

Wine
Australia
for
Australian
Wine

Strategic Plan 2015–2020



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Chair's introduction

The *Australian Grape and Wine Authority Strategic Plan 2015–2020* (Strategic Plan) outlines our key investment priorities in market development, regulatory services, and research, development and extension over the next five years to 2020.

Our investments are guided by the Australian grape and wine community's priorities, and this Strategic Plan was developed following extensive consultation with grapegrowers, winemakers, sector bodies, government and other key stakeholders. We are grateful for their thoughtful contributions and we will continue to consult widely with our many stakeholders over the five years of this Plan.

We have set an ambitious, cross-generational goal by looking ahead 30 years, reflecting the long-term cycles and nature of grapegrowing, winemaking and market development. Our longer-term goal is for Australia to be recognised as the world's pre-eminent wine producing country. We believe that it is time to refocus on our best wines and what makes them special. 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 focus, dedication and leadership required to achieve our goal is neatly captured by the following quote from Dr Alexander Kelly, a founding father of the Australian wine community, who wrote:

The time has now arrived when the wine-growers of this colony must bestir themselves and boldly face the difficulties before them. They must be prepared to take their stand on ground already occupied by the experienced wine-growers of Europe who have a name and a prestige of centuries in their favour... All have a direct interest in each other's success: for according to the quality of the wines produced for export will be our status as a winegrowing country. No petty jealousies need stand in the way of that friendly rivalry to produce the best wine which ought to be the endeavour of each wine-grower.

Dr Alexander C Kelly, 'Wine-growing in Australia' (1867)

Striving to achieve this ambitious, cross-generational goal will help achieve our shorter-term goal of a prosperous Australian grape and wine community. This five-year plan is Stage 1 of our cross-generational ambition.

Finally, from 1 July, we will conduct many of 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 our activities.



Brian Walsh, Chair

CEO's introduction

Over the next five years, we will work to increase both the demand and the premium paid for Australian wine and to increase the competitiveness of the Australian wine sector.

We will foster and encourage a prosperous Australian grape and wine community by investing in building markets, research and development, disseminating knowledge, encouraging adoption and ensuring compliance. We will address the clear challenge of the image of Australian wine, particularly in the UK and US markets, by bringing renewed attention to our exceptional fine wines.

We will embrace the benefits of being the single services body for the Australian grape and wine sector by deploying research and development funding to achieve market-based outcomes, in compliance with the *Australian Grape and Wine Authority Act 2013* [the Act].

We will focus on delivering outstanding and nimble services to the Australian grape and wine community and operating on a cost-effective basis to ensure that value is delivered to our stakeholders and funders.

However, we must note that it will be increasingly difficult to deliver key activities to support the sector over the next five years with static levy revenue and an increasing cost base. We will continue discussing this funding challenge with our wine sector partners, the Winemakers' Federation of Australia (WFA) and Wine Grape Growers Australia (WGGA).

A handwritten signature in black ink, appearing to read 'Andreas Clark', with a stylized, elongated final stroke.

Andreas Clark, CEO

Executive overview

The opportunity

We have embraced the opportunity to forge a new path for integrated market development, research, development and extension (RD&E), and regulatory activities for the benefit of the Australian grape and wine sector through our Strategic Plan.

We have consulted widely with the sector and have received strong support for our 30-year plan for Australia to be recognised as the world's pre-eminent wine producer. In the first five years, our goal is the prosperity of the sector.

Challenges

Through this five-year Strategic Plan, we are addressing 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 need to more profitably compete in a fiercely contested global marketplace. We must continue to improve the competitiveness of our wine offering through productivity gains, innovation, differentiation and meeting market demand.

Our priorities

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, differentiated and more competitive.



Outcomes

We will know that we are addressing and successfully overcoming these two challenges when:

- the average price per litre for Australian bottled wine exports increases to a point where it is at or near the highest average price per bottle of our global competitors by key markets, and
- through an appropriate and rigorous benchmarking exercise – and targeted RD&E – our grapegrowers and winemakers achieve a reduction in the gap between the costs of managing their vineyards and wineries and those of our competitors.

