

Wine Australia Stakeholder Update

17 November 2020

Michele Allan, Chair

Introduction

Welcome to Wine Australia's virtual Stakeholder Update.

I'd like to thank Sandy Clark, President of Australian Grape & Wine, for his kind invitation to provide you with an update of - Wine Australia's activities before today's Australian Grape & Wine AGM.

My name is Michele Allan and I am the Chair of Wine Australia.

Today I will cover what we achieved in the last financial year and looking forward cover our plans for this current year.

After my overview our CEO Andreas Clark gives you a detailed analysis of our activities and our financial position.

Increasing demand and the premium paid

The year was a busy and successful one, where we delivered the fifth and final year of our *Strategic Plan 2015–2020*, developed our new strategic plan and rose to the challenges of fires and the pandemic.

In our last Strategic Plan, we had set the ambitious priority of increasing the demand and the premium paid for all Australian wine and, over the five years, we saw an encouraging increase in the value of exports, the per litre value of wine and the average grape price.

In Vintage 2020, the average grape price increased by 5 per cent to \$694 per tonne. However, the value of the crush was down 9 per cent to \$1.07 billion after the third consecutive year of a below-average crush. The 2020 crush of 1.52 million tonnes was 13 per cent below the 10-year average and 12 per cent lower than in 2019.

The overall reduction of 200,000 tonnes compared with 2019 was split almost 50:50 between red and white varieties. Red varieties made up 55 per cent of the crush at 840 million tonnes.

This smaller crush flows through to reduced inventories and also lower research and development and marketing levies used to fund Wine Australia's investments on levy payers behalf.

With regard to exports, it really was a year of two halves. The first two quarters saw exports following the growth trajectory of previous years, but they fell in the latter two quarters - as the measures imposed to address COVID-19 hit economies world-wide.

At the end of the 2019–20 financial year, exports had declined by 1 per cent to \$2.84 billion and the average value increased by 9 per cent to \$3.89 per litre free on board. The average price per litre for Australian bottled exports increased by 8 per cent to \$7.08 per litre FOB.

Export volumes dropped by 9 per cent due to a reduction in available supply following three consecutive years of lower vintages. There were 3101 active exporters and Wine Australia approved 18,269 products and 51,548 shipments and we issued 54,933 import certificates.

We saw mixed results in our key markets in the last financial year, with value declining by 1 per cent in China, 0.4 per cent in the United States and 6 per cent in Canada. While value grew by 3 per cent

in the United Kingdom. In each of our top four markets, the volume of exports declined by between 2 and 18 per cent.

In the July to September 2020 quarter, the value of exports increased by 23 per cent compared to the same period in 2019, which came after declines of 4 per cent in the April to June quarter and 7 per cent in the January to March quarter.

Our Export Report for the 12 months to 30 September 2020 showed that exports grew by 4 per cent to \$2.998 billion, with value growth in each of our top five export markets. The decline in volume continued, down 0.4 per cent to 771 million litres, while average value grew 4 per cent to \$3.89 per litre.

The growth in exports was dominated by an 18 per cent increase in the value of exports to the United Kingdom, with 1 per cent increases to China and the USA, a 4 per cent increase to Canada and 9 per cent increase to New Zealand. Different markets had different trends – in the UK and the USA, growth was primarily at the commercial/value end, while in China growth in premium wines remained strong.

Protecting the reputation of Australian wine

One of Wine Australia's three pillars of responsibility is to protect the reputation of Australian wine. In 2019–20, our regulatory staff inspected records relating to 4000 products to verify the accuracy of labelling claims and help maintain Australia's strong reputation for authenticity and quality.

Domestic travel restrictions relating to the COVID-19 pandemic saw us move from onsite regulatory inspections to online in March 2020, which helped us maintain our services to the sector and achieve cost savings.

Export and Regional Wine Support Package

In the last six months of 2019, we delivered key face-to-face components of the Australian Government's \$50 million Export and Regional Wine Support Package that showcased the quality and diversity of our fine wine and tourism offering – and helped raise the perception of and demand for Australian wine in China and the USA.

The keystone Far From Ordinary campaign in September and October delivered the largest-ever promotion of Australian wine to the trade, media and consumers in the USA.

In November 2019, back-to-back events in Shanghai celebrated Australian wine at the China International Import Expo, Wine Australia's China Awards, the Wine Australia Pavilion at ProWine China and the Decanter Shanghai Fine Wine Encounter.

COVID-19 meant that we had to reshape our marketing events in the first half of 2020. We increased our emphasis on social and digital engagement as well as retailer and distributor promotions. We also drew heavily on the education platform Australian Wine Discovered, one of the enduring benefits developed through the \$50 million Package, to deliver online education and virtual events.

Elements of the \$50 million Package could not be delivered within the originally envisaged timeframes and, with the Federal Government's approval, the Package was extended to 30 June 2021.

