Wine Australia for Australian Wine

AUSTRALIAN Grape & Wine

Australian Grape and Wine Sector

Strategic Planning Discussion Paper

Contents

Introduction

Introduction – why two plans?

Australian Grape & Wine Incorporated (Australian Grape & Wine) and Wine Australia have agreed to work together to seek your input to develop two plans. First – it is timely that the sector commits to a new overarching plan as we have received criticism in the past from government that the sector does not have a long-term vision. The sector plan will fill that gap and provide the framework for the second plan – the *Wine Australia Strategic Plan 2020–25* that Wine Australia must submit to the Minister for Agriculture for approval in April 2020.

Economic contribution

Australian wine is a unique, high-quality product crafted in 65 wine regions around the country. The Australian wine sector has approximately 6,251 grape growers, 146,128 hectares of vines, 2,468 wineries, produces 1.29 billion litres of wine and generates nearly $3 billion in export income.

In 2015, independent economic research quantified the Australian grape and wine sector's contribution to the national economy. The wine sector – defined as grape growing, winemaking and wine-related tourism – supported 172,736 full-time and part-time jobs, most of which are in regional Australia, and contributed $40.2 billion to the value of gross output to the Australian economy.

Profitability

Supporting and sustaining the profitability of our grape and wine businesses drives everything that Australian Grape & Wine and Wine Australia deliver for its members and levy payers respectively, so it's important that we have your input to ensure our plans meet your needs. A profitable grape and wine sector will attract capital and talent and compete successfully with other sectors for scarce resources such as land and water. Other conditions are important for shaping the future success of the sector – including social licence to operate, stewardship of the land and resources, and attracting and retaining customers – but without profitability they will be immaterial.

In the past, the profitability of the sector has fluctuated considerably, and the impact has been felt differently depending on the business model of the enterprise. The Centaurus Partners report (August 2013) noted that, between 2007 and 2013, the profitability of the sector declined significantly, driven by a 'perfect storm' including sharp reductions in export returns, domestic returns being squeezed by retailers, low-demand growth, and increased imports creating an 'oversupply/under-demand' of grapes and wine in some segments. While the report has been criticised for its small sample size, the issues identified all affect the profitability of businesses.

Over the last five years, the sector's economic health has improved considerably with significant growth in export markets (especially China) and increases in both grape prices and the average price per litre of wine exported. The issue is how we can continue to assist you through service delivery and policy advocacy to ensure your businesses are prosperous and sustainable into the future.

Strategic direction for the sector

In 1996, the Australian wine sector published *Strategy 2025* – a landmark document that created a new unity and purpose across the sector. This strategy was reviewed again in 2007 and republished as *Directions to 2025*.

As a self-reliant sector that drives its own destiny, it is important for the Australian wine sector to again challenge itself to identify what it needs to do today and tomorrow to be prosperous and sustainable in 2050. In a rapidly changing external environment, it is important that we have a vision that will enable us to future-proof our sector, through careful planning and implementation of strategies that drive sustainable profits, and thereby control our own destiny.

Being a prosperous and sustainable sector means that we will:

- have access to, and provide stewardship over, the land and water we need for production
- understand our customers, consumers and markets, and have an unswerving focus on meeting their needs
- invest in our people to allow them the capacity to continuously improve and have fulfilling lives
- commit to new knowledge and technology to allow improvements in productivity and quality, and
- be profitable so we can continue to support rural and regional Australia.

While 2050 may seem distant, it is important to develop aspirational goals that allow us individually and collectively to make sound decisions and investments. It will then be important to translate these longer-term goals into strategies and actions for the nearer term.

Consultation

This is the sector's plan and needs to be owned by all participants across the supply chain so it's important that we hear from you. We will ensure that people know that they can provide input by communicating with them directly and amplifying the messages through sector-specific e-newsletters, magazines and other media. We will also undertake a series of regional meetings to obtain this input first-hand.

This consultation will inform the drafting of the sector-based plan as well as assisting in the development of the *Wine Australia Strategic Plan 2020–25*.

Stakeholders

Consultative activities undertaken to inform the Strategic Plan – Vision 2050 will seek to engage:

- the grape and wine businesses and exporters who fund Wine Australia
- Australian Grape & Wine Incorporated, Wine Australia's representative organisation
- national, state and regional grape and wine sector organisations
- research partners including universities, government agencies and private-sector research entities
- extension providers
- suppliers
- The Minister for Agriculture and the Department of Agriculture, and
- other research and development corporations.

Scope

To support the sector's consideration of the key strategic issues over the next 30 years, this discussion paper has been prepared. It covers the following issues:

- threats
- key data
- supply
- current markets
- marketing and export development
- RD&E
- future sector structures and funding
- sustainability, and
- people.

We welcome the contribution of all participants in the broad grape and wine community – including growers, winemakers, exporters, suppliers, retailers and researchers – to the development of our Vision 2050.

Threats

Like all businesses, especially agricultural ones that are exposed to variable climatic conditions, wine sector businesses face a range of threats that need to be identified and have risk management strategies implemented.

The following table identifies some of the threats to the sector, although there will no doubt be more. Much of the content of this discussion paper has been obtained from the Australian Grape & Wine (2019): Pre-Budget Submission paper[1].

Table 1: Threats

Threats	
Rising land prices due to scarcity and competition from other enterprises	In its March quarter outlook for the wine sector[2], ABARES predicted that total vineyard area in Australia was expected to remain stable over the medium term due to increasing competition for resources, including land, water and labour from other perennial crops. The wine sector's ability to access land resources in the future will rely heavily on its relative profitability compared to other agricultural pursuits (see below). Setting up vineyards is also an expensive business. WineBase[3] estimates that it costs about A$25,000–30,000 per hectare to plant and maintain vines for the first three or four years. By the fourth or fifth year, a good crop should be available and the vineyard establishment will be paid for after four years of production i.e. about eight to nine years after commencement. **Impact:** Difficulty to expand, less competitive land use.
Regulation	What might be the impact of potential policy, legislative and regulatory changes on the Australian wine sector and how can the sector help shape these? Consideration should include: • market access and trade • international food standards • domestic issues including access to water, labour (including minimum wage, immigration and health and safety) • taxation • overseas investment • focus on alcohol due to health concerns. The sector will need to work closely with Government in these areas as well as maintaining a very good public image to help reduce risks to its licence to operate. **Impact:** Difficult market access, tariff increases and reductions.
Climate change and variability	The implications of climate change and climate variability on the environment and on the wine sector needs ongoing recognition and the development of management strategies to deal with it. The sector needs an enhanced capacity to respond and adapt to the impacts of climate change on winegrape production at a regional level. It also needs to be prepared to respond proactively to any changes in climate policy. **Impact**: Reduced vintage quality, increased costs of production.

1. Australian Grape & Wine (2019): Pre-Budget Submission
2. ABARES (2019)
3. Wine Base: www.winebase.com.au/wcac005.htm

Access to water	Water is essential to the viability of Australian grape and wine businesses. The sector needs to continually demonstrate good water stewardship and promote efficient irrigation and raise awareness of the sector's impact on water resources. While Australia's grape and wine businesses are some of the most efficient and effective managers of water in the world, continuous improvement will be necessary to maintain access to clean and cost-effective water resources. In comparison to other crops (especially mandarins, lemons, almonds and avocadoes) winegrape dollar returns per Ha and per ML are lower. **Impact:** Restrictions on water use, competition for land resources and higher cost of production.
Licence to operate – health and well-being	The vast majority of Australians who choose to drink alcohol do so responsibly. Indeed, the Australian Institute for Health and Welfare (AIHW) notes in its National Drug Strategy Household Survey that: • the level of binge drinking in Australia is falling • the rate of underage drinking is declining • more Australians are abstaining from alcohol while pregnant and, in general, • Australians are drinking less often. Nevertheless, the sector accepts that dangerous levels of consumption can lead to health problems and other social costs and that government has a role to play in designing health policies to address dangerous drinking. **Impact:** Decreased wine demand.
Biosecurity	Australia has some of the oldest grapevines in the world, with no other country possessing so many surviving 19th century vineyards. Protecting these valuable assets, our vines, needs to be a major focus. The wine sector has specific trends that are driving up biosecurity risk within our borders including: • increased consolidation, with regional grape processing being replaced by 'super' processing facilities that transport higher volumes of grapes across regional and state boundaries • complexity of increased international ownership of Australian wineries and vineyards • increased specialisation, with more contract vineyard management, pruning and harvesting, raising the risk of cross-regional and cross-vineyard contamination • increased wine tourism and improved transportation corridors • knowledge gaps around how certain key emergency pests (such as *Xylella fastidiosa*) would interact in the Australian environment impacting upon incursion preparedness, and • ongoing tight margins for grape growers. **Impact:** Increased costs of production, reduced profitability.
Retail power / access to market	Supermarkets dominate the Australian packaged alcohol market, holding a 72.9% share of the $15.4 billion market. Endeavour Drinks (currently part of the Woolworths Group and including brands such as Dan Murphy's), leads with a 48.3% share.[4] Depending on supply, demand and other factors, this power potentially allows retailers to: • control brand strength and promotional activity • capture a greater share of margin, and • impose unfavourable trading terms on suppliers. Some retailers have also moved up the value chain by producing their own wine. 'Private, exclusive and controlled labels' were estimated to account for 16% of off-premise sales in 2012.[5] **Impact:** Lower profitability due to squeezed margins and reduced capacity of wine businesses to reach consumers.