We will be accountable for these outcomes and regularly report on our progress.

This Strategic Plan meets the requirement under the Act to provide a five-year Corporate Plan to the Minister for Agriculture by 1 May 2015.

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 Act, which merged the RD&E activities of the Grape and Wine Research and Development Corporation and the market development and regulatory activities of Wine Australia Corporation in one body.

We conduct many of 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'.

What we do

Our role under the Act is to:

- coordinate or fund grape and wine research and development, 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 research and development, 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 RD&E 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.
- Projected market development funding from levies for the five years 2015–2020 is \$28.3 million.

Regulatory funding

- Regulatory activities are funded on a cost-recovery basis through activity-based fees.
- Projected regulatory funding for the five years 2015–2020 is \$18.4 million.

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.
- Projected RD&E funding for the five years 2015–2020 is \$120.3 million.

User-pays activities

- Wine businesses, regional associations and state governments pay voluntary contributions to participate in market development activities.
- Projected user-pays contributions for the five years 2015–2020 amount to \$10.6 million.

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.

WFA and 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.

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, and 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 approximately 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.

Our core market development activities include:

- developing the insights and knowledge base of the world's wine trade, media and consumers through education and master classes
- telling the stories about the people and places behind Australian wines
- aligning Australian wine with a modern epicurean lifestyle
- displaying and promoting a diverse portfolio of Australian wine at major trade and consumer events globally, and
- partnering with government agencies, tourism and marketing bodies, the wine community and education bodies to maximise investment.

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 sector 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 own 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 activities include 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 US, we provide a structured and formal Market Entry Program that provides dedicated assistance to Australian wine brands wanting to enter or re-enter the US market.

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

Figure 1: How we will become the wine of choice for the global consumer



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.

The wine of choice

Figure 1 represents how our activities will help Australian wine become the wine of choice for the global consumer.

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 Australia New Zealand Food Standards Code (the 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 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 approximately 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 approximately 2,000 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 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 Science and Research Priorities. These priorities are detailed in this Strategic Plan and our Annual Operational Plans.

While two separate 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.

Our research providers include AWRI, CSIRO, NWGIC, universities and state agencies.

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 this 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 (CBA) 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 will 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.

Consultation to develop the plan

In developing our new Strategic Plan, we conducted extensive consultations with our stakeholders. We sought to engage with the whole Australian grape and wine community so that everyone had the opportunity to contribute.

In December 2014, we released the AGWA Strategic Plan 2015–2020 Discussion Paper to stimulate discussion with the grape and wine community before developing our plan.

The Discussion Paper drew together our thinking about the challenges and strategic imperatives facing the Australian grape and wine community, and suggestions of how we would address them over the next five years.

We have the opportunity to imagine the future we want and to set out a plan on how we will grasp it. We believe that now is the time to look ahead thirty years and to set an ambitious, cross-generational goal, and then to map out our steps over the next five years in our Strategic Plan to set us on that path.

AGWA Strategic Plan 2015–2020 Discussion Paper

This paper invited input from grapegrowers and winemakers. It was widely circulated to wine sector participants, received extensive coverage in sector-specific publications and other media, and is available on our website.

Our Chair wrote to a wide range of wine sector participants, providing a copy of the Discussion Paper and inviting their input. Recipients included:

- our primary stakeholder group – WGGA, WFA and the Australian Government
- the Chairman or President of each of the 72 regional sector organisations
- Future Leaders Alumni, which includes graduates of the Australian Rural Leadership Program and Nuffield Australia (sponsored by us)
- the Innovation Policy Committee, an R&D-focused committee established by WFA and WGGA
- RD&E providers
- state wine sector bodies
- Australia's First Families of Wine
- the top 20 wine producers.

