



## **Wine Australia update: Funding for research (including AWRI)**

### **Briefing paper**

**24 July 2024**

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Recent media reporting within the sector has raised concerns about sector funding and the viability of research, innovation and adoption services. However, this commentary has been incorrect or misleading, hence it is important that – as key stakeholders – you are apprised of the facts and are not subject to unfounded concerns. Wine Australia's preference is to work constructively behind the scenes to resolve such issues, rather than address complex commercial details through the media.

Wine Australia is resolutely committed to empowering the success of Australian wine. Globally, wine is under pressure from the softening of alcohol consumption and changes in consumer trends that require us as a sector to change and adapt to remain relevant.

Exacerbating the situation within Australia for research and innovation is reduced volumetric-based levies from the wine sector and matching funds from the Australian Government, meaning we need to do better, to do more with less, and to deliver value that is accountable to the sector.

As part of the strategy for Australian wine to maintain its world class status, modern innovation principles that work for stakeholders must be fit for purpose and market led. While it is important to acknowledge the value of past contributions and reputations, increasingly research partners cannot be satisfied with past performance; they must innovate and adapt to demonstrate continued impact and remain relevant to wine businesses. Our focus is on the need for change to drive impact and value.

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### **Key points**

- Wine Australia is resolutely committed to empowering sector success through continued investment in research and innovation (R&I), aligned to our levy payers' priorities.
  - Wine Australia is accountable to grapegrowers, winemakers and the Australian Government – and to their priorities.
  - The sector is experiencing difficult times with declining incomes to most business, and levies to Wine Australia. All of us have had to make tough decisions.
  - As a statutory authority entrusted to invest levy payers' monies, Wine Australia is required to meet specific performance, governance, and accountability expectations.
  - In line with increased performance, transparency, and accountability expectations of Wine Australia, we in turn expect the same of our research and service providers.
  - The strategy to transition to greater impact has been developed from substantial consultation and ongoing sector engagement, to meet the evolution of the market.
  - AWRI is the largest recipient of Wine Australia's R&I budget.
  - Wine Australia has provided the AWRI with unprecedented support and conditions in recent times, supporting its business transition and programs.
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## **Wine Australia's primary focus**

Funded by the sector for the sector, Wine Australia operates under an Act of Federal Parliament to collaborate between grapegrowers, winemakers, and the Australian Government to empower the success of the sector.

Our sole purpose is to support profitable, resilient and sustainable grape and wine businesses by:

- investing in research, development and adoption – to enhance global competitiveness, helping businesses meet the challenges of tomorrow, today
- developing and promoting Australian wine – to expand market opportunities, improving profitability and sales for the Australian wine sector, and
- safeguarding sector and product integrity – to uphold the sector's reputation, maintaining market confidence in the high standards expected of Australian wine.

## **Wine Australia's primary accountability is to levy payers**

Our primary accountability is to the grapegrowers, winemakers, and to the Australian Government that fund Wine Australia.

As one of the 15 rural research and development corporations (RDCs), Wine Australia operates under specific statutory requirements and expectations to fund research, innovation, extension and adoption, to deliver benefit the levy payers and the sector.

These requirements and expectations include:

- engaging stakeholders to identify research and innovation priorities
- ensuring investment reflects the research and innovation priorities and activities of grapegrowers, winemakers and the government
- implementing a balanced portfolio of investments that deliver research and innovation and marketing activities that benefit industry and the Australian community generally
- ensuring we maximise return on investment, and
- building industry capability to foster a thriving, sustainable future for the sector.

Central to our role is the responsible expenditure of levy payer funds. But for Wine Australia, it goes beyond a statutory requirement. Entrusted with levy payer funds, we consider it a moral imperative that every dollar is invested wisely – with the right research partners, and in the right projects to deliver maximum impact against those areas levy payers have identified as their key priorities.

In turn, we hold all research and service providers to the same high standard.