Pleasingly, our marketing events delivered on their goal of improving participants' perceptions of Australian wine. On average, people's perceptions of our wines increased by 12 per cent after participating in an event to 8.9 out of 10.

Research, development and adoption

Research, development and adoption is the largest investment by Wine Australia. Over the year, we managed 193 projects, with 45 completed during the period. We continued our investments in developing new grapevine scions and rootstocks and field-tested vines bred for their resistance to mildew.

We funded the development of an activity-based costing online tool available to the sector to help wineries assess their production costs and benchmark their performance. To help growers make informed decisions, research projected the short-and mid-term climate trends to 2100 in the Climate Atlas. And we increased preparedness for exotic pest incursions including *Xylella fastidiosa*.

Without downplaying the impact on the individuals affected, the sector was fortunate that the fires over summer - affected less than one per cent of vineyards. Wine Australia, together with Australian Grape & Wine, the Australian Wine Research Institute, and state and regional wine organisations worked to ensure that growers and winemakers had access to the latest information on vineyard remediation and grape testing to inform their decision making.

We worked closely with domestic and international media to ensure that journalists and their readers – including the wine trade and consumers – understood how the sector was testing grapes and micro ferments to ensure the quality of wines made in Vintage 2020.

And we have invested in further research to improve diagnostics, decision making, remediation and recovery to ensure that Australia stays at the forefront of managing the challenges from fires.

Keeping working for businesses

Wine Australia provides weekly analysis and insights on supply and demand, domestic and international competitors and markets and consumer trends through our weekly Market Bulletin, together with bespoke analysis on request. With COVID-19, this analysis focused on providing timely analysis of our key markets and trends so that our growers, producers and exporters could understand what was happening in our markets.

As for everyone, COVID-19 changed the way we worked and ran our business. First our China team began working from home, then our Australian, UK and US-based staff moved to working from home.

I am proud of the way the team managed during this great uncertainty. Their focus was on how to help the sector manage while they were facing upheavals in their personal and work lives.

We worked closely with Australian Grape & Wine to understand the impact of COVID-19 and to share this information with the sector as quickly as possible. We introduced webinars to provide timely information to our stakeholders to help them manage their businesses during a period of great change – and these are available on our website if people wish to revisit them.

Importantly, we changed how we ran our business while continuing to deliver our services to the sector and reducing our operating costs.

New Strategic Plan

Last year, we conducted face-to-face stakeholder consultations on the wine sector's priorities for our new Strategic Plan. We travelled across the country – those were the days – with Australian Grape & Wine as it developed the sector's new, 30-year *Vision 2050*.

Our new five-year plan sets out how our activities and investments will contribute to *Vision 2050* and its goal of profitable, resilient and sustainable winegrape and wine businesses.

Over the next five years, we will invest more than \$200 million in R&D, marketing, regulation and adoption. We have laid the foundations to ensure that we are well placed to respond to future challenges by strengthening our governance structures and reducing operational expenditure.

Our RD&A agenda is ambitious and we have several big issues to address on your behalf:

- How do we reduce our reliance on water from rainfed dams and river systems?
- How do we help achieve *Vision 2050's* targets for zero nett carbon emissions and waste production? Packaging will be a big part of that, and how do we revolutionise packaging without sacrificing quality perceptions?
- How do we help you manage the warmer and drier conditions we will see with climate change? What varieties will we grow in 2100 and where? Are tropical viticulture in the north of Australia or protected cropping viable options?

Wine Australia is a founding member of the new collaborative Research and Development Corporation (RDC) investment vehicle Agricultural Innovation Australia, which is focused on driving innovation through commercialisation of R&D outcomes, so that you can benefit by using the results of your levy investment.

The investigations into anti-dumping and countervailing duties announced by the Chinese Ministry of Commerce in August, together with unofficial reports about import bans in the Chinese media, has changed the risk profile of the Chinese market. We have and will continue to work very closely with Australian Grape & Wine and the Australian Government to monitor and support the sector's interests.

Thanks

Finally, I would like to acknowledge the stellar contribution of Brian Walsh, Wine Australia's inaugural Chair, who stepped down at the end of September 2019. Brian's service to the wine community and his contribution, compassion and commitment cannot be overstated. Thank you Brian.

I would also like to recognise Cath Oates' stewardship as Acting Chair during last financial year and to thank all of my fellow Directors for their contribution and support.

And thank you to Andreas Clark and the global Wine Australia team for their dedication to the Australian grape and wine sector and their constant focus on delivering value for the sector's investment. Your contribution is valued and acknowledged.

We are all facing challenging times. We are here to help you navigate them, whether with regulatory assistance around market access, our market insights and analysis, in-market marketing assistance, finding new ways of engaging with our customers or delivering the results of R&D investments.