Special efforts were made to ensure that the views of grapegrowers and small winemakers around the country were heard, and there was an impressive level of engagement by stakeholders. Some 60 written submissions identifying future priorities and suggested areas of focus were received from interested parties.

To identify key research and market development priorities:

- face-to-face meetings were held with the WGGA Board and Executive, the WFA Board and Executive, the Department of Agriculture, a number of the top 20 wine producers, the AWRI, and grapegrowers and winemakers in the Riverland, Murray Valley, Riverina and broader NSW.
- facilitated workshops were conducted with RD&E providers, the Future Leaders Alumni, state and regional association representatives and Innovation Policy Committee members.

To ensure that those who participated in our consultation understood how their contributions helped to shape the final Strategic Plan, we have developed the Australian Grape and Wine Authority Strategic Plan 2015–2020 Feedback Summary, which outlines how feedback was incorporated into the Strategic Plan.

Our priorities

Our goal is a prosperous Australian grape and wine community with a unity of purpose. This goal guides all of our activities.

To achieve this goal, we have two priorities:

- Increasing demand and the premium paid for all Australian wine, and
- Increasing competitiveness.

These priorities are facilitated by our supporting functions and we have 12 strategies to achieve our priorities. Our priorities, the strategies to achieve them and their relationships are detailed in table 1.

Table 1: Our priorities and the strategies to achieve them

Our goal: A prosperous Australian grape and wine community with a unity of purpose	
Priority 1: Increasing demand and the premium paid for all Australian wine	Priority 2: Increasing competitiveness
Strategy 1: Promoting Australian wine Asia Pacific North America China UK and Europe	Strategy 4: Improving resource management and sustainability Climate adaptability Foundation data Sustainable resource management Biosecurity, pest and disease management
Strategy 2: Protecting the reputation of Australian wine Annual analytical survey Label Integrity Program Regulatory services	Strategy 5: Improving vineyard performance Enhancing grapevine and rootstock performance Efficient and sustainable vineyard management
Strategy 3: Building Australian grape and wine excellence Grapegrowing for excellence Wine provenance and measures of quality Customer insights	Strategy 6: Improving winery performance Enhanced yeast and bacterial performance Efficient winery production
	Strategy 7: Enhancing market access Market access
	Strategy 8: Building capability Developing people
	Strategy 9: Business intelligence and measurement Business intelligence Monitoring and evaluation
Strategy 10: Extension and adoption	
Supporting functions	
Strategy 11: Corporate Affairs Corporate Affairs Sector engagement	Strategy 12: Corporate Services Finance & admin People and culture ICT

Priority 1

Increasing demand and the premium paid for all Australian wine

To increase demand and the premium paid for all Australian wine, we will focus our efforts on our very best wines, those fine wines of exceptional quality and finesse that reflect their provenance and terroir and will most quickly elevate the image and reputation of the wines we produce.

We will support Australian wine's quality and provenance claims with our robust regulatory system and we will provide tangible evidence to support our fine wine claims through research into Australia's unique terroirs and how these terroirs influence wine style and quality.

Promoting Australian wine

To be the world's pre-eminent wine producer, we will share with the trade, media and consumers the stories of the people and places behind the labels. We will bring to life a world of discovery, passion and enjoyment. We want consumers to have a greater knowledge of Australian fine wines, leading them to embrace higher price points and making Australian wine the natural choice of consumers in our key markets.

We will focus on our key markets of North America (US and Canada), Europe and the UK, Northeast Asia (including China, Hong Kong, Taiwan, Japan and Korea), Southeast Asia (including Singapore and Malaysia) and Australia. These markets – ranging from well-established ones to emerging ones – are where we see ongoing opportunities to expand sales of Australian wine, including capitalising on recent free trade agreements.

Education and collaboration are at the centre of our strategy and we will deliver educational activities and compelling stories to engage the trade, media and consumers. Our in-market staff will use our core activities to unequivocally focus on the best Australian wines. Our user-pays activities will provide broader access for all Australian wine brands to engage with the trade, media and consumers. We will maximise returns for our levy payers and user-pays partners through focused collaboration.

