of wine?

Mr Tim Ford:

Yeah. There's different ages, but I'll focus on what we call the new luxuriant. It sounds like I'm a marketer now, but it's about the status that you get from the occasion of having that bottle in your hand on the table as you hand it over as a gift, et cetera. Status drives a lot more of the purchasing decision than heritage, history, quality, Appalachian, what vineyards does it come from. It's a very different consumer, what they're looking for.

We look at the core components of Penfolds. It is the red, the white label, the red capsule, and the fact that it's a good quality wine that is seen as a status symbol. More and more younger consumers around the globe are paying higher prices for wine at younger ages because of that status that comes with the brands. And the Asian consumer's driving that, not just Chinese, but the Chinese influence through a number of the other markets is driving that as well. We're seeing that in other markets around the world as well, where you do have Asian influence in Asian communities that really is changing that.

But it's less about the consumption of having it with a meal at night, et cetera, during the week. It's the banquet occasions, the family occasions, the celebration occasion. Whereas we in this country, luckily for us anyway, tend to have more consumption occasions more often.

Ms Glenda Korporaal:

Tak Wong coming in from the online question was asking, 'Who took the market shares in China while Australia was absent,' which I think you've answered a little bit, 'but what's the strategy to regain market share if you are allowed back in?' Can you come in and be the first in line, which you were before?

Mr Tim Ford:

Time will tell.

This is going to sound arrogant. We've got the strongest brand and we've just explained that consumers love the brand. So I think from a brand point of view, we've got high confidence that we can. Now, what does that share look like compared to what we had three years ago? Time will tell. It also depends on how you distribute. Distribution's quite different. E-commerce is now a much greater channel for sales of wine in these markets than what it was three years ago. Three years ago it was going through the roof. Again, different sales models and sales channels means the different relationships you have with customers, your traditional bricks and mortar route to market is less prominent than what it was three or four years ago. We need to understand that in a bit more depth before being really clear, I think.

Ms Glenda Korporaal:

What sense are you getting of the state of the Chinese economy? We just had a budget last week. Their budget came in a lot better than people thought because of revenues coming in from iron ore and coal. Our economy is very linked to the strength of the Chinese economy. What's your read on it? Has it bounced back from COVID or is it still a bit weak?

Mr Tim Ford:

I've got quite a myopic view of it from an alcohol consumption point of view. I can't really comment with any authority whatsoever on the broader economy. From an alcohol perspective, if you think about spirits in particular, which is the data we watch now because the wine category will sit soft based on the question before spirits. Spirits is not back to pre-COVID levels within China from a consumption point of view. But the growth you've seen in the last two months would be consistent with getting back to those levels probably in the next quarter.

It's pretty strong on an annual basis. We look at things like the restaurant booking data and the credit card data that exists through e-commerce for alcohol sales. And again, that's not back to pre-COVID. It's getting there, but again, it's a China growth percentage of a high single digits is a big number. I've got a lot of confidence. I think we can talk it down and we'll take all the economic data and everything, but it's a big consumption based, a big consumer market.

But like everywhere, we all think you bounce out of COVID and the world's going to be good again. And probably what we've all realised is the roaring forties didn't exist. There's bumps up and down on what does inflation do in some markets? What does things do in different markets? It's very hard to read exactly how every market comes back from COVID because no one's done it the same, I don't think.

Ms Glenda Korporaal:

Are there any other questions from the floor? I'll just ask one or two and then we'll wrap up.

Oh, okay. Gentleman over there.

Audience question:

Hi, Tim. I come from a fairly immature sector here in Australia in biosciences and biotech and health, but we punted above our weight in terms of some of our technologies and our patents and so forth. To your point before about diversification, you can't ignore the China market, it's huge and it's the biggest in our area. The business level, we have very strong relationships with the market. In terms of taking some technology to that market, you know it's going to work. It solves big problems. Is it still SOEs [state-owned enterprises] the best level to partner with in terms of building your brand in that market?

Mr Tim Ford:

We tend to try and have a balance. I'm talking like we're in the market in some way at the moment. But no, we've always had a really strong balance of state-owned enterprises, private enterprises. And also, we generally will have it 50/50 the way we actually set it up structurally because there is different drivers through state owned, depending on what's happening economically, you need to have that balance, I think.

State owned relationships are really important. It's no secret, we were with COFCO, they were our biggest customer in China and they will be, I'm sure in the future. Really valuable relationships that help you navigate your way through periods of time as well. But then if there's a period where state owned enterprises are being driven to be really consistent, then you want the private. We feel having the private enterprise as well [is good] as the balance is important.

Ms Glenda Korporaal:

There was one more question over there.

Audience question:

[Inaudible].

