



Australian Government

Australian Grape and  
Wine Authority

# **Australian Grape and Wine Authority**

**SUBMISSION**

**to**

**The Senate Standing Committee on Rural and  
Regional Affairs and Transport References**

**on the**

**Australian grape and wine industry**

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## Executive summary

We have a new opportunity to steadily build long-term profitable growth and prosperity for the Australian grape and wine community. We have the resources and capability to shape a prosperous sector, if we have the courage to embrace our opportunities.

Challenging market conditions for more than a decade have translated into tough economic conditions for many businesses. While these conditions have brought to the fore some of our most defining qualities, such as resilience and innovation, the Australian grape and wine community is capable of crafting a better future.

We believe that we should aim to be recognised internationally as the world's pre-eminent wine producing region. Our natural endowment of diverse, unique and superior terroirs, combined with our skilled and innovative people, means that we have the capacity to be recognised as the best in the world.

The latest market intelligence shows a promising change in direction for Australian wine sales internationally. Our *Wine Export Approval Report March 2015* shows that, in the 12 months to the end of March 2015:

- wine exports rose by 3.9 per cent in value to \$1.85 billion and by 3.6 per cent in volume to 711 million litres
- the above \$7.50 price segment accounts for 5 per cent of total export volume and 27 per cent of value
- wine exports above \$10 per litre hit a record high of \$374 million – up 5 per cent
- the average value of bottled wine exports rose 4.7 per cent to \$4.87, the highest for a decade, and
- Asia continues to be a key driver of growth with more than half of exports in the above \$7.50 per litre segment shipped to Asian markets – up 13 per cent – with the average value of exports to Asia being \$18.77 per litre.

To achieve our ambitious goal will take time and unwavering commitment and we will need to address two clear challenges:

- the general global perception of the quality and provenance of our wines is – in our view – less than the reality and this translates into lower prices for our wine than are warranted. While this challenge affects the whole sector, its impact is greatest on the fine wine segment and it leads to us underperforming in key markets including the UK, US and Canada.
- we operate in a fiercely competitive global marketplace. We must continue to improve the competitiveness of our wine offering through innovation, differentiation and meeting market demand.

In our new Strategic Plan 2015–2020, we have detailed two priorities to address these challenges:

- Priority 1: Increasing demand and the premium paid for all Australian wine, and
- Priority 2: Increasing competitiveness.

We are the services body for the Australian grape and wine sector. To achieve a prosperous sector we are focused on:

- partnering with grape and wine businesses and other market development partners to build demand in international markets and the domestic market
- supporting grape and wine businesses with data insights to allow them to capture commercial opportunities
- investing in research and development that builds vine and wine excellence, improves resource management and sustainability, improves vineyard and winery performance and enhances market access
- building capability and encouraging the adoption of research and development outcomes, and
- underpinning our quality and provenance claims with our sound regulatory system.

We are committed to providing quantifiable returns on the wine sector and Australian Government investments and we have annual performance targets to monitor and evaluate our effectiveness. We will also provide annual benchmarks of the Australian grape and wine sector's efficiency and profitability against our major international competitors.

How we invest the three levies is dictated by the Act. It was a requirement of the merger of Grape and Wine Research and Development Corporation (GWRDC) and Wine Australia Corporation (WAC) that research, development and extension (RD&E) and market development levies be hypothecated – spent for the purpose for which they were raised. In practice, however, hypothecation of the levies restricts our ability to respond as needed to demand and to deliver appropriate activities. This issue was raised by stakeholders during the consultation phase for our Strategic Plan and we believe that levy payers and the peak representative bodies should consider whether the levy structure is optimal to meet levy payers' priorities.

Our Strategic Plan 2015–2020 has been submitted to the Minister for approval, in accordance with the Act, and we anticipate it will commence on 1 July 2015. We look forward to delivering on the opportunities outlined in our new Strategic Plan for the benefit of the Australian grape and wine community.

## Terms of reference

On 25 March 2015, the Senate moved that the following matters be referred to the Rural and Regional Affairs and Transport References Committee for inquiry and report by 11 November 2015:

- a. the extent and nature of any market failure in the Australian grape and wine industry supply chain
- b. the extent to which federal and state legislative and regulatory regimes inhibit and support the production, processing, supply chain logistics and marketing of Australian wine
- c. the profitability of wine grape growers and the steps industry participants have taken to enhance profitability
- d. the impact and application of the wine equalisation tax rebate on grape and wine industry supply chains
- e. the extent to which grape and wine industry representation at regional, state and national level effectively represents growers and winemakers with respect to equity in the collection and distribution of levies
- f. the work being undertaken by the Australian Grape and Wine Authority pertaining to levy collection information
- g. the power and influence of retailers of Australian wine in domestic and export markets
- h. the adequacy and effectiveness of market intelligence and pricing signals in assisting industry and business planning
- i. the extent to which the Australian grape and wine industry benefits regional communities both directly and indirectly through employment, tourism and other means, and
- j. any related matters.

## The Australian Grape and Wine Authority – Overview

### Who we are

The Australian Grape and Wine Authority (AGWA) is the single Australian Government statutory service body for the Australian grape and wine community.

We commenced on 1 July 2014 under the *Australian Grape and Wine Authority Act 2013* (the Act), which merged the RD&E activities of the GWRDC and the market development and regulatory activities of WAC in one body.

From 1 July 2015, we propose to conduct our activities under our trading name Wine Australia. This is our long-established brand for our market development activities and our sector stakeholders have strongly supported the use of 'Wine Australia' for all our activities along the value chain.

### What we do

Our role under the Act is to:

- coordinate or fund grape and wine research and development (R&D) and facilitate the dissemination, adoption and commercialisation of the results
- control the export of wine from Australia, and
- promote the sale and consumption of wine, both in Australia and overseas.

Our vision is for a prosperous Australian grape and wine community.

We seek to foster and encourage a prosperous Australian grape and wine community by investing in R&D, building markets, disseminating knowledge, encouraging adoption and ensuring compliance.

Our governance and operations seek the best possible return on the investment of our RD&E, market development and regulatory funds.

### Our funding sources

We are funded by grapegrowers and winemakers through levies and user-pays charges, and by the Australian Government, which provides matching funding for R&D investments.

We have four primary sources of funding:

- Market development funding

Wineries pay the promotion component of the wine grapes levy in a stepped amount per tonne. The promotion component is payable on grapes delivered to a winery once the threshold of 10 tonnes has been reached.

Wine businesses also pay the Wine Export Charge on wine produced in and exported from Australia. The amount of levy payable is based on the free-on-board (FOB) sales value of wine for the levy year.

- Regulatory funding

Regulatory activities are funded on a cost-recovery basis through activity-based fees.

- RD&E funding

The grape research levy (grapegrowers pay \$2 per tonne of winegrapes crushed) and the R&D component of the wine grapes levy (wineries pay \$5 per tonne of winegrapes crushed) are matched dollar-for-dollar by the Australian Government.

- User-pays activities

Wine businesses, regional associations and state governments pay voluntary contributions to participate in market development activities.

### **Our relationships**

As the R&D, marketing and compliance organisation for the Australian grape and wine community, we work in partnership with a wide range of stakeholders along the supply chain. We engage in extensive consultation with our stakeholders along the supply chain – from grapegrowers, winemakers and government to research providers, international regulators, the wine trade, media and consumers.

The Winemakers' Federation of Australia (WFA) and Wine Grape Growers Australia (WGGA) are our representative organisations under the Act.

The Australian Government is a co-contributor of RD&E funding. We also work closely with the Australian Government to enhance market opportunities and reduce barriers to trade.

Our research providers include the Australian Wine Research Institute (AWRI), the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the National Wine and Grape Industry Centre (NWGIC), universities and state agencies.

We invest with other Research and Development Corporations (RDCs) in cross-sectoral collaborative research to deliver RD&E benefits to the broader community.

We collaborate with our market development partners on international engagement. These partners include wine businesses, Australian Government agencies such as Tourism Australia and Austrade, regional associations, state governments and other RDCs with market-development responsibilities.

### **Challenges**

We recently engaged in extensive consultation with the Australian grape and wine community to help identify the challenges and priorities we need to address over the next five years through our Strategic Plan. Through this consultation, it was agreed that there are two clear challenges to the prosperity of the Australian grape and wine sector.

Our first challenge: the general global perception of the quality and provenance of our wines is – in our view – less than the reality, and this translates into lower prices for our wine than are warranted. While this challenge affects the whole sector, its impact is greatest on the fine wine segment.

Our second challenge: we operate in a fiercely competitive global marketplace. We must continue to improve the competitiveness of our wine offering through innovation, differentiation and meeting market demand.

### **Our priorities**

We have established two priorities to build the prosperity of the Australian grape and wine community over the next five years.

- **Priority 1: Increasing demand and the premium paid for all Australian wine**

We will address the challenge of general global perception leading to lower prices through an unwavering focus on increasing the appreciation of our fine wines. We must continually invest in supporting the pursuit of excellence in viticulture, winemaking and the business of wine to better

understand and express our unique terroirs and to increase the international esteem of the resulting wines.

- **Priority 2: Increasing competitiveness**

We will address the challenge of the fiercely competitive global marketplace by increasing competitiveness in our vineyards, our wineries and our wine businesses. We will invest in capturing the opportunities of new technologies, understanding supply and demand, and improving performance to become more sustainable and more competitive.

## **Roles and responsibilities**

### **Market development**

We promote the sale and consumption of Australian wine through coordinated and collaborative market development activities. We share with the trade, media and consumers the stories about the natural advantages of the unique and diverse grapegrowing attributes of Australia – its terroirs – that are brought to life by its people.

Our market development mandate is to develop the market for Australian wine internationally and domestically. We support winemakers' strategies and underpin their efforts by promoting the quality and diversity of Australian wine through market development initiatives in Australia and overseas.

We identify opportunities to help our wine sector partners bring great Australian wines to the world's retail shelves, online offerings and wine lists, and to ensure that they are included in positive conversations across all media. We have established networks across the world's trade channels, media, wine educators and influencers. We work closely within these networks to deliver events and activities that reflect our market strategy and benefit Australian wine producers.

### ***Market development levies***

In 2015–16, we anticipate receiving \$5.7 million from the Wine Export Charge and the promotion component of the wine grapes levy.

With this market development funding we will maintain our market development staff in Australia, the United Kingdom, North America and China, and conduct around 70 core market development activities.

Our in-market staff provide knowledge, insights and assistance to Australian wine companies wishing to develop new markets and build existing markets for their wine.

### ***User-pays activities***

The core activities funded by levies are supplemented by user-pays activities in which we partner with wine companies, regions and states to deliver targeted programs to engage with the trade, media and consumers.