We will engage with consumers through enhanced social and online media tools, and create wider audiences for the winemakers and wineries.

We will measure our impact, and review and adjust our activities as required to continue to deliver the most effective and compelling messages.

Protecting the reputation of Australian wine

Our robust regulatory framework provides a solid foundation for quality and provenance claims for Australian wine.

We help companies export wine by administering an efficient export certification process, developing and updating Export Market Guides for 28 markets, and ensuring that compliance queries are rapidly answered.

Ongoing compliance with winemaking and labelling requirements supports our global credentials and remains a priority. Through our annual analytical survey, external laboratories analyse a representative and comprehensive sample of Australian wines to ascertain compliance with the Code. We enforce compliance through our Label Integrity Program, which gives customers and consumers confidence about the authenticity of Australian wine.

Building Australian grape and wine excellence

We are committed to funding the research that will enable the Australian grape and wine community to ceaselessly improve quality, a prerequisite of success in the competitive global fine wine market. Better understanding of Australia's unique terroirs and how they influence wine style and quality will provide the tangible evidence to support our fine wine message.

We will help drive quality improvements by using digital tools to capture and interpret information in large data sets.

We will help build excellence in the vineyard by developing new viticultural approaches and tools that help growers to produce grapes that meet desired quality targets. We will also develop measures to assess grape and wine provenance and quality to optimise viticultural and winemaking practices so that the influences of terroir can be captured, enhanced and preserved.

Deeper knowledge of our customers globally and what influences their purchasing decisions will mean that the Australian wine sector will be able to better target its wine marketing activities.

Table 2: Summary of Priority 1 outcome, strategies, programs and measures of success

Priority	Increasing demand and the premium paid for all Australian wine	
Outcome	The average price per litre for Australian bottled wine exports increases to a point where it is at or near the highest average price per bottle of our global competitors	
Strategies	Programs	Measures of Success
Promoting Australian wine	Asia Pacific	Trade and consumer educational activities deliver key messages to support the strategy. Year-on-year positive growth in consumer sentiment index. At least 90 per cent of wineries and distributors who participate in user-pays and core activities report they are satisfied.
	North America	Trade and consumer educational activities deliver key messages to support the strategy. Year-on-year positive growth in consumer sentiment index. At least 90 per cent of wineries and distributors who participate in user-pays and core activities report they are satisfied.
	China	Trade and consumer educational activities deliver key messages to support the strategy. Year-on-year positive growth in consumer sentiment index. At least 90 per cent of wineries and distributors who participate in user-pays and core activities report they are satisfied.
	UK and Europe	Trade and consumer educational activities deliver key messages to support the strategy. Year-on-year positive growth in consumer sentiment index. At least 90 per cent of wineries and distributors who participate in user-pays and core events report they are satisfied.
Protecting the reputation of Australian wine	Annual Analytical Survey	Compliance with the Code is demonstrated through analysis of a representative and comprehensive sample of Australian wines.
	Label Integrity Program	Any minor breaches of the record-keeping requirements of the Act that are identified through risk-based inspections are remedied, while action is initiated in response to serious breaches.
	Regulatory Services	An efficient export certification process supports Australian wine sector exports.
Building Australian grape and wine excellence	Grapegrowing for excellence	New viticultural approaches or tools are available to help growers optimise grape production towards desired quality targets, preferred wine styles and premium price points. Development of a better understanding of how grapevine genetics interact with environment and viticultural management techniques to optimise expression of terroir. Digital tools are developed to capture and interpret the information in large data sets to drive quality improvements. New tools to drive quality improvements draw on the benefits of recognition technologies, robotics and/or systems engineering.
	Wine provenance and measures of quality	New measures of assessing grape and wine provenance and quality are available for use by grapegrowers and winemakers. Development of knowledge that allows grapegrowers and winemakers to capture, enhance and preserve terroir through optimised winemaking practices.
	Customer insights	The grape and wine community is able to use customer insights gained from research in established and emerging markets into customers' preferences, perceptions, behaviours and what influences customers' decisions.