Key themes

- Are the threats appropriate?
- Are there other threats that the sector needs to focus on?
- What priorities should be established for these threats?
- Which organisation(s) are responsible for managing which risks?

4. Roy Morgan Alcohol Retail Currency Report, December 2018
5. Centaurus Partners, Wine Industry Report, August 2013, p. 28

Key facts – then and now

Table 2 outlines changes in key Australian wine sector statistics during the first four years of Wine Australia's five-year *Strategic Plan 2015–20*. The significant changes are:

- the national vineyard area has increased by more than 10,000 hectares
- the national crush has consistently exceeded 1.7 million tonnes
- the share of premium grapes in the crush has increased
- the average price paid for grapes has increased
- the average value of Australian wine sales has increased
- the volume and value of Australian wine sales have increased, but the value has increased at a significantly higher rate
- the number of export markets has increased but the share of the top three markets has also increased, and
- the value of exports to China has increased (almost three-fold).

Table 2: Key Australian wine sector statistics, 2014–15 compared with today (1 July 2019)

	Measure	2014–15	Today	Change
Vineyard area	hectares	135,133	146,128	8%
National crush	million tonnes	1.67	1.73	4%
E/D (<$600/t)	share	58%	37%	-36%
C ($600-$1500/t)	share	32%	52%	63%
A/B ($1500+/t)	share	10%	11%	10%
Average grape price	$ per tonne	463	664	43%
Wine production	million litres	1,191	1,285	8%
	share of global	4.3%	4.6%	7%
Domestic sales	million litres	480	497	4%
	A$ million	2,777	3,493	26%
	A$ per litre	6.09	7.05	16%
Exports	million litres	724	801	11%
	A$ million	1,892	2,864	51%
	A$ per litre	2.61	3.58	37%
Export markets	number	121	125	3%
China (inc HK & Macau)	A$ million	392	1,200	206%
United States	A$ million	417	432	4%
United Kingdom	A$ million	369	373	1%
Other	A$ million	714	859	20%
Top three markets	Share	62%	70%	12%

Key themes:

- Which of the above statistics will need to change over the next 25 years and in what direction?
- What other metrics might emerge that we will need to measure (e.g. carbon footprint, labour per tonne etc.)?
- Other?

Supply

Australia is one of the world's major wine producers. In 2018, Australia produced 5 per cent of the world's wine – 1.29 billion litres.

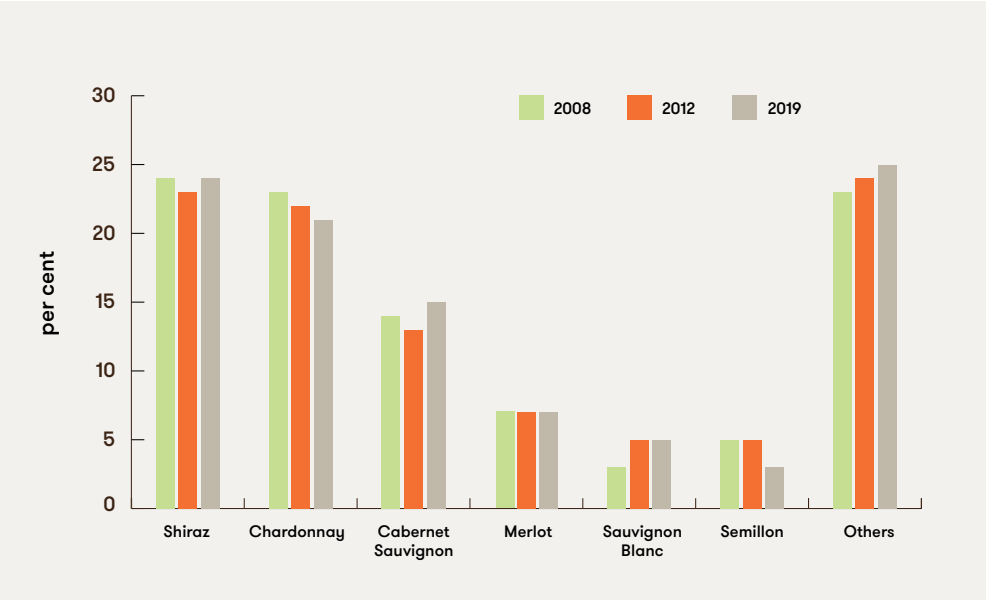
Australia has some of the oldest grapevines in the world, dating back to the 1840s. Australia was one of only two countries in the world whose vines were not destroyed by phylloxera in the nineteenth century. In the right grower's hands, old vines give concentration of flavour, depth and complexity. Linked to lower yields, old vines give a profound expression of the place they are grown in.

We now grow more than 100 different grape varieties on 146,000 hectares in 65 wine regions across the country. Australia has some of the most diverse climates for grape growing in the world. These include ultra-cool to moderate-cold regions, high elevations, warm climate subtropical regions, coastal and inland winegrowing regions, and unique island winegrowing areas.

The evolution of Australian wine can be seen through the abundance of varieties available and a wide spectrum of different wine styles from the classic to the contemporary. Australia has distinctive terroirs and our winemakers embrace their differences to produce unique styles and varieties.

Production is dominated by Shiraz, Chardonnay and Cabernet Sauvignon, that together accounted for more than 1 million tonnes of Australia's 1.73 million tonne production in 2018. However, there is growing interest in other varieties that may be better suited to changing consumer preferences.

Figure 1: Australian wine grape varieties and production



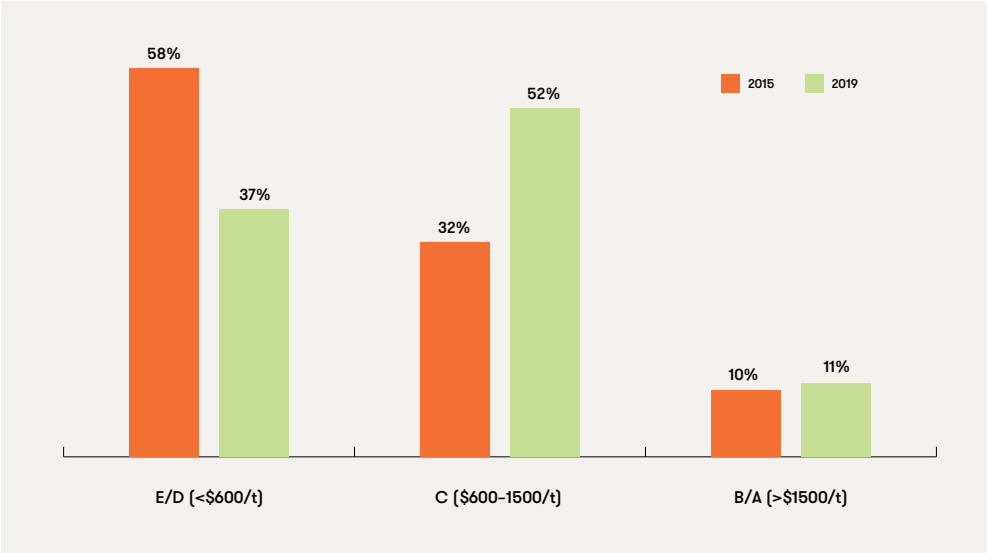
Australia's wine grape crush is relatively stable, averaging 1.75 million tonnes over the past decade (see Figure 2). The 2017 vintage shows that Australia has the capacity to produce 2 million tonnes.