Our user-pays activities are developed by our in-market teams in consultation with their in-country wine company reference groups. We then present these opportunities to wine companies, regions and states, inviting them to invest in those activities and events that support their market development strategies.

Our user-pays activities help create opportunities for our wine sector partners to achieve greater reach with their marketing efforts; provide an equitable, cost-effective approach for our wine producers and state and regional partners; and remove barriers to entry for smaller producers.

Our user-pays program includes consumer and trade events, trade-only events, retail promotions, tastings and master classes, educational initiatives, advertorial opportunities, and sommelier and trade immersion activities.

In the United States, we provide a structured and formal 'Market entry program' of activities that provides dedicated assistance to Australian wine brands wanting to enter new markets.

We design our user-pays activities to meet the needs of the wine community. We will develop joint business plans with companies, regions and states so that our user-pays activities can help them achieve their objectives. Naturally, we are flexible with the activities we offer and we create new activities to capture emerging opportunities and meet demand from the sector.

We also build collaborative partnerships with like-minded organisations to build awareness, understanding and demand for Australian wine. We work closely with Tourism Australia and state tourism commissions to build international awareness of Australia's fine food and wine culture.

We partner with Austrade in markets where we do not have a physical presence – mainly across the Asian region and emerging markets – to help the wine sector capture export opportunities. Within these markets, Austrade facilitates market entry arrangements by linking potential importers and distributors with Australian wine companies interested in exporting. Importantly, Austrade also supports our market development strategies across the Asian region and emerging markets, and we work closely with their in-market teams to deliver initiatives that help promote and profile Australian wine. We provide further assistance to exporters through Export Market Guides that help exporters understand the legal and technical landscape in which they will be operating.

### **Regulatory services**

We seek to enhance market access in existing and emerging markets. We work closely with WFA, WGGA and the Australian Government to remove tariff and technical barriers to international trade in wine by providing the technical support and focus to support inter-governmental negotiations.

We work to mitigate the impact of market access barriers by:

- monitoring trade issues and barriers
- negotiating arrangements to improve market access and streamline importing requirements
- advocating the international harmonisation of technical requirements to facilitate trade
- providing technical advice and information to relevant Australian Government departments, including support for free trade agreement and other negotiations
- building relationships with regulators in our key export markets and making representations as necessary
- building coalitions with other wine sector associations internationally and coordinating market access activities
- providing a response capability in the event of adverse developments arising
- developing a comprehensive understanding of the regulatory requirements in key export markets and communicating these requirements to the sector
- assisting exporters to resolve specific market access issues, and
- investing in research into specific market access issues and strategically positioning the Australian sector to avoid future problems.

To protect consumers and to ensure a fair trading environment for producers and exporters, we have a robust and enforceable compliance regime. This regime underpins the wine sector's promotional efforts.

We administer an audit program of exporters and producers, and commission analyses of random samples of wine to ensure the truthfulness of provenance claims made on wine labels and to monitor compliance with the Australian Food Standards Code, which regulates how wine is made.

Our Label Integrity Program requires the making and keeping of records throughout the wine supply chain to ensure that claims made about the regional, varietal or vintage provenance of wine can be substantiated. Our Audit Team conducts up to 400 audits each year. Their work is supplemented by sampling and chemical analysis of a substantial and representative set of Australian wines each year, to ensure compliance with the Food Standards Code. This can include compliance with the maximum residue limits for a range of agricultural chemicals and other compositional requirements imposed by the code.

All wines proposed for export must be registered with us and every proposed shipment must be granted a permit. This registration process provides a database that informs and supports our compliance activities.

Each year, we issue around 40,000 documents required for access to various export markets, particularly China and the European Union.

We work closely with exporters and producers to help them meet their obligations and comply with international wine composition and labelling requirements. We provide technical advice to around 2000 stakeholders each year; we publish guides to the wine production, composition and labelling requirements of 28 export markets; and we publish a comprehensive guide to compliance with Australian wine law.

We also protect the integrity of Australia's wine producing areas, maintain the Register of Protected GIs and Other Terms and support the Geographical Indications Committee, which is a statutory committee established to define the grape-producing regions of Australia.

### **Research, development and extension**

Our research, development and extension (RD&E) investments are guided by the strategic research priorities of the Australian grape and wine sector and the Australian Government's Rural R&D Priorities and Strategic Research Priorities.

While two separate RD&E levies are paid, we do not differentiate between viticultural and winemaking research as the distinction is artificial – viticultural research often has a winemaking outcome and winemaking research often requires viticultural input. Instead, our supply-chain approach to RD&E investments is aimed at increasing the sector's long-term profitability and sustainability, which has benefits for all levy payers and the wider community. Our investments range from both short- and long-term applied R&D to blue-sky research where success is less assured.

We focus on extracting the full value of our investments in RD&E for the benefit of our levy payers, the Australian Government and the wider community.

As a joint lead agency for the implementation of the Primary Industries Standing Committee (PISC) *National Primary Industries Research, Development and Extension Framework – Wine Sector Strategy*, we have embedded the framework into the sector's RD&E processes.

We use evidence-based and data-driven decision making to guide our RD&E investments. This includes conducting reviews of existing research to identify opportunities for future research, independently assessing proposals (through external review panels if required), and commissioning research to address specific knowledge gaps or requirements.

We objectively assess funding proposals using a fair and equitable process. We use clear and objective criteria and exclude any individuals with a conflict of interest from the assessment. The criteria include:

- alignment with the wine sector’s strategic research priorities, as described in our Strategic Plan and our Annual Operational Plans
- the feasibility of the proposed work and the quality of the research plan
- the track record of the research institution and researchers
- how the outcomes will add value to the wine sector. This may include a cost–benefit analysis and consideration of the value of the proposed outcomes to the sector in light of the scale of the total proposed investment, and
- a clear pathway to adoption that outlines how the benefits will be delivered, or are capable of being delivered, to the wine sector.

We invest with other Research and Development Corporations (RDCs) in cross-sectoral collaborative research to deliver RD&E benefits to the broader community. Over the next five years, we expect to continue our investments in cross-sectoral research in the following strategic areas, which closely align with the research priorities of our representative organisations:

- climate change and climate variability
- plant biosecurity
- water use in agriculture
- soil
- the efficacy of inputs, and
- education.

We help develop the capacity of the next generation of researchers and we build wine sector skills and capabilities to accelerate the adoption of R&D outcomes through the grape and wine value chain. We use a range of strategies to encourage the adoption of R&D by our stakeholders.

We focus on the pathways to market for R&D to ensure that value is captured for our funders, and that the research we invest in can be used by our levy payers for innovation.

### ***Regional Program***

Our Regional Program is a key initiative to actively encourage and support innovation, extension and adoption of R&D. It aims to help grape growers and winemakers adopt new tools and research findings. The Program allows them to:

- identify their region’s highest priority innovation, extension and adoption issues
- evaluate new concepts and technology in their own region to measure regional benefits of adoption
- identify aspects of production that will ensure the region is sustainable into the future, and
- assist with the uptake of new tools and research findings.

Each wine region can participate in the Regional Program. The maximum amount of funding available is based on the value of the winegrape levies paid in the region, with higher producing regions able to access a greater proportion of the total funding pool, as detailed in Table 1.

To ensure that meaningful activities can be undertaken, regions with lower levels of production are clustered together. In total, there are 11 regional clusters.

**Table 1: The Regional Program’s regional clusters and participating wine regions**

<b>AGWA regional cluster</b>	<b>Geographical indications (GIs)</b>	<b>Annual investment cap (\$)</b>
<b>Greater NSW and ACT</b>	All regions in NSW and ACT excluding Riverina	50,000
<b>Greater Victoria</b>	All regions in Victoria excluding Murray Darling, Swan Hill	50,000
<b>Murray Valley</b>	Murray Darling, Swan Hill	125,000
<b>Queensland</b>	All regions in Qld	25,000
<b>Riverina</b>	Riverina	125,000
<b>Riverland</b>	Riverland	125,000
<b>SA Central</b>	Langhorne Creek, McLaren Vale, Adelaide Hills, Southern Fleurieu, Currency Creek, Kangaroo Island	50,000
<b>SA North</b>	Barossa Valley, Clare Valley, Eden Valley, Adelaide Plains, Southern Flinders Ranges	50,000
<b>SA South</b>	Coonawarra, Padthaway, Wrattontully, Mount Gambier, Mount Benson, Robe	50,000
<b>Tasmania</b>	Tasmania	25,000
<b>Western Australia</b>	All regions in WA	50,000

## Case study: Vancouver International Wine Festival

In February 2015 in Vancouver, Canada, it is estimated that 25,000 wine drinkers – including media, wine trade and consumers – enjoyed Savour Australia, our packed program of epicurean events and experiences that were part of Australia’s impressive showing at the 36th Vancouver International Wine Festival. Australia was the theme country and Shiraz the theme variety at Canada’s preeminent trade and consumer wine event.