Priority 2

Increasing competitiveness

Our focus is on enhancing and building Australia's competitive edge by developing and adopting new and better ways of growing grapes and making wines. Increasing competitiveness is about more than reducing costs; it is about using all of our resources to create and embrace new opportunities.

We will encourage increased competitiveness in the vineyard and winery by focusing on improved resource management and sustainability, delivering access to key foundation data sets, and managing the challenges of short-term climate cycles and long-term climate change.

We will invest in new or enhanced technologies to improve vineyard and winery efficiency and performance, and we will continue to work to enhance market access in new and existing markets.

Improving resource management and sustainability

We will provide the sector with the information that it needs to manage the challenges of short-term climate cycles and long-term climate change. We will focus on gathering evidence to support strategies to manage long-term warming and prolonged seasonal heat events.

We will work with the sector to ensure that grapevine germplasm resources are preserved through a national collection, and that access to the collection is managed so that the material is available for planting.

We will develop a solution to the wine sector's information needs around grape and wine supply and demand by providing access to key foundation data sets, we will empower individual enterprises and the wine sector to make evidence-based and data-driven business decisions.

We will encourage improved resource management and sustainability through improved diagnostic protocols for exotic pest incursions, better management practices for pests and diseases, and improved awareness of best-practice spray programs and integrated pest-management strategies.

We will develop new and improved management strategies to prevent and manage trunk diseases, and make these strategies available to grapegrowers.

Improving vineyard performance

We will invest in new or enhanced technologies and processes that improve vineyard efficiency.

Vineyard performance will be improved through the availability of enhanced or new grapevine varieties, clones and rootstocks that produce improved wine flavour profiles and tolerate biotic and abiotic stressors.

We will also improve yield prediction methods, so that grapegrowers and winemakers can better manage logistics around vintage.

Improving winery performance

Winery efficiency will be improved by developing ways to optimise wine production inputs, improve fermentation efficiency and understand how to optimise winery wastewater treatment.

We will help drive business sustainability by having enhanced production methods available for adoption by 2020.

Enhancing market access

We will continue to work to enhance market access by identifying and managing technical trade barriers and by maintaining a consistent dialogue with all of our trading partners. We will support the Australian Government's negotiations for improved market access with accurate, timely and appropriate technical information.

Building capability

We need leaders to pursue our ambitious cross-generational goal of being recognised as the world's pre-eminent wine-producing country. We will invest in developing the leadership and personal skills of the next generation of wine sector leaders — people drawn from all parts of the Australian grape and wine community — so that they have the skills to adopt R&D outcomes and innovate, and the networks to support their future contributions.

We will also help develop the capacity of researchers by providing scholarships for PhD, Masters and Honours study and supporting international conference participation through our travel bursaries.

Business intelligence and measurement

We will encourage evidence-based and data-driven decision making by collecting, analysing and disseminating global wine sector intelligence and accurate and timely supply and demand information.

We will measure and report on stakeholder satisfaction with the services we provide, and on our effectiveness in achieving our measures of success.

Table 3: Summary of Priority 2 outcome, strategies, programs and measures of success