Figure 2: Australian wine grape crush over time

Source: Levies Revenue Service

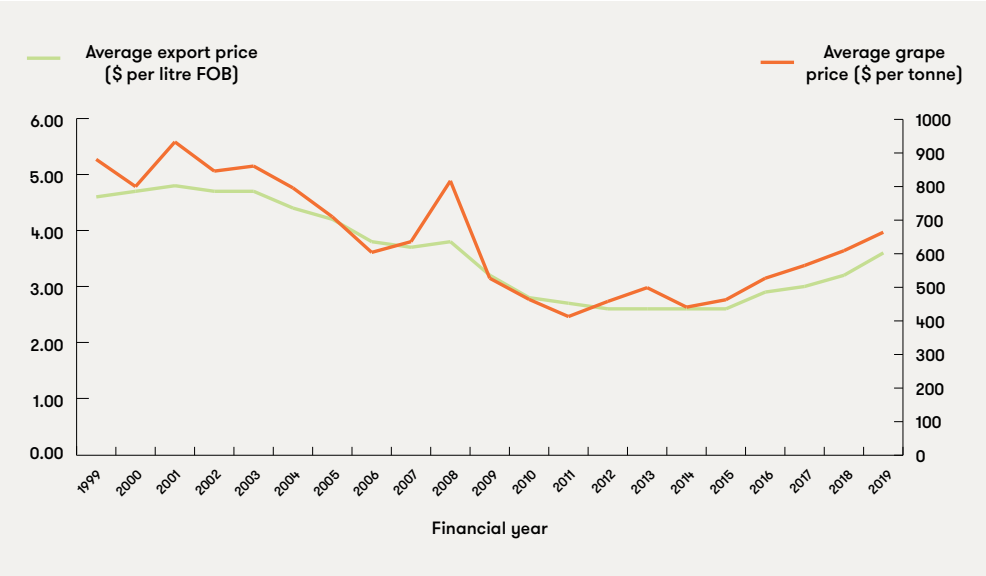
Australia produces wine at all price points, from commercial wines through to fine wines (Figure 3).

Figure 3: Australian wine grape crush by price segment



Reflecting the global premiumisation trend, the proportion of the national crush in the fine wine segment grew from 10 per cent to 11 per cent between 2015 and 2019. The growing demand for premium Australian wines is reflected in the upward trend in both the average value of exports and the average purchase price paid for grapes. Figure 4 illustrates the strong relationship between the two.

Figure 4: Average export price and average wine grape purchase price over time



Key themes:

- How might supply change in the future? What demographic changes (number, size) are likely?
- Are we nearing full production in prime wine growing regions?
- With rising land prices and scarcity of labour, what are the implications for supply?
- Will growth be driven by additional plantings (supply constraints) or increased yields?
- Could the 'search for yield' lead to over-supply and/or a drop-in quality?
- Under various supply scenarios, what are the implications for RD&E and marketing strategies?
- What externalities might impact supply and varieties – climate change, lifestyle changes etc?
- What are our key supply risks – land prices, pests and disease, cost of inputs, labour constraints, access to water – and how do we ameliorate these?

Current markets

Domestic market

The domestic market remains the biggest market for Australian wine (40 per cent by volume). According to Wine Intelligence, Australia is the world's tenth most attractive wine market and ranks eighth for per capita consumption. Importantly, it is a relatively high-value market, with the eighth highest average value of still wine of the top 20 wine consuming countries.

Australia has also been part of the global premiumisation trend in mature markets, with value growth exceeding volume growth as consumers switch to higher value products.

Total Australian wholesale sales in the domestic market grew from 480 million litres valued at $2.8 billion in 2014–15 to 497 million litres valued at $3.5 billion in 2017–18. The average value of sales increased by 16 per cent to $7.05 per litre.

The increase in the average value is reflected in growth in Australian wine priced at $15 per bottle and above and a decline in sales of bottles below this price point (Table 3).

Table 3: Australian wine sales in the domestic off-trade market

	Share of volume		Change in volume	
	MAT To 29/04/18	MAT To 28/04/19	MAT To 29/04/18	MAT To 28/04/19
<$6	43%	42%	-5%	-2%
$6.00-$9.99	25%	24%	1%	-6%
$10.00-$14.99	17%	17%	-3%	-1%
$15.00-$19.99	9%	10%	10%	13%
$20.00-$29.99	6%	6%	11%	7%
$30.00-$49.99	1%	1%	5%	6%
$50.00-$99.99	0.2%	0.2%	-3%	11%
>$100.00	0.0%	0.0%	-5%	10%

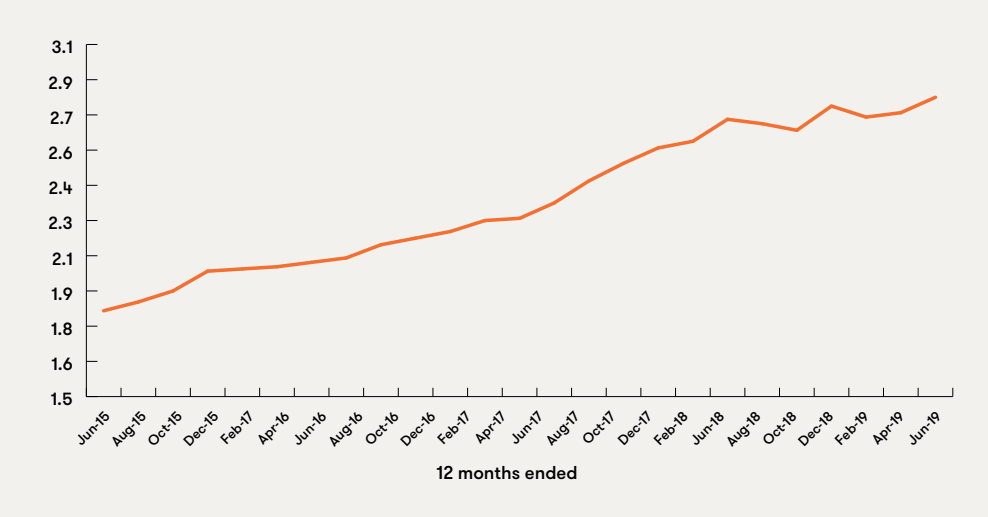
Source: IRI MarketEdge

Wine Australia's marketing focus is on improving perceptions and growing demand in overseas markets for all Australian wine. Australian wine brands face stiffer competition internationally than they do domestically and they also have to contend with the impediments of distance.

Exports

Global export demand for Australian wine has steadily grown, from $1.9 billion in 2014–15 to $2.86 billion in 2018–19 (Figure 5). Australia exports to 125 destinations but the top 3 of China (including Hong Kong and Macau), United States and the United Kingdom account for 70 per cent of the total value exported. They are also the world's three biggest wine markets.

Figure 5: Value of Australian exports over time (A$ billion)



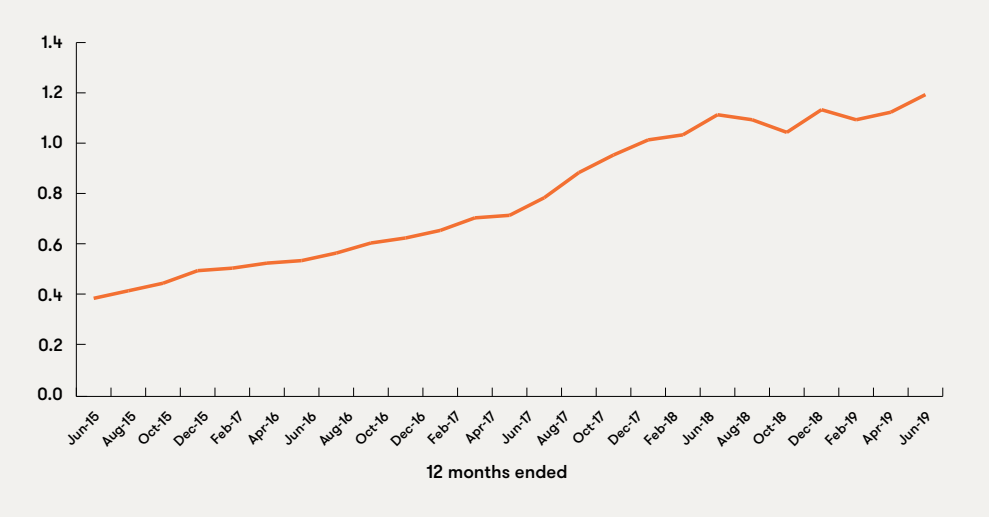
While exports at all price points increased between 2014–15 and 2018–19 (Figure 6), the biggest growth in value came at A$10 or more per litre (more than doubling, increasing by $583 million). This reflects the premiumisation trend in all international markets where consumers are moving to drinking less per capita of higher priced, better quality wine.