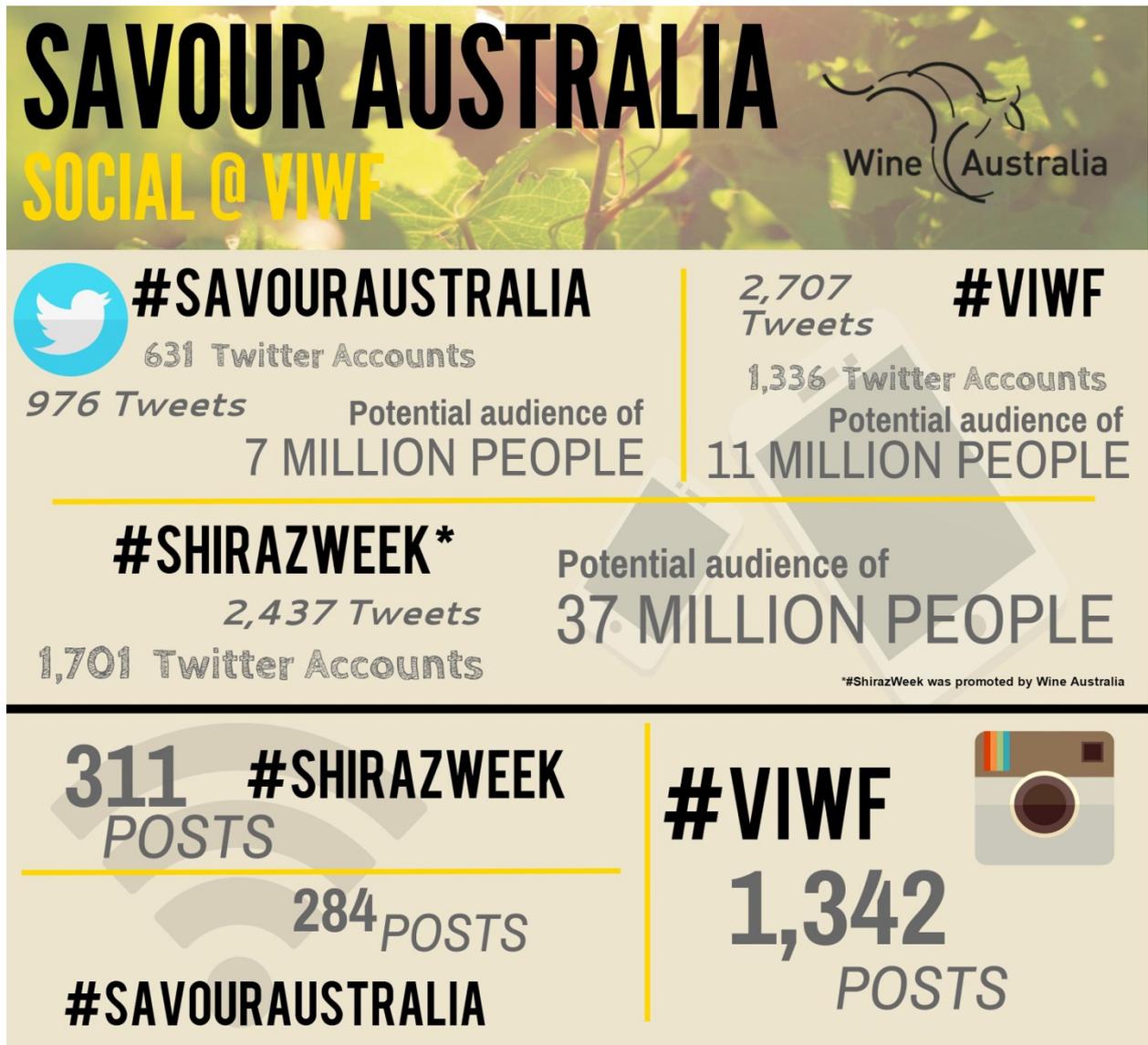
Some 55 Australian wineries, Tourism Australia, the South Australian Tourist Commission, Barossa Grape and Wine Association, McLaren Vale Grape Wine and Tourism Association, the Australian Wine Research Institute (AWRI) and Primary Industries and Regions South Australia partnered with us to promote Australian wine.

The reception from attendees, participants and the media was overwhelmingly positive. Some of the comments included:

- Andrew Robb MP, Minister for Trade and Development: ‘It is a most outstanding exhibition of our premium wine from right across Australia. So many exhibitors, so many known wines, it’s just outstanding.’
- Jonathon Hesketh, Hesketh Wine Company: ‘The feedback from our competitors has been incredible, the Italians have said what a fantastic set-up it is and how they’ve got a massive act to follow next year. The feedback from consumers has been awesome. Everything’s gone swimmingly for us.’
- Mark Saturno, Longview Vineyards: ‘Pretty much everyone across the board said Australia has raised the bar...The buzz was palpable.’
- Bruce Tyrrell, Tyrrell’s Wines: ‘I’ve been coming to this festival since 1987 and certainly as far as Australia’s concerned, this is by far the biggest impact we’ve ever made.’
- James March, Barossa Grape and Wine Association: ‘I think it was fantastic. Such an enthusiastic crowd. The Aussies are back in form in Canada.’
- Sue Hodder, Wynn’s Coonawarra: ‘Through the diversity of events and the calibre of people that were here...it was a really good forum for us to tell our stories.’
- Matt Fitzgerald, Gemtree Wines: ‘We really demonstrated our regional diversity, our variation of varieties and styles...and great stories.’
- Matt Fowles, Fowles Wines: ‘Consumers are loving it, punting their heads in to a different space for Australian wine, it’s awesome.’
- Professor Brian Lynn, Majella Wines: ‘This [Savour Australia] has blown Vancouver away, completely and utterly. So much so...I think the organising committee is scared because the rest of the world looks a bit too drab...If you’re not here, you’ve missed out on something really good.’

These positive messages were reinforced through a strong social media campaign that engaged consumers well beyond Vancouver, as detailed in Figure 1.

Figure 1: Vancouver International Wine Festival social media engagement



## **Grape and wine sector engagement**

Wine grape growers and winemakers invest directly in their own businesses to enhance their profitability and they invest indirectly through the Grape Research Levy, Wine Grape Levy and Wine Export Charge. We invest these three levies – together with the matching Australian Government funding for eligible RD&E expenditure – into the grape and wine community’s priorities: increasing demand and the premium paid for all Australian wine and increasing competitiveness.

Detail about our market development, regulatory services and R&D activities funded by these levies, together with our user-pays activities that wine sector participants invest in directly, is provided in the section Roles and Responsibilities (pages 10–14). Further detail on some of these activities is provided below.

### **Extension and adoption**

To ensure that value is captured for our funders, and that the research we invest in can be used by our levy payers for innovation, we support a clear pathway to market for R&D, from the initial project design to the extension of the results. We use a range of delivery networks and programs to disseminate R&D outcomes and encourage the adoption of new technologies and practices.

Grapegrowers, winemakers and other grape and wine community members actively participate in our extension and adoption activities.

In 2013–14, over 2600 people participated in Regional Program events across Australia. Our Regional Program is delivered through 11 regional clusters that cover every Australian winegrowing region. It focuses on addressing regional extension, adaptation and adoption needs. Regional Program activities included regional adoption trials, face-to-face workshops and seminars, expert reports and factsheets.

Also in 2013–14, we delivered 29 workshops across Australia through the Grape and Wine Workshop series. These workshops are a key tool to deliver the latest research and best management practice on topics of national importance. Workshop topics included biosecurity, post-harvest vineyard management and spray application. More than 830 people participated in the workshops and feedback indicated over 95 per cent of participants had their expectations met and heard information they were looking for.

We funded the Australian Wine Research Institute to deliver a further 25 seminars and workshops around the country, which attracted 528 attendees.

### **Market intelligence**

We support the Australian wine sector’s competitiveness through the collection, presentation and dissemination of global wine sector intelligence. We act as the sector's information hub, providing a comprehensive range of statistics, data, analysis and insights to assist business and investment decision-making within the Australian wine sector.

We are also the central port of call for supply and demand information. The information we provide is used for a number of purposes, such as providing an evidential base for business and sector planning, informing Government policy, benchmarking company performances, forecasting, and identifying market opportunities. For example, businesses can access the export approvals data to analyse their performance in each market versus the wider Australian category or price point. This enables a better

understanding of areas where a business is doing comparatively well and where they could improve their focus.

### **Partnering with retail stakeholders**

To maximise the outcomes of our promotional efforts, we partner with wine companies, wine regions and state and regional governments. We also partner with retailers both domestically and internationally to build demand and the premium paid for Australian wine.

Recent examples of successfully partnering with retailers include with Dan Murphy's as part of Aussie Wine Month in May 2015. For two days in early May, we jointly hosted a free pop-up cellar door in the heart of Sydney that coincided with the launch of the *Dan Murphy's Fine Wine Buyers Guide*.

In April 2015 in the UK, we partnered with D&D Wine in the Wonderful Wines of Aus campaign that saw Australian-themed wine events across 10 restaurants and in-store tastings and promotions in D&D Wines' 3 London wine shops.

### **Wine sector database**

There exists in the Australian grape and wine community an urgent need to establish a range of business and economic 'benchmarks' or performance metrics, across the value chain from 'vine to glass'. This data, and associated sector-wide foundation data, is vital to the sector's ongoing success and sustainability because it is needed to provide an evidential fact base to guide individual business decision-making, sector planning and policy development.

In 2015–16, we will address this need by establishing a flexible and robust online grape and wine knowledge management platform. This will enable us to produce and deliver accurate, timely and comprehensive statistics for the sector in a consistent format and a cost-effective manner. Individual growers and producers will be able to use the database as a decision-support tool that empowers them to drive continuous improvement and innovation in their own enterprises. They will better be able to understand their own profitability and will be able to benchmark their performance against others.

The database will also support a national approach to issues such as biosecurity and vine health, environmental sustainability, RD&E, and stakeholder coordination and collaboration. The project will provide a completely new GIS enterprise platform that utilises the latest smart mapping technology. This will give grape growers access to interactive maps that incorporate satellite imagery, real-time data and the use of geographic information system technology. From these maps, growers will be able to analyse the health and yield variability of their vineyards, assisting in the development and shifting of vineyard strategies. This technology has the potential to deliver more efficient production, reduced costs, better quality crops, lower disease levels and more traceability.

We are seeking the mandatory powers to collect wine sector data in order to ensure that the collection has a high degree of accuracy and coverage. The Department of Agriculture (the Department) has advised that there are no constitutional barriers to us collecting data on behalf of the sector. However, in order for us to have mandatory powers of collection, the Act will need to be amended. These amendments are subject to the agreement of the Government, appropriate legislation and a Regulatory Impact Statement.

## Levies

The Australian Government's *Levies Revenue Service: Levy Principles and Guidelines* clearly sets out that market failure is why the industry-wide levy funding is provided, as follows:

Governments assist with industry-wide levy funding of research, promotion and other industry programmes because:

- the nature and dispersal of programme benefits are such that a private investor would not profit from supplying them. For example, some research produces results that help industry participants, but the financial benefits cannot be accessed by private investors.
- Levies represent a source of funds with low enforcement and collection costs, largely because industry participants recognise the benefits of co-operative behaviour.

A primary role for government is the setting and enforcement of property rights and related institutions that will enable the efficient operation of commodity and resource markets. Where markets fail to provide socially desirable levels of 'good', or do so but not cost effectively, there may be a case for other forms of government action.

The justification for government intervention in industry research is that the results are a 'public good'. Public goods have the following key characteristics:

- First, the use of a public good by one person generally does not affect the ability of others to use it. This is described as being nonrival.
- Second, it is not possible to prevent others from using it. This is described as a 'lack of appropriability', or nonexcludability.<sup>1</sup>

The Guidelines outline 12 Levy Principles that must be met when an industry or group of levy payers proposes a new levy or an amendment to an existing statutory levy. The first of these principles is that 'the proposed levy must relate to a function for which there is a market failure'<sup>2</sup>; 'where markets fail to provide socially desirable levels of "good" or do so but not cost effectively'<sup>3</sup>.

It is in recognition that market failure exists in the Australian grape and wine sector supply chain, that the three levies exist and that the Australian Government provides matching funding for eligible RD&E investments.