Mr Tim Ford:

I think their sole focus on how they build brand, how they invest in their brands. LVMH is one we look at a lot. Champaign brands and also the apparel brands. If I think about how we base what we want our Penfolds brand to be in five years' time, we don't look at wine company around the world. We actually look at the French luxury brands and how they are driving their investment levels and seeing how they execute. They're quite bold in the way they actually bring their brands to market, whether it be their packaging, look at different tiers and how they bring their product range to market. They somehow get the 49-year-old consumer and they somehow get the 30-year-old consumer who's just come into some money somewhere and they just want to have that as the status symbol. The consistency of how they execute that is a really, really important learning for us because we feel like they're the absolute benchmark in building these brands.

Ms Glenda Korporaal:

I'll just ask one last question.

Having gone through all these ups and downs and maybe hopefully improving, what advice do you have for other Australian companies that might want to be doing business in China, given everything, given the politics, given tariffs, given the complexities of the China market?

Mr Tim Ford:

Well, I think –

Ms Glenda Korporaal:

This is a whole other question.

Mr Tim Ford:

Yeah.

No, but what holds us in good stead I think is we've got long-term relationships that always go through ups and downs, number one. Number two is we invest behind building brands. It's not just about shipping product, which I know is not easy. If you don't have a branded business, it doesn't help you. But again, I keep banging on about that, that is so important.

But also it's the way you behave and what you invest in the local market, community, however you define that in those markets. That's not just China, that's everywhere, but I think particularly in China, that's very important. And be seen as a good contributor to the local domestic industry as well, that's the other thing we've learned.

Ms Glenda Korporaal:

Okay. Well, I think that you've been speaking for well over an hour probably.

Really appreciate the time that you've spent and the detail you've been prepared to go into. It's good to hear from somebody who's actually at the coal face because we read a lot about China, but it's only the people who are going back and forth that perhaps really understand what's going on there.

Mr Tim Ford:

I hope it was at least interesting.

Ms Glenda Korporaal:

I'll hand over to you, James, to wind things up.

Professor James Laurenceson:

Thanks very much, Glenda. UTS:ACRI, the Australia-China Relations Institute has a very straightforward mission. Our mission is to inform Australia's engagement with China through research, analysis, and dialogue grounded in scholarly rigor. Part of that involves injecting new facts and evidence into the discussion. At other times, I feel it means countering sometimes what I would consider to be misinformation, exploiting some myths.

After the Australia-China political relationship started heading south in about the second half of 2016, one of the myths in my view was that the Australian businesses that continued to strive to maintain engagement with China, or perhaps even increase it, were somehow ignorant or dupes. Haven't they got the memo that things are not going well anymore?

Well, according to the latest numbers from the Australian Bureau of Statistics, I just looked this up, over the past year the total value of Australia's goods exports to China, this is not even including services, reached \$183 billion, a record high. Don't think it was just iron ore miners either. In fact, the ABS [Australian Bureau of Statistics] say that there were '8,374 exporters sending their wares to China for a total of 592,139 transactions.' Goodness knows where the ABS gets that level of precision from, but that's what they're saying.

Look, with that level of engagement, you're always going to be able to find a headline of a business that was naive to risk, or that lacked an effective risk mitigation plan. But generally, I've always found an odd

proposition. It's businesses that actually have the money on the line. Businesses had the experience and the incentive to gather the most relevant information, including around risk and put in place mechanisms for dealing with it.

Look, tonight, I think we've had a real masterclass in an Australian business leader at the coal face of engagement with China, talking about how those risks are indeed managed.

Now look, Treasury Wine Estate is obviously a unique brand and business in the wine industry. A lot of the lessons that Tim's been talking about won't apply to a smaller producer who does not have the resources to put resources and to diversify into multiple markets. But still, I think we've all learned a lot. Tim, thanks so much for sharing your insights tonight. It was a real pleasure for UTS:ACRI. I'm sure I speak for Kathy Walsh as well for the UTS Business School, to be able to take you out of the boardroom, to take you out of the investor call and put you in front of the Australian public so they too can get a taste of the insights that you're able to deliver.

Universities are often accused of lacking connections to the real world, but I don't think that criticism can be leveled at UTS and it certainly can't be leveled at UTS tonight.

Glenda, particular thanks to you. I cannot think of an Australian journalist who is more across Australia's business ties with China than you. It's not just about Tim, it's about having you on the stage as a moderator. I think that added a great deal of weight to the quality of this event.

Ms Glenda Korporaal:

Plenty to write about I can tell you.

Professor James Laurenceson:

Yeah, right.

Look, members of the audience, we'll be sending everyone an email after this asking for your thoughts on how the event went. I'd be grateful if you would fill out that form to help. We appreciate it and help us make future UTS:ACRI a better experience for everyone.

If you want to know more about the Australia-China relationship, every month we produce a monthly wrap led by my colleague, Elena Collinson. Make sure you catch that and view our website at australiachinarelations.org. The discussion today will soon be available there. If you follow Twitter, please follow us on Twitter: [@acri_uts](https://twitter.com/acri_uts).

Thanks again to all our speakers and to our audience tonight. We'll wrap up there. Thank you.