## **Wine Australia's priorities are informed by levy payers**

Our research priorities are our levy payers' research priorities – developed through extensive consultation and alongside Australian Grape & Wine, as the prescribed industry representative body for the sector. Wine Australia undertakes consultation across the sector at regional, state, national, and international levels, to ensure we have our 'finger on the pulse' of emerging research, innovation and marketing challenges and opportunities that exist within our sector.

Australian Grape & Wine (AGW) mobilises its extensive committee network, with the AGW's Research Advisory Committee (RAC) playing a critical role in identifying research and innovation priorities, and providing investment recommendations.

Consultation for Wine Australia's 2020–2025 Strategic Plan identified 16 key priorities for research and innovation reflecting the diverse needs of all levy payers. These have been



further strengthened under the consultation for the *One Grape & Wine Sector Plan* and include plant breeding, climate change, waste, biosecurity, carbon emissions, regional program, people development and careers. But with levy income reduced due to below average vintages in recent years, Wine Australia's challenge has been to ensure we are able to invest appropriately across all the priorities.

In making these decisions, Wine Australia must also ensure we are working with partners who have the necessary expertise, capability and are accountable. Not just in delivering research outcomes, but importantly, in developing practical adoption and commercialisation solutions that maximise the impact levy dollars create within the sector for grapegrowers and winemakers.

### **AWRI's unique place and legacy in the sector**

The Australian wine sector is fortunate to have a dedicated research institute in the Australian Wine Research Institute (AWRI).

The AWRI has played an important role in developing key outcomes for the sector over many decades – including work on SO<sub>2</sub> and wine colour in the 1960s, cork taint work in the 1980s, the Brett taint work of the 1990s and 2000s, the closure trial work of the 2000s, and work on smoke taint this century. In fact, up to the late 1980s, prior to the establishment of the research and development corporations and the subsequent government matching of research levies, the AWRI was the sole recipient of levied funds for research in the sector.

While AWRI clearly has unquestioned expertise in some of the priority areas, its expertise does not cover all the priorities identified by levy payers and stakeholders.

### **Performance expectations have increased – across the entire sector**

The operating landscape has changed dramatically, and is almost unrecognisable from the 1980s. Industry organisations have evolved and adapted to suit the changing sector needs, and we have been presented with commercial, technical, and regulatory challenges and opportunities that could not have been foreseen decades ago.

Expectations have also changed. Increasing the value for money and impact of our investments is a non-negotiable requirement of Wine Australia by both levy payers and the Australian Government.

And in turn, all research and service providers must meet these expectations to deliver increased value for money, impact and accountability.

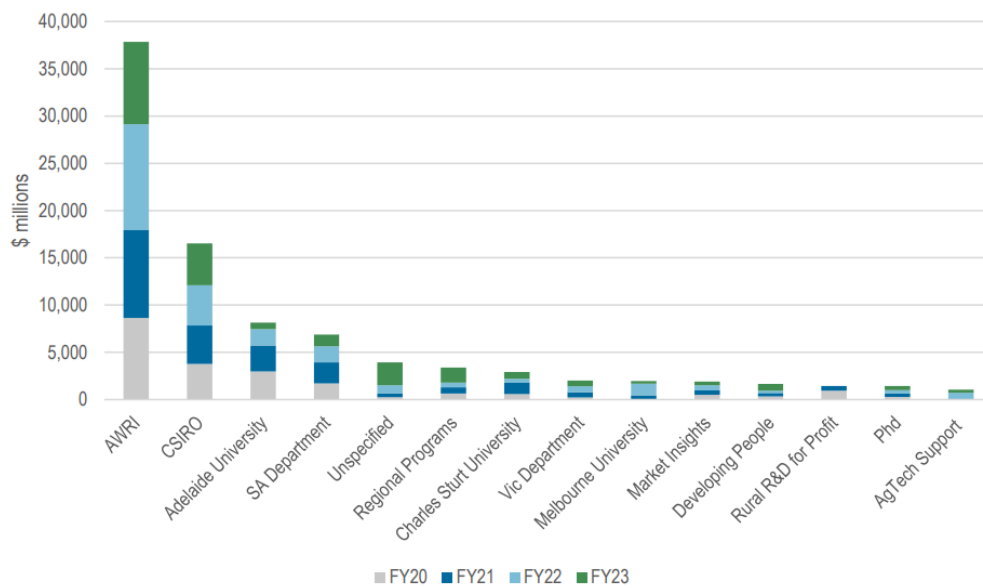
Against this backdrop is the uncomfortable fact that the past two independent performance reviews of Wine Australia, required as a condition of our statutory funding agreement with the Australian Government, have found that most stakeholders surveyed struggled to identify how research funded by Wine Australia had benefitted them. With AWRI being our largest provider of research, development and adoption services, these findings also reflect on AWRI's performance.