## Hypothecation

How we invest the three levies is dictated by the Act. It was a requirement of the merger of GWRDC and WAC that RD&E and market development levies be hypothecated – spent for the purpose for which they were raised. In practice, however, hypothecation of the levies restricts our ability to respond as needed to demand and to deliver appropriate activities. This issue was raised by stakeholders during the consultation phase for our Strategic Plan and we believe that levy payers and the peak representative bodies should consider whether the levy structure is optimal to meet levy payers' priorities.

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<sup>1</sup> *Levies Revenue Service: Levy Principles and Guidelines*, Australian Government, Department of Agriculture, Fisheries and Forestry, January 2009, pp 9–10.

<sup>2</sup> *ibid*, p8.

<sup>3</sup> *ibid*, p10.

## Levy collection costs

Responsibility for the collection of the Wine Grape Levy, Grape Research Levy and Wine Export Charge currently lies with the Department of Agriculture – Levies and we are charged a fee based on cost recovery.

The levy collection costs that we are required to pay to the Department materially reduce the services that we are able to provide to the Australian grape and wine sector. In 2014–15, those costs are estimated to be \$962,569, some 5.5 per cent of the total levies raised and 19 per cent of the Department’s total levy collection costs.

Table 2 outlines the actual levy collection costs for the financial years 2011–12 to 2013–14 and the estimated costs for 2014–15.

**Table 2: Levy collection costs (actual and estimated) for 2011–12 to 2014–15**

Commodity	2011–12 Actual (\$)	2012–13 Actual (\$)	2013–14 Actual (\$)	2014–15 Revised (\$)
Wine Grape Levy	421,380	600,090	534,695	509,114
Grape Research Levy	111,715	141,944	152,094	185,199
Wine Export Charge	138,208	268,281	370,273	268,257
Total	671,303	1,010,314	1,057,063	962,569

## An activity-based model

During 2012–13, the Department of Agriculture – Levies (formerly the Levies Revenue Service (LRS)) implemented a new levies cost-management system and altered the method for apportioning and recovering the costs of levy collection from a revenue-based to an activity-based model.

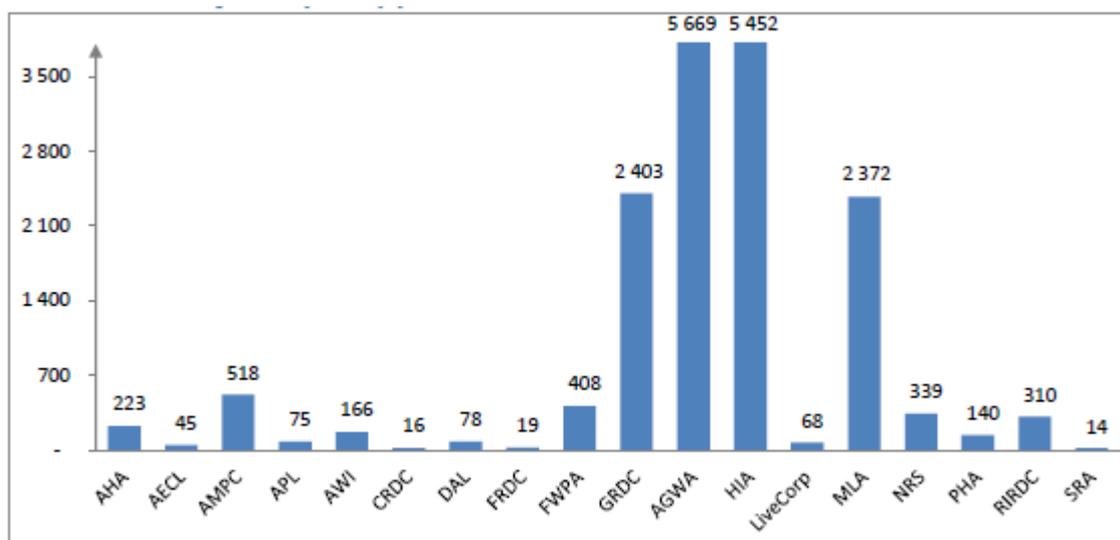
As a consequence, the total levy collection fees paid by WAC and GWRDC were increased from \$671,303 in 2011–12 to an initially estimated \$1.6 million in 2012–13, approximately 9 per cent of the total levies raised.

The increase was primarily attributed to the wine and grape sector having a disproportionately large number of levy ‘agents’ (collection points) as shown in Table 3.

In order to assist GWRDC and WAC during the transition from the old cost-apportionment model to the new one, the Minister approved a concession in the levy collection fees charged of approximately half the proposed increase for one year only. This resulted in a discount of approximately \$450,000 in 2012–13 to an estimated charge of \$1.15 million.

It was intended that during this 2012–13 that both WAC and GWRDC would work with the Department to find ways to reduce the costs of levy collection within the grape and wine sector.

**Table 3: Collection points by levy recipient body**



Note: The number of collection points is assessed on a commodity basis so may be represented multiple times amongst or within LRBs

### Identifying savings

GWRDC and WAC, and subsequently AGWA, have been in ongoing discussions with the Department to explore and implement initiatives to reduce the costs of levy collection under the activity-based cost-allocation model to provide better value for levy payers. Such initiatives have seen the removal of nil returns, better use of electronic returns, an awareness and education program for levy payers, and the introduction of a better-targeted compliance method.

Even though it is difficult to quantify the savings generated based on the complexity of the factors involved, we estimate the savings to be at least \$515,000.

### Collection of the Wine Export Charge

An additional cost-reduction strategy of enabling us to collect levies on our own behalf has been investigated and, from 1 September 2015, it is planned that the collection of the Wine Export Charge will move from the Department to us.

The Department currently collects the Wine Export Charge and we are charged a fee based on cost recovery. The collection fee of \$370,273 for 2013–14 represented 17 per cent of the revenue collected.

To ensure that the Wine Export Charge yields the maximum value to the grape and wine sector and that the amount of funding that is directed towards providing services is optimised, we have sought to significantly reduce the costs associated with the collection of the Wine Export Charge.

The expected savings from amalgamating the Wine Export Charge collection with our current activities (we already collect the information used to calculate this charge, namely the free-on-board value of wine exports) will be in the range of \$500,000–600,000 over the first 3 years. These savings will be redirected to providing enhanced services for the grape and wine sector, ultimately contributing towards an increase in overall farm gate profitability.

Furthermore, a change in the collection process from having wine exporters initiate a self-assessed return to them settling an invoice that is generated by us represents a significant reduction in the administrative burden and red tape for all the individual wine exporters.

The target date for us to take responsibility for the collection of the Wine Export Charge is 1 September 2015, with the first quarterly return being 1 July to 30 September 2015 and the first payment due date being 28 October 2015. The Department of Agriculture – Levies will remain responsible for the collection of the 2014–15 fourth quarter returns. This will ensure that wine exporters are only responsible to one body for the collection of wine export charges due at any given point.

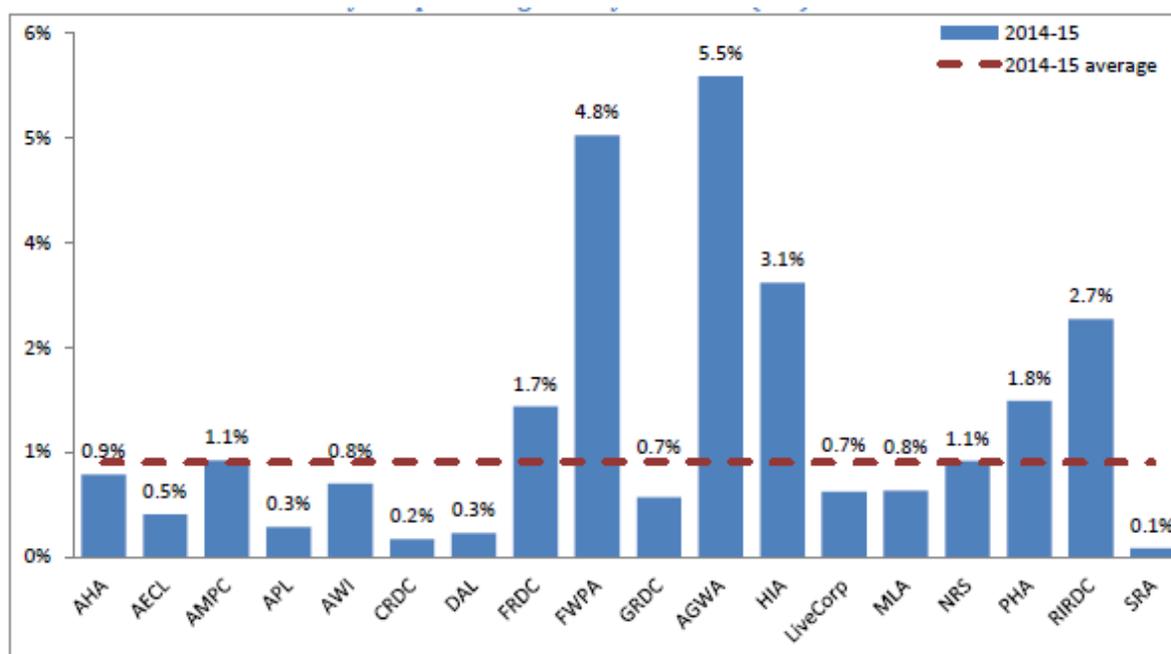
### Future opportunities

Even after we become responsible for collecting the Wine Export Charge, the levy collection costs for the Wine Grape Levy and the Grape Research levy will still be more than \$700,000 per annum, money that would otherwise be available to provide services to the Australian grape and wine sector.

We are estimated to incur 19 per cent of the Department’s total levy collection costs, even though we only receive 4 per cent of the distributed levies. Part of the reason for this is the large number of collection points (processing facilities or wineries) for the levies.