Since becoming Chair in July 2020, I've had the opportunity to meet with many of you through Zoom and Teams meetings. Hopefully we will meet in person very soon.

I'd now like to hand over to Andreas Clark, who will provide you with more detail of our activities and finances from last financial year.

Thank you.

Andreas Clark, CEO

Thanks Michele and thank you all for joining us this afternoon.

Wine Australia has three core responsibilities – investing in research, development and extension, marketing Australian wine and protecting the reputation of Australian wine.

This afternoon, I will speak to you about our activities and investments to deliver on those responsibilities and provide a detailed look at our finances.

Research, development and adoption

Our R&D investments are focused on delivering practical outcomes for growers and winemakers to help you improve your resource management and sustainability, improve your vineyard and winery performance, grow grapes that are fit for purpose and wine to meet consumer demands.

Through the Australian Government's Rural R&D for Profit program, 17 new technologies have been developed for the wine sector including a package of precision agriculture tools, a prototype hand-held NIR instrument and calibration set that can predict bud fruitfulness in the vineyard and technology that can provide on-the-go, non-contact measurement of canopy size and structure, whole vineyard nutrition status and detection of disease.

One of the practical outcomes we helped deliver during the year was – in concert with Australian Grape & Wine and the AWRI – making sure that you had access to the latest information on vineyard remediation and grape testing, following the fires during summer.

Through your R&D levy funding, we have invested in smoke-related research for many years and Australia is at the forefront of knowledge.

In Vintage 2020, our extension funding of AWRI allowed it to hold 25 extension events over 8 weeks for 1300 attendees and answer 1600 smoke-related helpdesk queries. AWRI Commercial Services analysed 4600 samples allowing growers and winemakers to make informed decisions about picking and vinification.

We have continued to invest in research to reduce the losses from smoke-impacted fruit and wine and broaden the mitigation and treatment toolbox for growers and winemakers.

During the year, an independent review of our extension and adoption was completed and investments in the future will be aligned against our new *Extension and Adoption Strategy 2020–25*.

Our Regional Program is one valued vehicle for promoting the adoption of research outcomes and delivering extension and practical trails that meet regional priorities. During the year, over 80 per cent of planned activities were delivered while others were postponed as a result of the COVID-19 restrictions from March to June.

Marketing Australian wine

Our marketing activities engage with the trade, consumers and media to improve their perceptions of Australian wine and increase demand at all price points.

During the year, 73 per cent of attendees or visitors who were surveyed had an improved perception of Australian wine after attending a Wine Australia event.

We were very fortunate that we were able to execute significant elements from the \$50 million Package before the pandemic brought travel and public engagement to a halt.

We delivered the Far From Ordinary campaign, the largest single USA trade and consumer engagement campaign in Wine Australia's history. This campaign combined the desire for bigger and bolder activities with a significant increase in social media and digital engagement.

Investments were made in diving digital engagement through a media partnership with Bon Appetite in the USA and continued investment with Wine Spectator and Wine Enthusiast. We developed a significant retailer and distributor promotional calendar that we coordinated alongside a six-city roadshow and a three-night consumer activation and which culminated in our key influencer event Decanted.

We hosted the 7th annual China Awards Gala Dinner that kicked off back-to-back trade and media engagement in Shanghai, including ProWine China and the Decanted Shanghai Fine Wine Encounter.

In the new year, as key events in Europe and Asia were postponed or cancelled, we redeployed our marketing resources into social media engagement, retail and distributor promotions and online engagement in Canada, China, the UK and the USA.

Our previous investment of \$50 million Package funding in content creation, the Australian Wine Made Our Way branding and in the Australian Wine Discovered education program meant that we were able to draw on the wealth of enduring assets to enrich engagement opportunities and the response was overwhelmingly positive.

In China, we launched a consumer-facing WeChat channel in January and invested significantly in promoting social and digital content to a consumer audience. The activity drove more than 50 million impressions and engagement with more than one million Chinese wine consumers. With the relaxation of pandemic controls in China, we were able to increase delivery of more traditional Australian Wine Discovered workshops in key cities across the country.

Through the \$50 million Package, we were able to capture engaging digital content in 18 key regions involving over 300 personalities. This has allowed us to tell the stories of our people and places globally through an 'always on' paid social strategy, while continuing to populate content on our consumer website www.australianwine.com. The sector has access to these assets through our Digital Asset Library and they are being used in all our key markets.

In the UK and Europe, we continued our focus on key trade awareness during the Brexit phase. We also undertook the popular four-city Nordic roadshow, our Australian Trade Tasting in London and Edinburgh in January 2020.

In Asia, we hosted tastings and workshops in Japan and Korea in October and Taiwan in November, before moving entirely online with Australian Wine Discovered webinar tastings for audiences in Hong Kong, India, Singapore and Japan.