Figure 6: Australian exports by price segment (A$ million FOB)

China (including Hong Kong and Macau)

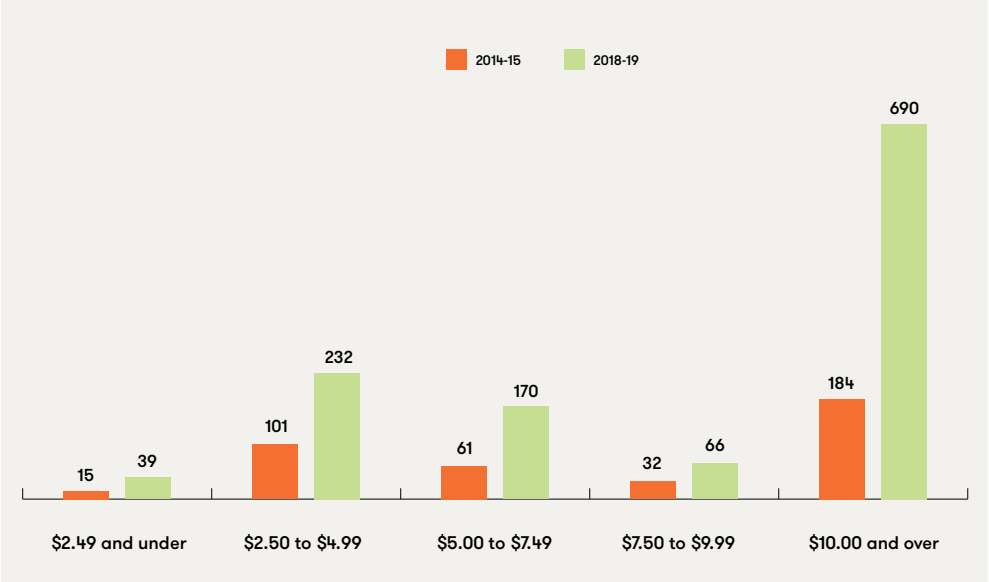
Australian exports have experienced extraordinary growth to China, with the value of exports growing from $392 million to $1.2 billion (Figure 7). Mainland China is now the world's second biggest still wine market by value.

Figure 7: Value of Australian exports to China over time (A$ billion)



The growth in exports to China has been fuelled by a more than three-fold increase in exports at A$10 or more per litre to $690 million (Figure 8).

Figure 8: Australian exports to mainland China by price segment (A$ million FOB)

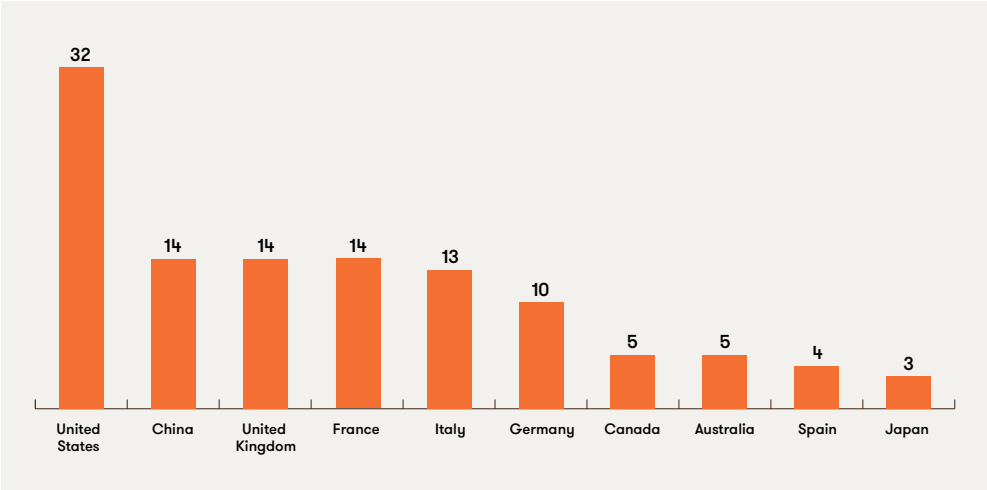


The growth rate in Australian exports, as for all wine imports to mainland China, has slowed, particularly by volume. In 2018–19, volume declined 17 per cent to 146 million litres, mainly in bulk wine. The volume of wine imported by China from all countries declined by 22 per cent in the 12 months ended May 2019 to 631 million litres.

United States

The United States (US) is the world's biggest wine market. The retail value of the US market is more than double that of second-placed China and the United Kingdom, France, Italy and Germany (Figure 9).

Figure 9: Top 10 still wine markets in 2018 (US$ billion retail)



Per capita wine consumption in the US is currently at around 10 litres per head. In comparison, per capita consumption in Australia sits at almost 25 litres per head and in the UK at 20 litres per head, suggesting there remains significant upside for wine consumption in the US as the market continues to mature.

Australian sales in the US market are concentrated at the commercial/value end of the market, with 84 per cent of sales by volume below US$8 per bottle (10 per cent of market share). Australian sales mirrored the market trend at this price point with sales falling by 5 per cent in the 12 months ended March 2019 (IRI Worldwide).

In contrast, Australia holds only a 2 per cent share of the market above US$8 per bottle. There is strong growth for Australian wine at US$8–14.99, with sales up 29 per cent, principally driven by the success of 19 Crimes. There was also strong growth in Australian wine sales at above US$25 per bottle, up 10 per cent. Australia holds only 1 per cent market share in this price point.

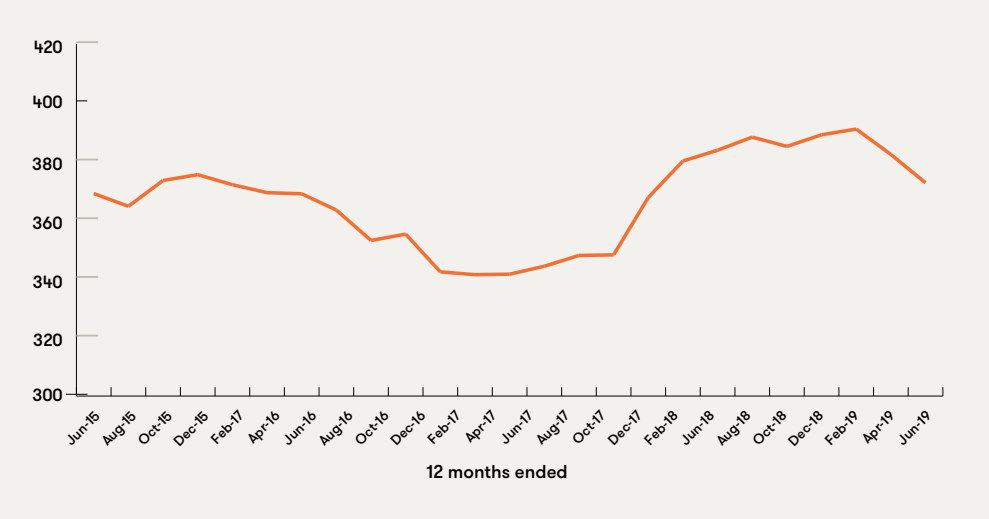
Recent trade and consumer research conducted by Wine Opinions on behalf of Wine Australia suggested that $US15–25 per bottle provides the best opportunity for Australian wine.

United Kingdom

The United Kingdom (UK) is the third biggest wine market in the world. It has always been Australia's number one destination for wine by volume. The majority (80 per cent) of Australian wine exports to the UK are sent in bulk containers and this impacts on the value figures.

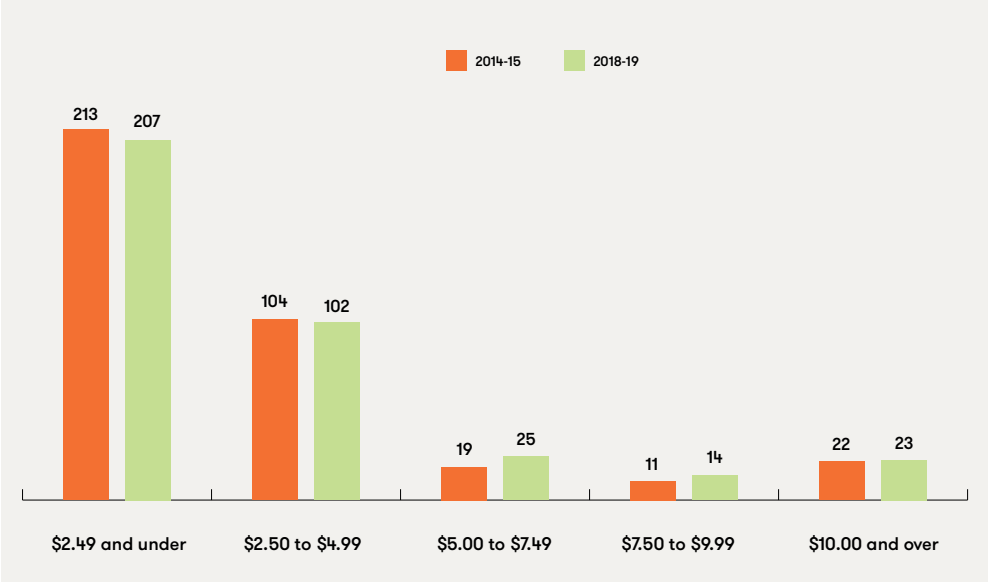
Australian exports to the UK have grown from $362 million in 2014–15 to $373 million in 2018–19. However, there are indications of some over-stocking in the UK market, which has seen exports start to decline in the first six months of 2019 (Figure 10).