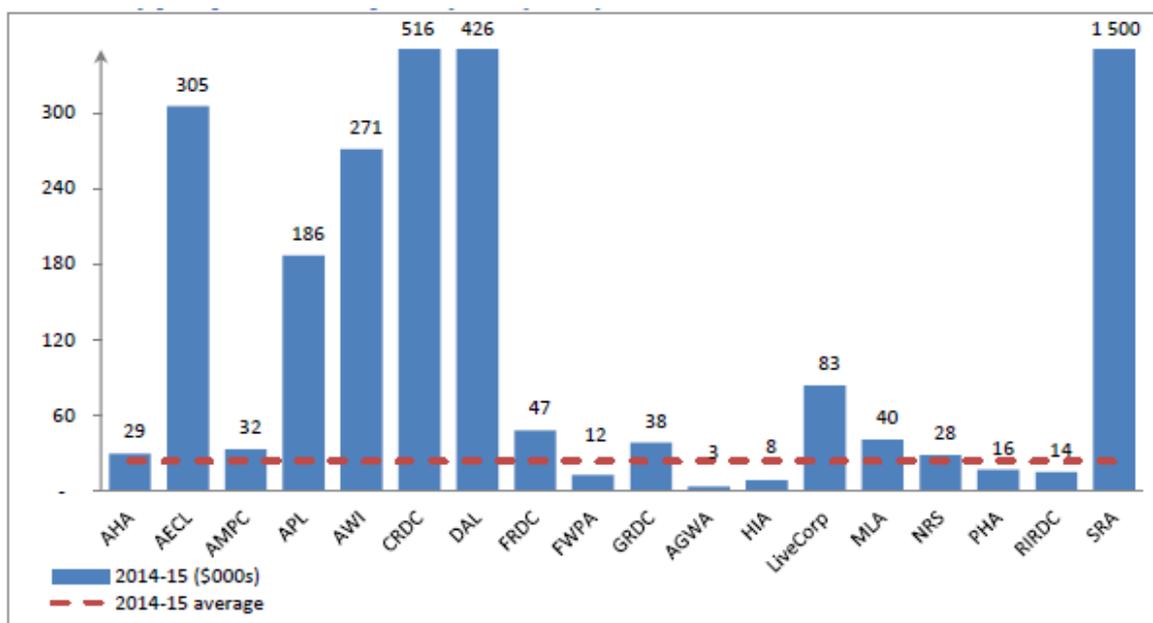
Table 4 shows that our levy collection costs as a percentage of levies collected are the highest of all levy recipient bodies.

**Table 4: Cost recovery as a percentage of levy disbursed 2014–15 (estimated)**



Unfortunately, as shown in Table 5, the value of the levies paid at each collection point is the lowest for AGWA of all the levy recipient bodies.

**Table 5: Levy paid per collection point by levy recipient body (\$'000)**



Given the nature and operation of the Wine Grape Levy (which is imposed on wine producers at the time grapes or grape products are first subjected to the winemaking process) and the Grape Research Levy (which is imposed on wine grape producers at the delivery of wine grapes to a processing establishment), we have not identified any other opportunities to reduce levy collection costs, unless the operation of the levies is amended to dramatically reduce the number of collection points.

## Wine sector snapshot

Table 6 provides a snapshot of the size and value of the Australian grape and wine sector and its contribution to the Australian economy, using the latest figures available.

**Table 6: Wine sector snapshot**

Measure	Year	Quantity	Unit
Winegrape vineyard area	2013	142,233	hectares
Winegrape crush	2014	1.7	million tonnes
Wine production	2014	1.2	billion litres
Domestic sales of Australian wine	2013–14	458	million litres
Domestic sales of Australian wine	2012–13	2.37	A\$ billion FOB
Exports of Australian wine	2014	700	million litres
Exports of Australian wine	2014	1.82	A\$ billion FOB
Average value of Australian bottled exports	2014	4.85	A\$ per litre FOB
Average value of Australian bulk exports	2014	0.99	A\$ per litre FOB
Inventories of Australian wine	2012–13	1.78	billion litres
Wine regions <sup>1</sup>	2014	71	
Direct employment - winemaking	2012	16,122	
Direct employment - grapegrowing	2012	7,500	
Direct employment - total	2012	23,622	
Economic value-add <sup>2</sup>	2013	50	A\$ billion

<sup>1</sup> This includes 63 distinct GI regions plus 8 distinct GI zones that do not have any distinct GI regions attached to them, such as Tasmania and Gippsland.

<sup>2</sup> Based on the export FOB value of A\$1.82 billion and domestic retail value of A\$7.4 billion and an estimated economic multiplier of 5.2.

## State of play

### Introduction

The Australian wine category competes in a global alcoholic drinks market, with sales of 252 billion litres valued at over \$1 trillion in 2013. We are a relatively small player, with 1.2 billion litres of Australian wine sold across the world in the last year – this represents a 0.5 per cent share of the total alcohol market.

The Australian wine category competes for a share of the consumers' wallet against other wine producers such as France, Italy, Spain, Chile, South Africa, New Zealand and Portugal and we also compete with other beverages, such as beer, spirits, ready-to-drink beverages and cider. The competition is intense. We are competing for space on retailers' shelves and websites and on listings in pubs, clubs and restaurants. Australia alone exported over 17,000 different wine products in the 12 months ended April 2015.

Over the past decade, the Australian wine sector has faced many challenges, including global over-supply, depressed economic conditions in many of our key markets, increased competition and a sustained strong Australian dollar. As a result, profitability has fallen for the Australian wine sector.

Amid these challenges, opportunities exist to grow demand for Australian wine, particularly in export markets. Unlocking these opportunities and addressing the challenges requires a coordinated effort from the industry, groups of stakeholders and individual companies. This is essential to build a stronger, healthier and more profitable Australian grape and wine sector.

### Australian demand and supply balances

Australian wine demand and supply have moved into relative balance from a volume perspective.

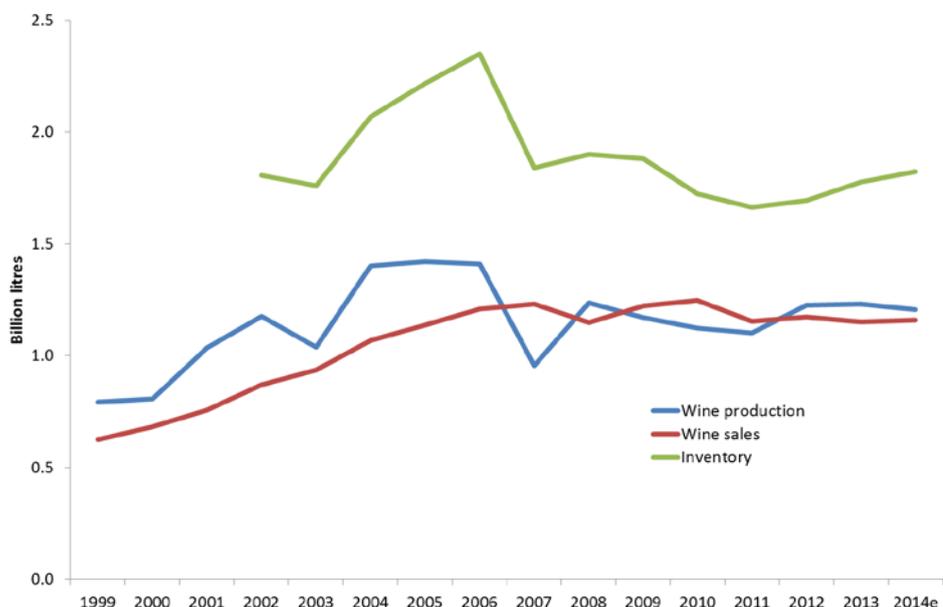
Figure 2 illustrates that wine production and wine sales have tracked very closely since 2008.

Inventories of Australian wine have fallen from a peak of 2.4 billion litres in 2004 to 1.8 billion litres in 2014.

However, with production increasing and sales of Australian wine falling, inventories have increased over the last three years. It should be noted that although the supply and demand are relatively in balance in aggregate there are imbalances at different price segments of the market, particularly in the C and D segments where production in these two segments exceeds demand. Furthermore, looking at volume alone makes no assessment of whether the sales are at profitable and sustainable margins.

The growth in inventories highlights that we have produced more than we have sold in the last three years and this will likely place downward pressure on grape prices. What we have seen in the past when inventories have built up to beyond acceptable levels is distressed sales, with an increase in bulk wine exports at below 50 cents a litre, which for most producers is at below cost – in other words, at a loss.

**Figure 2: Australian wine supply, demand and inventories over time**



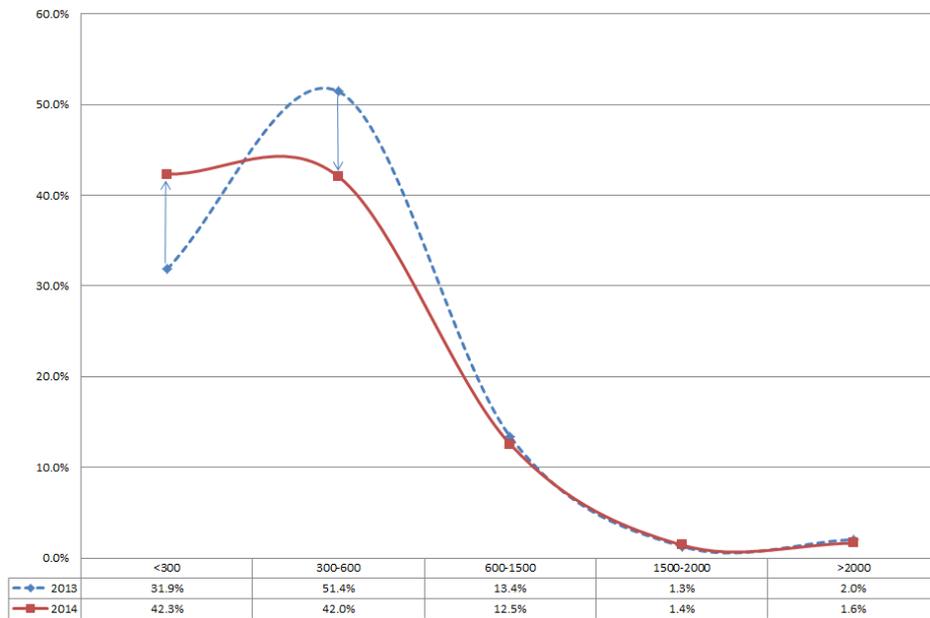
### Australian winegrape prices

Australian winegrape purchase prices have been on a general downward trend since 2001 when the national average was \$933 per tonne. The national average winegrape purchase price in 2014 was \$441 per tonne, down 11 per cent on the 2013 average of \$499 per tonne, but above the historical low of \$413 per tonne recorded in 2011.

The biggest shift came in purchases at under \$300 per tonne (for E- and F-grade fruit), with the share of purchases increasing from 31.9 per cent to 42.3 per cent (see Figure 2). This came from a corresponding reduction in the share of purchases between \$300–600 per tonne (D-grade fruit), from 51.4 per cent to 42.0 per cent. The share between \$600–1500 per tonne (C-grade fruit) declined marginally from 13.4 per cent to 12.5 per cent. There were also small shifts in \$1500–2000 per tonne (B-grade fruit), from 1.3 per cent to 1.4 per cent, and above \$2000 per tonne (A-grade fruit), from 2.0 per cent to 1.6 per cent.

The decline in the overall average purchase price reflects that Australian wine production exceeded Australian wine sales in 2012 and 2013, resulting in an increase in Australian stock levels as discussed earlier. This, coupled with an increase in global supply in 2013 (particularly out of Europe), has put downward pressure on wine grape prices in general. However, there are different results by region and variety.