In response, over the past couple of years, Wine Australia has made changes to the way our research portfolio is managed to increase transparency and return on investment and improve governance. Importantly, these have been endorsed by the AGW's Research Advisory Committee.

The following graph from Wine Australia's most recent independent performance review illustrates the recipients of the research budget, highlighting the ongoing allocation to AWRI.



**Figure 3.3** Research provider funding over time



Note: Only reports research categories with cumulative expenditure over \$1 million over 4 financial years, representing 95% of funds.

Source: ACIL Allen based on Wine Australia's data, 2023

## Wine Australia and AWRI's current special arrangement

Wine Australia has collaborated with AWRI more than usual over the past 18 months. This is for several reasons:

- reflecting the critical role of research and innovation in empowering our sector's success
- acknowledging the unique role AWRI has played within the sector over many years
- AWRI is the largest recipient of Wine Australia's research budget, and
- seeking to address performance concerns identified in recommendations from the independent performance reviews to improve performance.

This collaboration has included unprecedented support to safeguard research capacity and services, while enhancing AWRI's ability to deliver impactful results through investments funded by Wine Australia on behalf of levy payers.

Reflecting this work, in June 2022, Wine Australia and the AWRI entered into a special four-year investment agreement designed to:

1. maintain unique skills at the AWRI
2. support rapid response to industry emergencies, and
3. transition to new areas of future capability to support the Australian grape and wine sector.

Wine Australia has also actively funded and guided the AWRI in this change process; an acknowledgement that a transition from long-held practices and ways of operating is not easy.

Wine Australia's investment and support – reserved uniquely for AWRI – has included:

- providing around nine months of capability maintenance funding
- funding professional facilitation to support the co-design and development of projects
- funding a joint appointment to help facilitate Impact projects
- agreeing to backdate payments to milestone completion



- setting commercial/co-investment targets at a low hurdle to include in-kind, AWRI underspend and or novation funds as leverage contributions
- allowing the ratio of overheads to increase during the period of transition, and
- pre-paying the entire 2023–24 budget to assist AWRI's cash flow and expedite novation funding.

Further, in light of the below-average vintages in 2023 and 2024, we have proposed to ring fence crucial sector-facing services funded by Wine Australia and delivered by AWRI, such as the helpdesk, agrochemical information (the Dogbook), library services and technical communications from the impacts of vintage reductions.

While supporting current and future research capacity is always a consideration for Wine Australia, the special concessions and unparalleled backing afforded to one research provider is highly unusual amongst the other 14 rural RDCs.

### **Hard times, difficult truths and tough decisions**

The special concessions and unprecedented support Wine Australia have provided to the AWRI comes at a time when the sector has faced significant challenges: below average vintages and reduced incomes, rising operating costs, supply imbalances, geopolitical tensions, and changes in consumption patterns, to name just a handful.

Most businesses and organisations within the grape and wine sector have had to make difficult business decisions. Wine Australia has not been immune. During this same period, Wine Australia has reduced its own staff by one-third in the past few years, reduced operating costs, drawn on funding reserves, and explored new ways to maximise impact, co-investment, and returns for levy payers.

The sector's strength relies on us all working together towards a common goal of sector profitability and resilience.

The ongoing investment in research, innovation and adoption is always important, but especially so when the sector is facing significant external challenges and difficult operating landscape.

### **Paper approved by**

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Dr Martin Cole, CEO