Figure 10: Value of Australian exports to UK over time (A$ million)



Australian exports of commercial/value wines (less than $5 per litre FOB) have been fairly flat in value terms but premium exports have grown, albeit off a relatively low base (Figure 11).

Figure 11: Australian exports to the UK by price segment (A$ million FOB)



Australia has been number one in the UK off-premise[6] market for 20 years, but Australian sales are heavily weighted to price points under £7 per bottle and Australia holds a 25 per cent market share of the segment. Given this, it is thought to offer limited scope for significant growth.

Australia's market share of sales above £7 per bottle is comparatively low at 12.7 per cent. This segment presents an opportunity for future growth by gaining market share from competitors as well as growing with the market. However, the market is significantly smaller than that below £7 per bottle.

Key themes:

- Does Wine Australia have the right marketing mix to capture future growth in the world's largest wine markets – the US, China and the UK?
- What should Wine Australia and the sector be doing about future emerging markets where the gains will be in the longer term e.g. India and Nigeria?
- Is the wine that Australia is producing appropriate for the consumer tastes of the future?
- What impact might the following changes have on markets in the future, and what are the implications for the sector?
  - demographic changes and the 'tastes' of millennials
  - the role of sustainability
  - emerging markets
  - health & wellbeing
  - demand for highly individualised, authentic and independent wine
  - competitive beverages.

6. Consumed away from the premises where bought

Marketing and export development

Wine Australia's marketing activities seek to:
- continually improve the quality 'perception' of Australian wine
- create a platform for the commercial success of brand owners, and
- facilitate in-market support and engagement for brand owners.

Wine Australia promotes Australia's entire offering by sharpening the focus on, and understanding of, Australia's more premium or fine wines.

Market research indicates that the ability to motivate consumers to spend more on Australian wine is being hampered by a view in some key traditional markets, such as the US and UK, that 'the beginning and end' of the Australian wine offer is affordable, commercial wine. In most major markets, Australia already has a strong position in the commercial segment.

For example, recent Wine Intelligence research indicates that in the US, 88 per cent of consumers view Australian wine as good value for money, ahead of Californian (86 per cent), French (68 per cent), Italian (79 per cent) and Chilean wine (81 per cent). However, only 33 per cent of US consumers see Australian wine as expensive/fine wine, and they hold more positive perceptions of our key competitors (France, 92 per cent and Italy, 82 per cent). Chilean wine also outperforms Australia in 'fine wine' perceptions (52 per cent).

The growth of export markets since 2015 suggest that the strategy is working. From 1 July 2015 to 30 June 2019:
- total free on board (FOB) export value has increased by 51 per cent from $1.9 billion to $2.86 billion, with value growth in all price segments
- the average value per litre of bottled exports has increased by 33 per cent, from $4.90 per litre to $6.54 per litre FOB
- our highest value wines, those in the $10 per litre and over FOB category, have experienced the strongest export value growth, increasing in value from $398 million to $983 million
- exports of entry-level wines priced at $2.49 per litre and under FOB have grown by 20 per cent in value to $512 million
- unpackaged wine exports have grown 34 per cent in value to $533 million, and
- the average value of all exports has increased by 37 per cent from $2.61 to $3.58 per litre.

This increased demand underpinned a 43 per cent increase in the national average wine grape purchase price from $463 per tonne in vintage 2015 to $664 per tonne in vintage 2019.

The current situation is a significant improvement on the decade leading up to 2014, when the value of Australian wine exports decreased steadily from a peak of $3 billion to a low of $1.8 billion. Contributing factors in this decline included an oversupply in wine production domestically, currency fluctuations regionally and changes in consumer spending patterns internationally arising from the global financial crisis.

In comparison to some other agricultural sectors, Wine Australia's levy investment in marketing (particularly discretionary funding – see Table 4) is relatively modest, especially for a sector that exports 60 per cent of its product. However, the in-market presence (staff / offices / operations) is valued by the sector and is the predominate expenditure item from which 'user pays activities' and 'discretionary spending' are leveraged. It should be noted that the budget for 'user pays activities' is a gross figure, with an estimated $1.2 million income in 2019–20 to off-set this.

Table 4 – Wine Australia gross budget for levy-funded marketing programs – 2019–20

Marketing - Levy Funded	TOTAL
User Pays Activities	1,500
Staff / offices / operations	6,569
Discretionary (trade shows, education etc)	1,862
Total investment	**9,932**

More recently, an important part of Wine Australia's marketing and export development program has been the $50 million Export and Regional Wine Support Package (ERWSP) funded by the Australian Government with savings from changes to the Wine Equalisation Tax (WET) rebate. The ERWSP is a four-year initiative managed by Wine Australia aimed at reinvigorating growth in major Australian wine export markets as well as stimulating international wine-based tourism within Australia.

For the first time, Australia has been able to mount a dedicated, significant and sustained multi-year marketing campaign in markets with the strongest growth potential, particularly the US and China, while also having the flexibility to respond to signals in other markets where there is potential for export.

The package involves four components:

1. **China and US marketing ($32.5 million):** Targeted multi-year marketing campaigns that improve the perception and awareness of Australian wine in China and US markets, as well as the premium paid. In-market activity is supported and enhanced by the overarching Australian Wine Made Our Way brand platform developed with package funding.
2. **Capability development ($2 million):** Development and delivery of education programs and toolkits, including the Growing Wine Exports and Growing Wine Tourism workshops and the Market Explorer tool, to improve the capability of wine businesses to capture export opportunities and develop wine tourism products and services.
3. **Grants ($11 million):** Wine export grants that build the capacity of small and medium wine businesses to capture export opportunities in China and the US. State-based and competitive grants for initiatives that increase international wine tourist numbers and expenditure across the states and regions.
4. **Transforming cider businesses ($0.5 million):** Development of a brand proposition and go-to-market strategy for the Australian cider sector based on detailed market analysis.

The package aims to:

- increase the value of wine exports by $165–218 million to a record $2.8 billion by 2019–20
- deliver 7–8 per cent per annum value growth across all export markets from 2017–18 to 2019–20, including 15–17 per cent in China (including Hong Kong) and 6 per cent in the United States,
- increase the average price for Australian bottled wine exports free on board (FOB) by 15 per cent,
- deliver higher returns to grape growers (capitalising on the historic correlation between grape prices and the average export price of wine), and
- attract 40,000 more international tourists to Australian wine regions by 2019–20, delivering an estimated $170 million in value to the national economy.

A mid-term evaluation of the Package was completed in late 2018 and the program was found to be on track for delivery against the workplan.

Key themes:

- Is there value in supercharging export development and international marketing engagement?
- Should the sector seek an extension (or permanency) of the Export Package funding?
- If an extension of the Package is not offered by government, how should some or all of the activities delivered under the current Package be funded?

Research, development and extension

The bulk of the wine sector's research, development and extension (RD&E) capability resides in the Wine Innovation Cluster of the Waite precinct in Adelaide, which comprises:

- Australian Wine Research Institute (AWRI)
- South Australian Research & Development Institute (SARDI)
- Commonwealth Scientific and Industrial Research Organisation (CSIRO), and
- The University of Adelaide.

Since 2016, Wine Australia has shifted from a procurement process based primarily on competitive grants to one based on strategic partnerships. It has put in place a series of bilateral RD&E agreements with the four key partner organisations of the Wine Innovation Cluster, as well as the National Wine and Grape Industry Centre (NWGIC), a collaboration between Charles Sturt University, NSW Department of Primary Industries and the NSW Wine Industry Association.

The bilateral agreements account for the vast majority of the RD&E expenditure with $16m allocated through the agreements and $3m available annually to spend outside the agreements.