In the first half of last financial year, we hosted influential media from Europe and Asia Pacific and key buyers and sommeliers from Ireland, Finland, Sweden and Canada before our visits program was cancelled because of ongoing travel restrictions.

In the coming 12 months, we will continue engaging with trade, media and customers – and building demand for Australian wine – with a firm emphasis on social media, digital and retail channels to increase online engagement.

Protecting the reputation of Australian wine

Through our regulatory function, we promote a culture of compliance, we enhance market access and we protect the reputation of Australian wine.

In June 2020, our Wine Australia Licensing and Approval System – affectionately known as WALAS – was implemented. WALAS manages licensing, product approvals, shipping applications, invoicing, Wine Export Charge declarations and import certification, and it provides enhanced access, greater flexibility and self-service functionality to exporters.

WALAS also brought improvements by ensuring that LIP records can be uploaded as a precursor to product approval, allowing us to ensure the truth and reputation for truthfulness of wine labels through targeted label inspections.

Before the WALAS enhancements, we surveyed our stakeholders and exporters rated the service provided by our export assistance team 8.4 out of 10. I believe with the additional functionality of WALAS, that this will improve.

Last financial year, we also furthered the development of the Label Directory, which was initially proposed by the then Winemakers' Federation of Australia to allow Australian exporters to identify brands that infringe their intellectual property rights and to subsequently take action to protect those rights.

The Wine Australia Act and the Wine Australia Regulations will need to be amended to allow us to mandate the provision of labels as a precursor to approving products for export, and to allow us to create a public-facing register that we will administer for the sector.

Financial overview

In line with expectations, Wine Australia recorded an operating deficit of \$376,758 for 2019–20.

Our revenue comes from two main sources: winegrape growers, processors and exporters who pay statutory levies, and the Australian Government, which matches levies invested in eligible R&D activities.

There are three levies: the Grape Research Levy and the Wine Grape Levy, which are based on winegrape production, and the Wine Export Charge, which is based on the FOB value of wine exports.

Approximately 28 per cent (\$18.8 million) of 2019–20 revenue came from the two levies and the Wine Export Charge and 20 per cent of revenue (\$13.5 million) from the Australian Government matching contributions.

Revenue from regulatory fees made up 8 per cent (\$5.4 million) of income, and activity-based user-pays wine sector contributions to marketing activities made up 1 per cent (\$0.5 million) of total revenue.

The \$50 million Package made up 26 per cent (\$17.4 million) of total revenue for 2019–20; this was made up of grant income, interest earned and sector contributions.

Our net assets were \$21.0 million at 30 June 2020 and financial assets were \$17.4 million, all of which was cash or term deposits other than receivables of \$2.4 million. Payables were \$2.2 million.

Full details of our finances are included in our Annual Report, which will be tabled in the Australian Parliament on 30 November and then available on our website.

Looking forward to 2020–21, our Annual Operational Plan details what we plan to deliver. It was addressed to develop the current dynamic environment and to retain the flexibility to help the sector meet new and emerging challenges.

We have reduced our operational costs by \$1 million, moved to more cost-effective delivery of activities and we're drawing down on reserves. This means that we can continue to deliver for our stakeholders, despite a lower-than-average vintage which will reduce levies by \$2 million.

We are budgeting to spend \$13.2 million more than we'll receive through levies, the export charge, the \$50 million Package and other funding by drawing down on our accumulated reserves.

The draw down will fund activity in the following areas:

- \$50 million Package \$6.5 million
- RD&A \$4.6 million
- Levy other \$2.2 million.

In the last year of the \$50 million Package, we will invest the \$6.5 million to deliver:

- Retailer and distributor promotions, social and digital engagement and Australian Wine Discovered education in Canada, China, the UK and the USA.
- The wine label intellectual property directory
- Enhancements to the Australian Tourism Data Warehouse to support increased tourism to wine regions
- A new Wine Export Grant Program that can be used in all export markets and (sensibly) doesn't require you to travel to the market – you can use in-market representatives.

Conclusion

Despite recent positive news about potential vaccines, uncertainty remains around the extent, duration and impact of the COVID-19 pandemic in health and economic terms both here and overseas. However, there are some clear trends emerging in wine sales: consumers have continued to buy wine during the pandemic and there has been a strong shift to purchasing online.

Our focus remains on how we can support you in your grape, wine and export businesses.

I would like to thank the global Wine Australia team who have retained their focus on delivering outstanding service for levy payers in a very fluid environment. We have all had to adapt to new ways of working and I congratulate the team on embracing change.

As the \$50 million Package funding draws to a close, we have farewelled colleagues who have contributed significantly to the wine sector and to Wine Australia's activities and I thank them for their efforts.

I would like to join Michele in recognising Brian Walsh, who guided Wine Australia from 2014. Brian's wisdom, vision and generosity helped shape not only Wine Australia but the broader sector.