**Figure 3: Dispersion of Australian winegrape tonnages purchased by price segment**

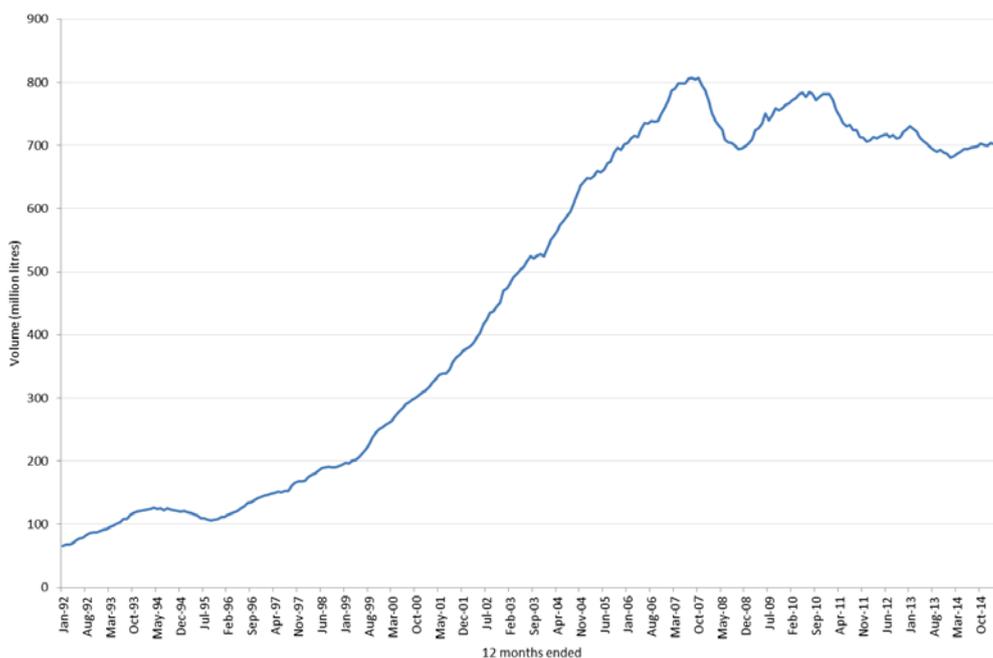


Source: 2014 Australian Winegrape Purchases Price Dispersion Report

### Export demand for Australian wine

Australian exports achieved tremendous volume growth from the early 1990s through to 2007, peaking at 807 million litres. Exports then declined, falling to a low of 680 million litres in the 12 months ended January 2014. Over this period we saw a number of factors affect exports, such as the Global Financial Crisis and the resulting tough economic conditions in many markets, a strong Australian dollar, and increasing competition from other producers such as Chile and the US and resurgence from Italy. However, in the last 15 months there are positive signs of recovery, with exports climbing to 720 million litres – the highest volumes since March 2013.

**Figure 4: Volume of Australian exports over time**



### Australia’s trade rank

Before examining the export performance in more detail, it is important to put Australia’s trade in a global context. By volume, Australia is the fifth largest wine exporter in the world, having fallen behind Chile in the last two years. Wine exports from Chile have grown significantly, aided by trade advantages in some key markets, most notably in Europe and China.

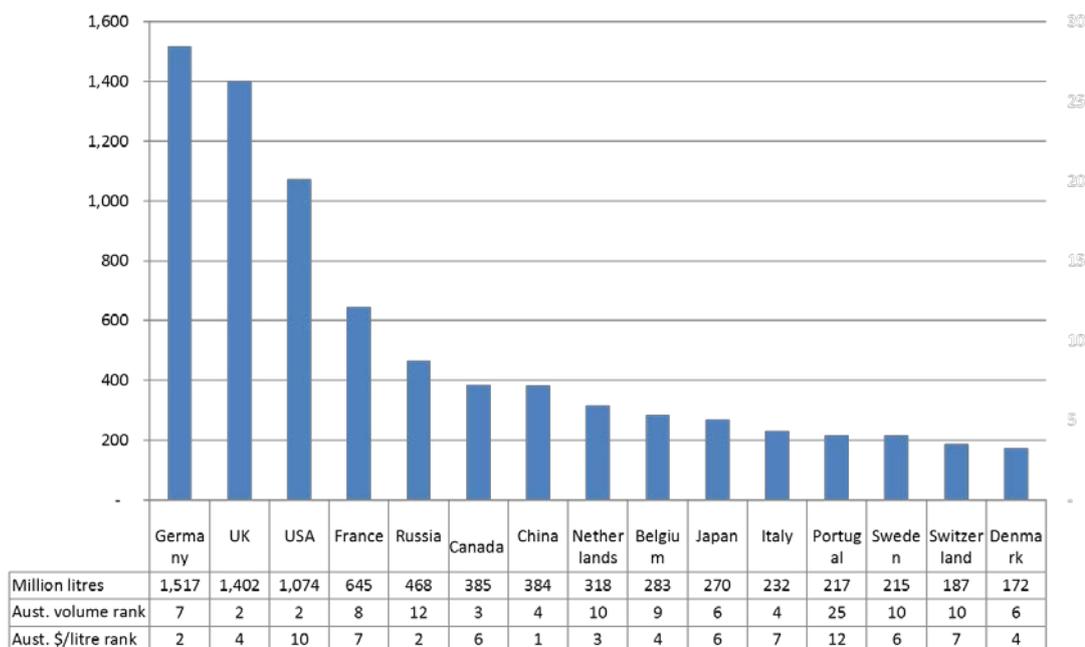
While Chile’s volumes are higher, the average value of Chilean exports is much lower than Australia’s. Much of the growth in Chilean exports has been at the commodity end of the market.

By value, Australia has the fourth highest average value of bottled wine exports, well ahead of competitors such as Italy, South Africa, Chile and Spain.

### Australia’s rank in key markets

Figure 5 shows the top 15 imported wine markets by volume (the blue columns) and Australia’s ranking among the top 10 suppliers to the market by volume and in the average value of bottled imports.

**Figure 5: Top 15 imported markets by volume and Australia’s market position**



**Source:** Global Trade Atlas

What this indicates is that Australia’s import market share by volume varies, high in some markets such as the UK and US and lower in others such as Germany, but generally we rank in the top five in the average value of bottled exports.

The clear exception is the United States, where we rank tenth in average value. This highlights the challenge faced by premium Australian wine exporters to the US – due to our current profile, we are seen as good value wines but are struggling to make significant ground in the large and growing premium wine segment in the US.

In China we are ranked fourth in total volume (second in bottled volume) but first in the average value of bottled exports.

### **Exports by container type**

Over the past few years, there has been an increase in the amount of Australian wine exported in bulk containers. The bulk wine share of exports has increased from around 20 per cent 5 years ago to almost 60 per cent today. The major factors that have contributed to this include adjustments to the excess supply position, shipping branded wine in bulk for packaging offshore, the increased presence of buyers-own brands, and the strong Australian dollar. Products from Australia are being packaged offshore for a combination of reasons, including economic, environmental and scale rationale together with meeting the requirements of some customers. This shift has been most notable in our biggest export market – the UK – where bulk shipments now account for 85 per cent of Australian exports to the destination.

Not all bulk exports can be treated simply as commodity trades. There are now essentially three categories of bulk wine exports:

- to be packaged as an Australian wine brand owned and controlled by Australian wine producers
- to be packaged as Australian wine but the brand is not owned or controlled by Australian wine producers, and
- other, such as where the wine may be blended and not labelled as Australian wine.

### **Exports by price point**

To understand the price profile of Australian exports, volumes over time can be split by price segment and an attempt has been made to relate these segments to prices paid by wineries for wine grapes, to try to show the market for wines made from grapes purchased at a certain price points.

To simplify the analysis, the price segments have been categorised as ‘A’ being the highest-priced segment, through to ‘E/F’ at the low-end. No assessment is being made about quality, only references to the prices paid. The assumptions are as follows:

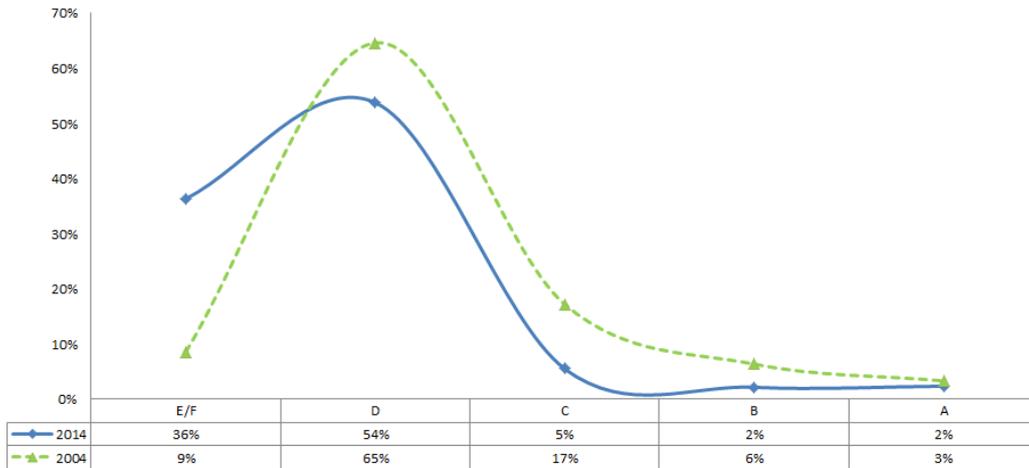
- A price segment – packaged exports at above \$A10 per litre, with the wine produced from grapes purchased at prices above \$2000 per tonne – this refers to the price paid by wineries for fruit, not the growers cost of production
- B price segment – packaged exports \$7.50–9.99 per litre and the grape price between \$1500–2000 per tonne
- C price segment – packaged exports \$5–7.49 per litre; and the grape price between \$600–1500 per tonne
- D price segment – packaged exports \$2.50–4.99 per litre and bulk exports above A\$1 per litre; and a grape price of between \$300–600 per tonne, and
- E/F – packaged exports under A\$2.50, bulk exports under A\$1 per litre and a grape price at under \$300 per tonne.

These assumptions were based on discussions with the major grape purchasers and don’t necessarily relate to quality.

Figure 6 shows the volume share of exports by the five price categories, comparing 2014 with the situation a decade ago. The biggest change has been the shift at the low end – a decade ago, 74 per

cent of Australian exports were D or below, today the share is at 90 per cent. This is very similar to the wine grape purchase price profile discussed earlier.