AWRI receives the largest portion of Wine Australia's RD&E funding (approx. $8m of funding per annum), and in turn Wine Australia is AWRI's most important source of funds (approx. 70 per cent).

In reference to research and development (R&D), it is common to talk about a 'balanced portfolio' that considers the mix of factors such as the timeframe for outcome delivery (short-, medium-, long-term); the risk of non-delivery (low, medium, high); the type of outcome expected (strategic, adaptive) and the coverage or applicability of the outcome (national, regional).
A recent internal review of Wine Australia' portfolio indicated that its portfolio was:

- long term (> 3 years)
- balanced low, medium and high risk
- more adaptive than strategic, and
- far more national than regional.

In 2017–18, Wine Australia managed 201 research projects, of which 47 were completed. Some of the new projects include investigating the expression of terroir on Australian Shiraz, the use of digital technologies to map vineyard areas, field testing a radical pruning method to eradicate angular leaf scorch, providing new information to improve vineyard spraying and reduce drift, and field testing new technologies and software.

Wine Australia has also identified the 10 key viticultural and oenological practices expected to most significantly improve competitiveness of Australian vineyards and wineries. The five key viticultural activities identified were pest and disease (including trunk diseases and biosecurity); rootstocks; spray application; vine balance/grape quality measures; and adaptation to climate change (including delayed pruning, clonal trials). The five oenological practices were: clarification and filtration (including flotation/cross flow); cold stabilisation; wine efficiency (including Lean principles, ABC tool and on energy); fermentation monitoring; and faults and taints (including smoke taint and copper additions).

Extension and adoption of innovation arising from Wine Australia's R&D outcomes is undertaken via a range of delivery networks and programs, including:

- roadshows and regional workshops
- webinars and seminars
- AWRI help-desk and library
- websites and e-newsletters
- R&D@Work magazine supplement
- Wine Australia Regional Program – workshops, factsheets, trials etc., and
- articles in journals and presentations at conferences etc.

Many of these are mechanisms for raising awareness of a new practice or product, rather than actively seeking adoption, except for workshops and the Regional Program.

In 2017–18, Wine Australia spent just under $24 million on RD&E, of which $4.3 million was spent on extension and adoption.

Key themes

- What are the priority areas for RD&E?
- From a portfolio perspective, what would be the most suitable balance between strategic and blue-sky research compared to adaptive R&D?
- Is the mix of R&D versus extension and adoption appropriate?
- Where might the greatest gains be made in the future – grape production or wine making?
- Are the 10 key practices the right ones?
- How might new technologies (Internet of Things, remote sensing, data, robotics, machine learning etc.) impact on the Australian wine sector?

Future sector structures and funding

Structures

The Australian Grape and Wine Authority (AGWA) was established on 1 July 2014 under the *Australian Grape and Wine Act 2013*. AGWA took over the RD&E functions of the Grape and Wine Research and Development Corporation and the marketing and regulatory functions of the Wine Australia Corporation.

In 2017, AGWA changed its name to Wine Australia.

Section 7 of the Act sets out the functions of Wine Australia, which include:

- identify wine and grape R&D requirements and coordinate or fund R&D activities
- control the export of grape products from Australia
- promote the consumption and sale of grape products in Australia and overseas, and
- implement, facilitate and administer programs in relation to wine, cider, international wine tourism and grants as directed by the Minister.

Wine Australia's regulatory activity is unique among rural research and development corporations (RRDCs). While some may question whether there exists a structural conflict of interest between Wine Australia's marketing and regulatory arms, the recent Wine Australia performance review found no evidence of this.

Among the 15 Australian RRDCs, Wine Australia is one of five 'statutory' bodies, the other ten being 'industry-owned corporations' (IOC). Statutory RRDCs are essentially government agencies established under legislation. There are several differences between the two types of organisation, including that the Board of Statutory RRDCs is determined by the Minister whereas IOC Directors are elected by members. There have been discussions among wine sector participants about the desirability of moving towards a sector-owned model for Wine Australia. While this would offer greater control by the wine sector over important elements such as the appointment of directors and the number of staff, it is thought that it would mean surrendering Wine Australia's regulatory function, which many in the sector are strongly opposed to doing.

In relation to other structural reform, there has been a recent merging of Australian Vignerons and the Winemakers' Federation of Australia into Australian Grape & Wine Inc, providing a single national sector peak body. Australian Grape & Wine is the representative organisation for winegrape growers and wine producers under the Wine Australia Act. Its voluntary membership represents over 75 per cent of the national winegrape crush and they represent small, medium and large winemakers and winegrape growers from across the country.

Wine Australia maintains a register of Geographical Indications (GIs) for Australian wines, which are defined and protected under law. The GIs comprise 28 zones, 65 regions and 14 sub-regions. Regionality is important to the success of the Australian wine sector. State and regional bodies play a key role in promotion, advocacy, R&D extension and conducting events. Eleven regional bodies administer the Regional Program on behalf of Wine Australia. There is a large number of sector groupings and complementarity in service offerings between different bodies.

It is important to discuss how service delivery between the states, regions and Wine Australia can be optimised.

Funding

Two levies support Wine Australia's activities:

1. The grape research levy is paid by a processing establishment (winery) on behalf of the grape grower. The rate of the levy is $2.00 / tonne of winegrapes crushed, of which $1.984 is remitted to Wine Australia by the Commonwealth (and the remaining $0.016 to Plant Health Australia).
2. The wine grapes levy is payable on grapes produced in Australia for the production of wine. The person who owns the grapes when the winemaking process begins is liable for the levy. The wine grapes levy rate is stepped by tonnage, ranging from $200 plus $5.00 / tonne for up to 10 tonnes, through to $248,880 plus $5.40 per tonne for over 40,000 tonnes. The wine grapes levy has three components: Plant Health Australia ($0.024 / tonne), research & development ($4.976 / tonne) and marketing (varying between $200 (fixed) for the first 10 tonnes to $0.40 / tonne for tonnage over 40,000).

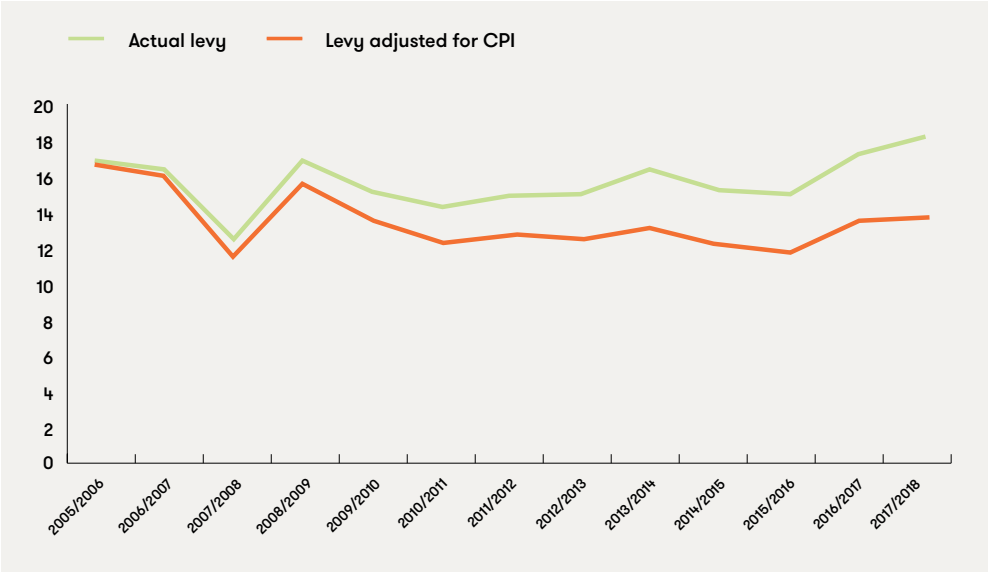
The grape research levy and the R&D component of the wine grapes levy are matched dollar-for-dollar by the Commonwealth Government to a cap of 0.5 per cent of the wine sector's gross value of production (GVP), that is, 'the gross value of production, for that financial year, of the goods that are produce of the grape industry and the wine industry'[7].

Notably, both levies are set at a fixed amount per tonne rather than by value. This presents at least three problems. First and most important, the real value of levy income streams gradually reduces over time by CPI (Figure 12). Second, there is a gradual erosion of the ability of the sector to capture the full available amount of matching government R&D contributions to the 0.5 per cent cap. Third, the two levies are a greater imposition on growers of lower value bulk grapes and on all participants when prices are low and can be least afforded.