**Figure 6: Volume share of exports by price segment, 2014 v 2004**

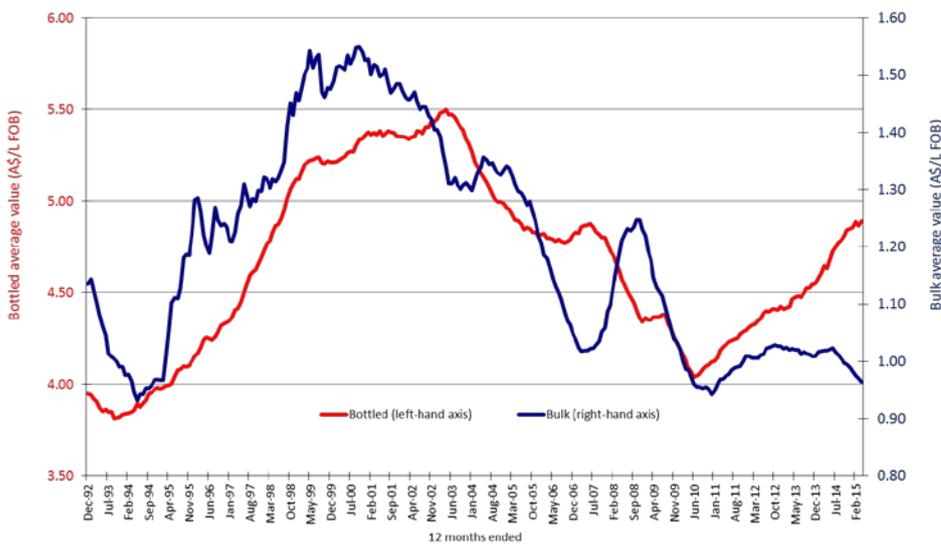


Source: AGWA

**Average value of exports**

Figure 7 illustrates that the average value of bottled exports (the red line) has been on the rise since hitting a trough in June 2010.

**Figure 7: Average value of Australian bottled and bulk exports over time**



Source: AGWA

Two key factors have contributed to the increase in the bottled average value. First, there has been a decline in bottled exports at lower prices, with some of this volume most likely now shipped in bulk containers. Secondly, there has been an increase in exports at higher price segments. Bottled exports of wine at above A\$7.50 per litre (A/B) increased by 12 per cent to 33 million litres in the last 12 months. Although this segment is relatively small in volume terms with a 5 per cent share, the segment is valued

at A\$519 million annually, representing a 24 per cent value share. Furthermore, growth has been strongest in the ultra-premium segment (above \$50 per litre), which grew by 108 per cent to a record 1.6 million litres valued A\$124 million.

The increase in the average bottled value was driven by a turnaround in fortunes for exports of premium Australian wines in our key markets, which for many has seen a reversal of the downward trends that were set in place when the global financial crisis took hold in late 2007.

### **Exports by destination**

More than half of Australian wine exports are destined for Europe, a third for North America, 12 per cent for Asia and the remaining 5 per cent for the rest of the world. The biggest shift in the last decade has been in exports to Asia, with the region's share climbing from five per cent. This has come at the expense of exports to Europe and, to a lesser degree, North America.

Not only have Australian exports recorded strong volume growth in Asia, but the bottled average value per litre achieved in Asia is relatively higher. In destinations where Australia ships at least one million litres, the seven highest-bottled-average values were achieved in Asian destinations – Hong Kong, Malaysia, Singapore, Taiwan, South Korea, Thailand and China. The bottled average value recorded in Hong Kong was A\$15.48 per litre compared with A\$3.35 per litre for the US and A\$4.89 per litre for total Australian exports. Of the seven destinations referred to, only China is among the top ten 10 export destinations by volume.

In the last 12 months, the top 10 export destinations by volume were: the UK (35 per cent share), the US (23 per cent), Canada (9 per cent), China (7 per cent), Germany (5 per cent), New Zealand (4 per cent), Italy (2 per cent), the Netherlands (2 per cent), Denmark (2 per cent) and Japan (2 per cent). The main change over the last decade has been that Italy has climbed from 45th to 7th. The large increase in exports to Italy is due to a spike in bulk shipments in the last 12 months.

### **United Kingdom**

The UK can be regarded a 'defend' market for Australia as we have been the number one wine category in the UK off-trade market for over a decade. The latest Nielsen figures show that Australia holds a 21.2 per cent volume and 20.8 per cent value share of off-trade sales. In the UK by volume, Italy is in second place (15.2 per cent), followed by the US (12.8 per cent), France (11.1 per cent) and South Africa (10.8 per cent).

Australia out-performed in the UK market in the last 12 months. While total sales in the UK off-trade market declined 3 per cent by volume and 0.6 per cent by value, Australian sales increased by 2 per cent in volume and value.

The strongest growth in Australian exports to the UK is at above A\$10 per litre, with volumes growing by 46 per cent in the last 12 months.

### **United States**

The United States is the world's biggest wine market with sales of 3.1 billion litres valued at US\$40 billion in 2013. It has also been Australia's second biggest export market in volume behind the UK for the last 15 years and number one in value for the last six years

Apart from the country's recent economic problems and – until of late – the strong Australian dollar, the complexity of the market makes it very challenging to work in. The market is highly regulated and includes the three-tiered distribution system. Each state has its own unique system of alcoholic beverage control. Despite the challenges, the market represents a significant growth opportunity for Australia's premium wines. According to Euromonitor International in 2013, 40 million cases of table wine were sold in the US off-trade market at over US\$14 per bottle – up 5 per cent on the previous year. However, Australia is significantly under-represented in this segment.

Over the last decade, the Australian wine category has lost ground in the US and is struggling to make in-roads at the premium end of the market. Australian exports to the US at above A\$7.50 per litre (A/B) have fallen from 30 million litres in 2002–03 to 4.3 million litres in 2013–14. There are some positive signs, with exports in this segment up 15 per cent in 2012–13, 8 per cent in 2013–14 and 1 per cent in the 12 months to April 2015. However, the Australian share of this market segment is relatively minor at 2 per cent. In contrast, Australia holds around a 17 per cent share of the US\$5.00–7.99 per bottle segment.

According to the US sommeliers who took part in Wine Australia's Sommeliers Immersion Program (SIP) in 2013, the future of the Australian category must focus on high-quality regional wines that offer great value to the end consumer – with the sweet spot at US\$15–25 per bottle. The diversity of the Australian category is a major selling feature for the trade, but a lack of knowledge exists: 'very few buyers and final consumers know about these diversities. Even worse, very few active distributors do'.

However, the diversity of the Australian category is a compelling story to tell: 'The first thing to underline about the selection of wines we tasted during these last few weeks was the diversity – diversity of grape varieties and diversity of winemaking styles – and diversity of terroir and regional expressions'.

## **Canada**

Canada is Australia's third largest export destination by volume and we are the fourth-ranked importing country.

In the last 12 months, Australian exports to Canada increased by 13 per cent to a record 62 million litres valued at A\$187 million. Bottled Australian exports increased by 2 per cent to 30 million litres with the growth coming at higher price points. Exports at A\$5.00–7.49 per grew by 8 per cent and at above A\$10 by 5 per cent. Consequently, the average value of bottled exports to Canada increased by 2 per cent to A\$5.25 per litre – the highest in five years.

## **China**

China continues to rebound after the austerity measures impeded growth in the previous 18 months. Exports to China increased by 29 per cent to 47 million litres valued at a record A\$253 million in the 12 months ended April 2015.

Growth came at both the low- and high-end of the price spectrum. Bottled exports below A\$5 per litre grew by 29 per cent while those above A\$7.50 per litre increased by 20 per cent.

Australia is well-placed in China with a number of opportunities and strengths, such as:

- Australia is second behind France in bottled import volumes and is achieving the highest average value among the top 10 importing countries
- China remains the biggest destination for Australia's premium wines
- there is significant upside in wine per capita consumption (1 litre per head v 24 litres in Australia)
- there are potentially 345 million wine consumers but currently only 19 million drink imported wine (and 8 million drink Australian wine), and
- there are lifestyle and travel linkages to wine that could represent opportunities for Australian regions.

There are also numerous challenges in China, including that:

- it is one country, but there are many markets
- growth rates for wine imports are starting to slow
- there are still many unknowns in the market
- the market can quickly change. For example austerity measures, regulatory changes becoming an impediment
- data on what is being consumed and purchased is limited
- prices paid are distorted by huge mark-ups – can be up to 200 per cent, and
- two holidays account for 60 per cent of wine sales – Chinese New Year and Mid-Autumn Festival.

### **Asia and emerging markets**

Achieving success in Asia (outside of China) and other emerging markets requires a long-term strategy, commitment and investment.

Opportunities do exist across the broader Asian market, with different levels of maturity and accessibility across our focus markets of Japan, Hong Kong, Singapore, South Korea and Taiwan. These countries display relatively high wine consumption (for Asia) and this translates into a greater expertise in wine and potential for genuine appreciation of Australia's wine offer. The average value per litre across these markets is considerably higher than the average, with Hong Kong and Singapore being number one and number three respectively in dollars per litre. In some of these markets, the market position of Australian wine is very high (for example, number two in Hong Kong and Singapore) and needs to be defended in view of our competitor countries' active promotion.

Recent free-trade agreements with Japan and South Korea will also assist opening up opportunities in these two markets.

Exports to Japan grew by 20 per cent to a record 11 million litres, an indication that Australian wine companies are starting to reap the benefits of the Japan–Australia Economic Partnership Agreement (JAEPA). Under JAEPA, the 15 per cent import tariff on Australian bottled wine will be eliminated over 7 years. The first reduction of 1.875 per cent on bottled wine occurred on 15 January 2015 and the second round of cuts came into effect on 1 April 2015, reducing the tariff on bottled Australian wine to 11.3 per cent.

The tariff on bulk wine was immediately reduced from ¥45 per litre to zero under JAEPA. Reflecting the zero per cent tariff, the strongest growth has come in Australian bulk wine exports – up seven-fold in the first four months of 2015, compared to the same period in 2014.

### **Australian sales in the domestic market**

While exports are vital to the future of the Australian wine sector, the domestic market remains the biggest consumer of Australian wines with a 40 per cent share of our sales. However, the volume of Australian sales in the domestic market has been relatively flat over the past four years. After peaking at 468 million litres in 2010, Australian sales totalled 458 million litres in 2013–14. The Australian category has faced increasing pressure from imports, particularly from New Zealand but also from France, Italy and Spain.

#### ***The Australian off-trade***

With Sauvignon Blanc the number one category in off-trade market and strong growth in Champagne sales, it is no surprise to find that imports are driving growth in the domestic off-trade market. By volume, imports account for 13 per cent of sales and Australian wine for 87 per cent. By value, the imported share is higher at 22 per cent with Australia accounting for 78 per cent.

Imports have out-performed the Australian wine category in both volume and value growth. In the last 12 months, sales of imported wines increased by 4.4 per cent by volume and 2.8 per cent by value. In contrast, Australian wine sales declined by 2.2 per cent in volume and 0.9 per cent in value.

The decline in Australian sales is coming at the lower-end of the market (under \$12 per bottle), which has offset increases at the higher end.

The imported share of the domestic market is still relatively low in comparison to that in other wine producing countries such as the US with a 43 per cent import share and New Zealand with 35 per cent.

## Appendix 1: Global user-pays activities calendar

GLOBAL ACTIVITIES CALENDAR					
YEAR ROUND ACTIVITIES					
COUNTRY	ACTIVITY	LOCATION	AUDIENCE	PARTICIPATE	CODE
UNITED STATES	Market Entry Program	USA	Trade, media, importer, distributor	Brands	US0115
ACTIVITIES BY MONTH					
COUNTRY	ACTIVITY	LOCATION	AUDIENCE	PARTICIPATE	CODE
<b>APRIL 2015</b>					
UNITED STATES	Wine Riot Event Series Spring 2015	New York, Boston, Chicago and Los Angeles	Consumer	Brands, importers, states, regions	US0714
<b>MAY 2015</b>					
AUSTRALIA	Sommelier Immersion Program Australia	Australia	Trade, education	States, regions	AU0214
POLAND	Polish Trade & Press Tasting 2015	Warsaw, Poland	Trade, media	Brands	EU0614
DENMARK	Danish Trade & Press Tasting 2015	Copenhagen, Denmark	Trade, media	Brands	EU0714
CHINA	Wine Australia Seminar and Grand Tasting Roadshow - 1st- and 2nd-tier cities 2015 (four cities)	One first-tier city and three second-tier cities	Trade, consumer, education	Brands, importers, states, regions	CH0814
UNITED STATES	Wine Riot Event Series Spring 2015	New York, Boston, Chicago and Los Angeles	Consumer	Brands, importers, states, regions	US0714
UNITED STATES	Australia Today: History-Evolution-Revolution Spring Tasting	New York City, NY	Trade, consumer	Brands, importers, states, regions	US0914
<b>JUNE 2015</b>					
AUSTRALIA	Trade Immersion Program	Australia	Trade, media, education	States, regions	AU0314
<b>AUGUST 2015</b>					
UNITED KINGDOM	Oxford Wine Festival	Oxford	Consumer	Brands	UK0115
<b>SEPTEMBER 2015</b>					
AUSTRALIA	2015 'Unreleased' Tasting	Sydney	Trade	Brands, states, regions	AU0115
JAPAN	Wine Australia Tasting 2015 Tokyo	Tokyo	Trade, media	Brands, importers, states, regions	JA0115
KOREA	Wine Australia Tasting 2015 Seoul	Seoul	Trade, media	Brands, importers, states, regions	KR0115
CHINA	Shanghai Wine & Dine Festival 2015	Shanghai	Media, consumer	Brands, importers, states, regions	CH0115
UNITED KINGDOM	Premium Australia Tasting	London	Trade, media	Brands, importers	UK0215
UNITED STATES	Wine Riot Fall Event Series	New York, Chicago and Boston	Consumer	Brands, importers, states, regions	US0215
<b>OCTOBER 2015</b>					
AUSTRALIA	Spring Riesling Pop-up	Sydney, Australia	Consumer	Brands, states, regions	AU0215
CHINA	Australian Wine Online Promotion	Online	Consumer	Brands, importers, states, regions	CH0315A
NORWAY	Nordic Roadshow - Norway 2015	Oslo, Norway	Trade, media, consumer	Brands, importers, states, regions	EU0115
SWEDEN	Nordic Roadshow - Sweden 2015	Stockholm, Sweden	Trade, media, consumer	Brands, importers, states, regions	EU0215
FINLAND	Nordic Roadshow - Finland 2015	Helsinki, Finland	Trade, media, consumer	Brands, importers, states, regions	EU0315

GLOBAL ACTIVITIES CALENDAR

ACTIVITIES BY MONTH

COUNTRY	ACTIVITY	LOCATION	AUDIENCE	PARTICIPANTS	CODE
<b>OCTOBER 2015 CONTINUED</b>					
CHINA	Wine Australia Annual Awards Ceremony	Beijing or Shanghai	Trade, media	Importers, media, states, regions	CH0215
AUSTRALIA	UK/EU Trade Trip 2016	Australia	Trade, media	States, regions	EU0815
<b>NOVEMBER 2015</b>					
AUSTRALIA	Media Famil	Australia	Media	States, regions	AU0415A
UNITED KINGDOM	Three Wine Men - London	London	Consumer	Brands	UK0415A
UNITED KINGDOM	Three Wine Men - Manchester	Manchester	Consumer	Brands	UK0415B
UNITED KINGDOM	Old Vines Seminar - London	London	Trade	Brands, importers	UK0615
HONG KONG	Hong Kong International Wine & Spirits Fair 2015	Hong Kong	Trade, consumer	Brands, states, regions	HK0115
CHINA	ProWine China 2015	Shanghai	Trade, media, education	Brands, importers, states, regions	CH0415
AUSTRALIA	Australian Sparkling Wine Bar @ Taste - Melbourne	Melbourne, Australia	Consumer	Brands, states, regions	AU0315
AUSTRALIA	Leading Asian Trade and Media Visit 2015	Australia	Trade, media	Brands, states, regions	AS0115
UNITED KINGDOM	Winchester Wine Festival	Winchester	Consumer	Brands	UK0515
<b>DECEMBER 2015</b>					
CHINA	Australian Retail Promotion	Shanghai	Consumer	Brands, importers, states, regions	CH0515A
<b>JANUARY 2016</b>					
CANADA	Winter Trade Tasting	Toronto, Canada	Trade, media, distributor	Brands, importers, states, regions	CA0115
CANADA	Winter Dining Series	Vancouver, Montreal and Toronto	Consumer	Brands, importers, states, regions	CA0215
UNITED STATES	Winter Trade Tasting	San Francisco, CA	Trade, media, importer, distributor	Brands, importers, states, regions	US0315
UNITED KINGDOM	Australia Day Tasting - London	London	Trade, media	Brands, importers	UK0715
IRELAND	Annual Tasting, Ireland 2016	Dublin, Ireland	Trade, media, consumer	Brands, importers, states, regions	EU0415
UNITED KINGDOM	Australia Day Tasting - Edinburgh	Edinburgh	Trade, media	Brands, importers	UK0815
<b>FEBRUARY 2016</b>					
JAPAN	Japanese A+ Ambassador Visit	Australia	Trade	Brands, states, regions	JA0215
UNITED KINGDOM	Market Entry Tasting	London	Trade	Brands	UK0915
CANADA	Vancouver International Wine Festival 2016	Vancouver, Canada	Trade, media, consumer	Brands, importers, states, regions	CA0315
<b>MARCH 2016</b>					
AUSTRALIA	Australian Sparkling Wine Bar @ Taste - Sydney	Sydney, Australia	Consumer	Brands, states, regions	AU0515
UNITED KINGDOM	Langton's Classification Roadshow - Manchester	Manchester	Trade, media	Brands, importers	UK1015

GLOBAL ACTIVITIES CALENDAR

ACTIVITIES BY MONTH

COUNTRY	ACTIVITY	LOCATION	AUDIENCE	PARTICIPATE	CODE
<b>MARCH 2016 CONTINUED</b>					
UNITED KINGDOM	Langton's Classification Roadshow - Edinburgh	Edinburgh	Trade, media	Brands, importers	UK1115
GERMANY	ProWein 2016, Germany	Düsseldorf, Germany	Trade	Brands, states, regions	EU0515
CHINA	China National Food, Wine and Spirits Fair 2016, Chengdu	Chengdu	Trade, media, consumer, education	Brands	CH0615
UNITED KINGDOM	Langton's Classification Roadshow - London	London	Trade, media	Brands, importers	UK1215
<b>APRIL 2016</b>					
CHINA	Australian Retail Promotion	China	Consumer	Brands, importers, states, regions	CH0515B
UNITED KINGDOM	Alternative Varieties Tasting - London	London	Trade	Brands, importers	UK1315
SINGAPORE	ProWine Asia 2016, Singapore	Singapore	Trade, media	Brands, states, regions	SG0115
<b>MAY 2016</b>					
CANADA	Aussie Wine Month 2016 Roadshow	Three cities	Trade, media, importer, distributor	Brands, importers, states, regions	CA0415
UNITED STATES	Aussie Wine Month 2016 Roadshow	Three cities	Trade, media, importer, distributor	Brands, importers, states, regions	US0415
AUSTRALIA	Media Famil	Australia	Media	States, regions	AU0415B
AUSTRALIA	Trade Immersion Program	Australia	Trade, media	States, regions	AU0615
POLAND	Polish Trade and Press Tasting 2016	Warsaw, Poland	Trade, media, consumer	Brands, importers, states, regions	EU0615
DENMARK	Danish Trade and Press Tasting 2016	Copenhagen, Denmark	Trade, media, consumer	Brands, importers, states, regions	EU0715
CHINA	Australian Wine Online Promotion	China	Consumer	Brands, importers, states, regions	CH0315B
CHINA	China Roadshow 1st and 2nd Tier Cities 2016	China	Trade, media, consumer, education	Brands, importers, states, regions	CH0715
HONG KONG	Vinexpo Asia-Pacific 2016, Hong Kong	Hong Kong	Trade, media	Brands, states, regions	HK0115
<b>JUNE 2016</b>					
AUSTRALIA	Sommelier Immersion Program	Australia	Trade	States, regions	AU0715

Appendix 2: Key data from the *Wine Export Approvals Report April 2015*



## Glossary

<b>Term</b>	<b>Definition</b>
ABS	Australian Bureau of Statistics
AGWA	Australian Grape and Wine Authority
AUD, \$A	Australian dollar
AWRI	Australian Wine Research Institute
CSIRO	Commonwealth Scientific and Industrial Research Organisation
FOB	free on board
GDP	gross domestic product
GIs	geographical indications
GWRDC	Grape and Wine Research and Development Corporation
ICT	information and communications technology
IMF	International Monetary Fund
JAEPA	Japan–Australia Economic Partnership Agreement
NWGIC	National Wine and Grape Industry Centre
OIV	International Organisation of Vine and Wine
PISC	Primary Industries Standing Committee
RDC	Research and Development Corporation
RD&E	research, development and extension
RTDs	ready-to-drink beverages
R&D	research and development
the Act	<i>Australian Grape and Wine Authority Act 2013</i>
UK	United Kingdom
UPAs	user-pays activities
US	United States
US\$	United States dollar
WAC	Wine Australia Corporation
WFA	Winemakers' Federation of Australia
WGGA	Wine Grape Growers Australia