Wine Australia does not segregate the two R&D levies for expenditure on 'viticulture' versus 'oenology' R&D activities. The levies and matching contributions are pooled and allocated to the areas of RD&E considered to offer the greatest benefit to the sector overall through a balanced portfolio approach. The rationale for this approach is that many wine sector businesses pay both levies, and the benefits of investment in one group of levy payers readily transfer to the other.

7. Sec 32B of the Act

Figure 12: Wine grape and grape research levy – nominal and real terms 2005–06 to 2017–18



Source: Wine Australia

Exporting wine businesses also pay the wine export charge. This charge is also stepped, between 0.20 per cent of total annual free on board (FOB) value between $0 and $20 million and 0.05 per cent of value over $70 million. The wine export charge is collected by Wine Australia where it is used to fund export support services and some international promotion activities.

Wine Australia's regulatory activities are funded on a cost-recovery basis through activity-based fees. A proportion of the cost of its marketing activities is met through voluntary contributions from wine businesses, regional associations and state governments.

A summary of recent Wine Australia budgets is shown in Table 5.

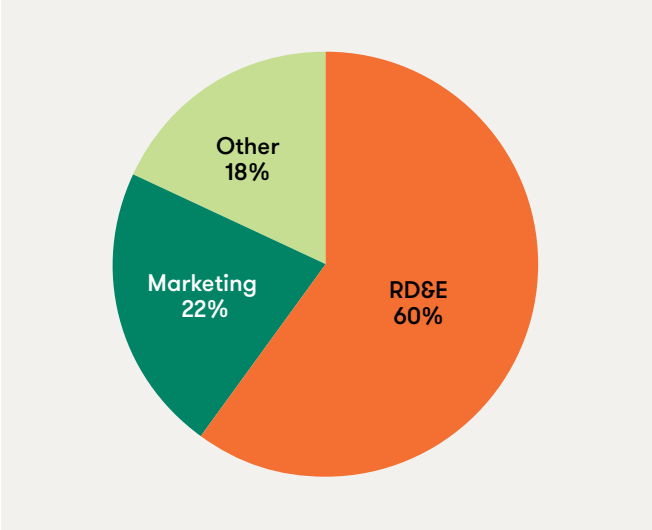
Table 5: Key financial figures for Wine Australia, 2014–15 to 2017–18

$$m	2014–15*	2015–16*	2016–17*	2017–18*	2018–19^	2019–20^
Total revenue	**36.651**	**38.307**	**43.982**	**64,513**	**58.900**	**69,200**
Total sector contributions	17.525	18.231	20.205	21,550	19.600	18,930
Australian Government matching contributions	12.080	12.105	12.034	13,867	13.500	13,500
Other grants from Government	0.314	0.148	3.023	18,514	16.800	28,930
Sale of goods and rendering of services	6.097	7.097	7.441	7.440	7.200	7,410
Total expenditure	**36.627**	**37.404**	**40.345**	**54,441**	**67.800**	**79,100**

Source: *Annual Reports 2015–16, 2016–17, 2017–18 and ^AOP's 2018–19 and 2019–20 (forecasts)
#Note: Numbers may not add as only high-level figures provided

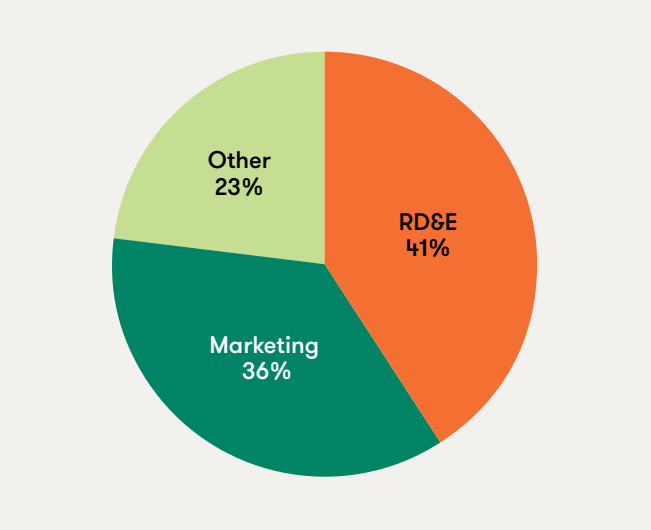
Table 5 highlights the impact of the Export and Regional Wine Support Package ($50m Package) funding (other grants from Government) in recent years. So, while RD&E accounted for just over 60 per cent of expenditure in 2014–15, it represented 41 per cent of expenditure in 2018–19 with the addition of the ERWSP (Figure 13 and 14). During the life of the $50m Package, marketing expenditure now almost equates to RD&E expenditure in Wine Australia.

Figure 13: Expenditure mix 2015–16



Source: Forecast from Wine Australia AOP

Figure 14: Expenditure mix 2018–19



Source: Forecast from Wine Australia AOP

Key themes

- Is there any argument to separate out Wine Australia's marketing and regulatory arms?
- Should Wine Australia move toward an industry-owned model?
- Is the R&D versus extension and adoption mix right?
- Is the RD&E and marketing mix right?
- Should the sector move toward a levy based on value rather than volume?
- Are the roles and responsibilities of Wine Australia fully understood by stakeholders?
- Can the relationship between states, regions and Wine Australia be further enhanced?

Sustainability – environmental, social, financial and cultural

Sustainability (environmental, social, financial and cultural) is a word that often dominates the lexicon of a sector, without necessarily having a lot of substance behind it from a market perspective. However, all that may now be steadily changing as consumers increasingly have the desire and the technology to understand a product's provenance and its sustainability credentials. The 'clean and green' message should be continuously underpinning our products.

A recent review by Manson[8] stated that:

'The wine sector manages large land and human resources and, if these are poorly managed, has the potential to cause significant harm.'

The review also suggested that consumer demands for sustainability will gain momentum and, if the sector does not keep pace with trends, it may be severely disadvantaged in the future. The main drivers were categorised by that report as:

- consumer expectations: an increasing desire among more affluent consumers to consume sustainable products (although this may not always drive purchase behaviour, brand loyalty or price premiums).
- customer expectations: an expectation that products they sell meet basic sustainability standards, so as to build and protect their own brand.
- a broadening of the definition of sustainability: no longer solely focused on environmental issues. Social issues such a worker equity and wellbeing, community development and cultural aspects regularly feature in the global sustainability discussion. Health and wellbeing have strong links with sustainability, and the role of responsible alcohol consumption in sustainability needs to be considered.
- global sustainability issues: climate change, while not top of mind for many Australians appears to have greater currency overseas. Water security is the other main environmental issue globally. It is anticipated that the sector should develop processes to address key environmental issues and have reporting mechanisms in place to provide evidence of responsible management.
- competitor activity: such as New Zealand (Sustainable Winegrowing NZ) and California (California Sustainable Winegrowing Alliance). There is even an independent website that details sustainability schemes in wine producing countries, as well as individual wineries http://discoversustainablewine.com/.

The Australian wine sector remains deeply committed to the protection of the environment and stewardship of the natural resources it manages. In recent times, the sector has positively responded to its environmental stewardship requirements through Sustainable Australia Winegrowing (SAW) handbook and the implementation of Entwine Australia. On 1 July 2019, Sustainable Winegrowing Australia (SWA)[9] was launched as the single national sustainability program for wine growers and producers in Australia.

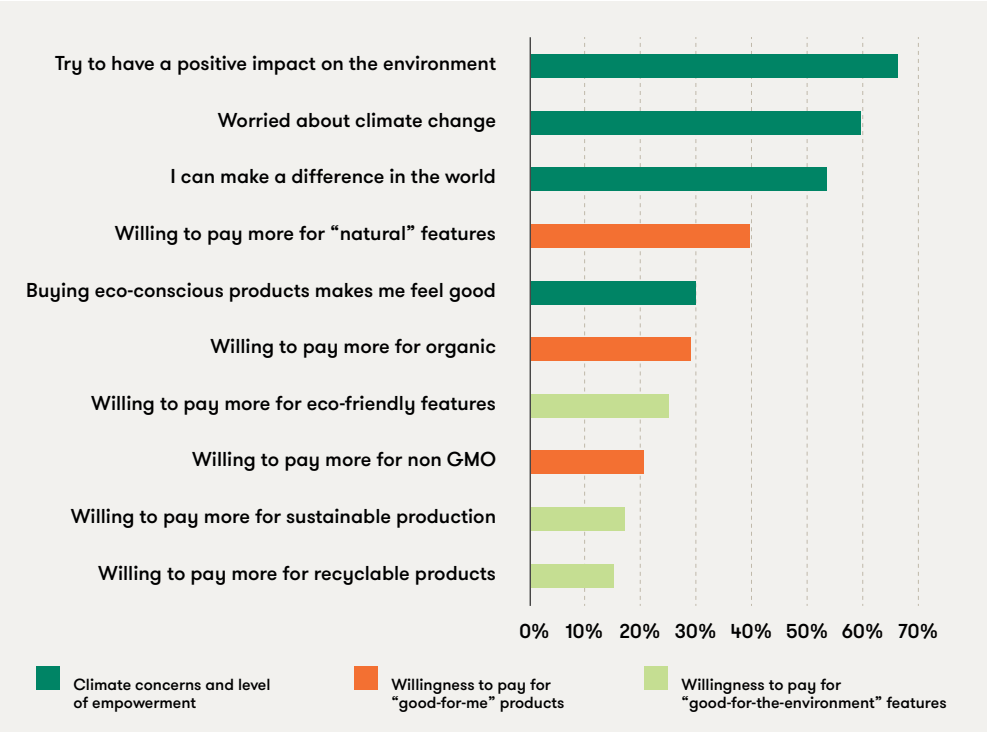
8. Manson, P (2017), Australian wine's place in the global sustainability landscape (December)
9. http://www.sustainableaustralia.info/

While there has been considerable effort in developing sustainability resources for the wine sector in Australia in recent times, this has not resulted in widespread adoption and sustainability is not recognised by markets as a core value of the sector. However, Manson argues that investing in a few key areas could dramatically alter market perceptions and motivate significant uptake of sustainability-related activities within the sector. He proposes that the three most important developments would be:

- ownership of the 'sustainability agenda' and active support for sector-wide participation in sustainability programs
- establishment of a single national sustainability program (as noted above) supported by robust verification services, and
- integration of sustainability into all global marketing activity undertaken by the sector. In particular, Manson thinks that Wine Australia should increase the profile of sustainability in its promotional activities.

Members must receive benefits from any national sustainability program either from financial incentives – where there is clear demand from wineries for 'sustainably-produced' grapes – or for wineries by creating demand through sector promotion of sustainability. Manson cites recent market research that consumers in general desire products that have been sustainably produced (Figure 15).

Figure 15: Percentage of respondents indicating that they agree or strongly agree with statement or that they will pay more for indicated product feature.



Source: Euromonitor International Global Consumer Trends survey, 2016

An example of how a winery may position itself as sustainable can be seen from US winery Fetzer: https://fetzer.com/about/#sustainability. An example in Australia cited by the 'Discover sustainable wine' website is Henschke: https://www.henschke.com.au/our-landscape/sustainability/

As briefly mentioned above, the New Zealand wine sector has a major focus on sustainability, its definition being '*Sustainability means delivering excellent wine to consumers in a way that enables the natural environment, the businesses and the communities involved to thrive*'. The NZ sector believes that action to enhance sustainability:

- reduces the risk of adverse events which affect the sector's social licence to operate
- mitigates industry risk exposure (e.g. from pests and disease)
- protects industry from increasing regulation
- may enable market access
- ensures the sector is prepared as retailers and wholesalers introduce their own sustainability initiatives, and
- creates value for consumers, although premiums are likely less clear.

Key themes

- Is sustainability a key priority for the sector? How does it rank against other issues?
- How should take up of SWA, the single national sustainability scheme, be encouraged?
- What elements should any single national scheme cover?
- What is the trade-off between cost effectiveness for grape growers and wineries, and rigor in the eyes of customers and consumers?

People

The Australian wine sector collectively employs more than 170,000 full- and part-time staff in winegrowing regions across Australia and contributes more than $40 billion to the Australian economy.[10] Like all agricultural industries, the wine sector needs to engage with and retain an increasingly diverse range of workers. As new technologies such as robotics and big data come on stream the diversity of skills needed will expand even further and competition for staff will intensify.

'Securing talent in viticulture and winemaking' was a workshop at the Australian Wine Industry Technical Conference (AWITC) in July. A paper prepared for that event states[11] '*One of the pressing concerns for our sector is attracting and retaining staff. The sector is also worried that at the very time demand for higher skills is increasing, course offerings from both TAFEs and universities are in decline. More generally, businesses are finding it difficult to fill vacancies and retain workers in various streams of the sector: from the vineyard – with a shortage of senior vineyard managers and viticulturists a very real current concern – to the cellar door, particularly in regional locations.*'

The paper also notes that the problem is not exclusive to viticulture, with the Australian Council of Deans of Agriculture observing that the job market across all agriculture for graduates of tertiary agriculture qualifications is five times larger than the supply of graduates.

A recent South Australian Wine Industry Association survey[12] (2018), in conjunction with Bentleys SA, found that 45 per cent of respondents experienced challenges in recruiting vineyard staff, including viticulturists and vineyard managers.

Equally for the wine sector, access to semi-skilled labour at critical times of the year is important.

The AWITC paper suggests that: *Labour and skill challenges will impact individual wine businesses and regions differently, although some key issues facing the entire sector can be summarised as follows:*

- shortages of skilled workers – operational and senior viticulturists a current key concern
- ageing workforce
- gender imbalance: employment of women in the wine sector is still well below 50 per cent
- fewer young entrants
- potential limits on skilled migration
- attracting people to the regions
- mismatch between sector needs and educational offerings
- new skills required to tackle automation, digitisation, climate change, marketing
- people management skills lacking to deal with succession, intergenerational and diverse workforces.

10. https://www.wineaustralia.com/market-insights/australian-wine-sector-at-a-glance
11. Securing talent in viticulture and winemaking: AWITC Workshop – discussion paper
12. Henrik Walgren (2018), Identifying the skill shortage in the Australian wine industry

Some important data in relation to wine sector employment and education referenced in the paper includes:

- for horticulture and viticulture students, TAFE is the key provider
- Bachelor degrees in wine-specific subjects are now offered at only three universities
- total enrolments in wine-specific courses have declined from 1015 students in 2008 to 615 students in 2017
- encouragingly, more women are enrolling in wine sector courses but retention in the sector remains an issue
- only about one-quarter of people employed in grape growing and in winemaking have a degree qualification (Bachelor's degree or higher) with similar proportion having a VET qualification.

In part to encourage employment and retention in the wine sector, Australian Grape & Wine is championing the uptake of the Diversity and Equality in Wine Charter. The Charter covers a range of key criteria in relation to:

- treating everyone with respect, fairly and equally – whether employee, contractor or customer
- equal pay for equal work
- maintaining a safe work environment, free from inappropriate workplace behaviour
- promoting a culture that values diversity and tolerates differences, and
- supporting training programs to develop the knowledge, skills and experience of employees.

Wine Australia has long been investing in 'people' for the sector[13]. Its activities range from increasing awareness of the sector at the primary and secondary school level, through supporting researchers by offering PhD and Honours scholarships and creating opportunities to extend knowledge through global collaboration.

Apart from those offered by universities and the VET system, other programs that can assist to alleviate labour shortages include:

1. Programs to connect international university students with employers including wineries. Upon graduation these students can apply for a Temporary Graduate visa allowing them to work in Australia for 18 months to 4 years.
2. Under the Pacific Labour Mobility Scheme, businesses can sponsor workers from several Pacific Island nations to work for up to three years.
3. Holiday working visas.

It is noteworthy that many wine sector associations are very active in these areas.

Key themes

- How big a problem is access to skilled and semi-skilled labour?
- To what extent will new technology fill labour gaps in the medium term?
- Is the gender balance right – how can we retain more women in the sector?
- What role will digital disruption have on wine sector jobs?
- What other initiatives should the sector initiate to address skills shortages?
- Is enough being done at a primary and secondary education level to make viticulture and winemaking attractive sectors for future employment?

13. Jo Hargreaves (2018), Our success depends on exceptionally skilled people – now and in the future. *Grapegrower and Winemaker* (December)

Wine Australia for Australian Wine

AUSTRALIAN Grape & Wine

Wine Australia

Cnr Botanic and Hackney Roads, Adelaide SA 5000
PO Box 2733, Kent Town SA 5071
Telephone: +61 8 8228 2000
Facsimile: +61 8 8228 2066
Email: enquiries@wineaustralia.com
Website: wineaustralia.com

Australian Grape & Wine

Cnr Botanic and Hackney Roads, Adelaide SA 5000
PO Box 2414, Kent Town SA 5071
Telephone: +61 8 8133 4300
Facsimile: +61 8 8133 4366
Email: info@agw.org.au
Website: agw.org.au