Priority	Increasing competitiveness	
Outcome	The gap between the costs of managing Australian vineyards and wineries and those of our competitors is reduced	
Strategies	Programs	Measures of Success
Improving resource management and sustainability	Climate adaptability	<p>The sector has an improved understanding of how increased temperature, increased CO₂ and reduced water can impact grape and wine production.</p> <p>Climate adaptation strategies are evaluated and available to the sector for adoption by 2020 to alleviate impacts of long-term warming and prolonged seasonal heat events.</p>
	Foundation data	<p>The Australian wine sector has access to supply and demand information to assist sector planning.</p> <p>We take a lead role in ensuring the sector has access to key foundation data sets.</p>
	Sustainable resource management	<p>We will work with the sector to preserve and manage access to grapevine germplasm resources.</p> <p>Australia's competitive advantage will be enhanced by knowledge that leads to innovation to increase economic, social and/or environmental sustainability in the vineyard and/or winery.</p> <p>The science to support an informed and balanced debate on wine and health is synthesised and promulgated.</p>
	Biosecurity, pest and disease management	<p>The sector is prepared for exotic pest incursions through the provision of available diagnostic protocols of the high-priority plant pests.</p> <p>Improved practices for sustainable management of pests and diseases are available for sector adoption by 2020.</p> <p>New and improved management strategies to prevent and manage trunk diseases are developed and promulgated.</p>
Improving vineyard performance	Enhancing grapevine and rootstock performance	<p>Enhanced or new grapevine varieties, clones and rootstocks are available to the sector through plant breeding programs, informed by molecular methods to identify desired genotypic traits, for example:</p> <p>tolerance to biotic and abiotic stressors, and</p> <p>improved wine flavour profiles.</p>
	Efficient and sustainable vineyard management	<p>New or enhanced technologies and processes to improve vineyard efficiency and sustainability are evaluated and available for adoption by 2020.</p> <p>Improved yield prediction methods are developed and made available.</p>
Improving winery performance	Enhancing yeast and bacterial performance	<p>New or enhanced yeast and bacterial germplasm are available to the sector to enhance winemaking processes and realise performance and economic gains, through improved fermentation efficiency and differentiation of wine products/styles.</p> <p>Enhanced understanding of microbiological processes is available to optimise winery wastewater treatment efficiency.</p>
	Efficient winery production	<p>At least two enhanced production methods to improve winery efficiency are evaluated and available for adoption by 2020.</p> <p>The sector has an improved understanding of how to drive business sustainability through focussing on process efficiency.</p>

Table 3: Summary of Priority 2 outcome, strategies, programs and measures of success (continued)

Priority	Increasing competitiveness	
Outcome	The gap between the costs of managing Australian vineyards and wineries and those of our competitors is reduced	
Strategies	Programs	Measures of Success
Enhancing market success	Market access	<p>Market access is maintained in existing markets and improved in developing markets.</p> <p>Technical barriers are identified and managed to the satisfaction of stakeholders.</p> <p>Negotiations for improved market access are supported with accurate, timely and appropriate technical information.</p>
Building capability	Developing people	<p>At least 75 members of the grape and wine community receive leadership and personal development training by 2020.</p> <p>The capacity of the next generation of researchers is developed through at least 75 scholarships for PhD, Masters and Honours study and support for other learning opportunities.</p>
Business intelligence and measurement	Business intelligence	<p>The Australian wine sector's competitiveness is supported through the collection, presentation and dissemination of global wine sector intelligence.</p> <p>We are relied on by the sector to provide accurate and timely supply and demand information.</p> <p>We provide a comprehensive range of information to assist business and investment decision making in the sector.</p>
	Monitoring and evaluation	<p>Stakeholders indicate a high-level of satisfaction with the services provided across the business.</p> <p>CBA indicates programs that achieve a positive return on investment.</p>



Supporting functions

To ensure that the Australian grape and wine community obtains the full benefits of its investments, we will champion the extension and adoption of R&D outcomes. We understand that we only truly realise the value of our R&D investments when the R&D outcomes are taken up and effectively implemented, and for this to happen requires both knowledge of the outcomes and the skills to innovate.

We will encourage the uptake of new information, practices and tools through a range of delivery networks and programs, and we will help build wine sector skills and capabilities to accelerate the adoption of R&D outcomes along the value chain.

We will enable businesses to make evidence-based and data-driven decisions by providing accurate and timely information on supply and demand together with global wine sector intelligence. We will communicate with our many audiences clearly and effectively, and we will look to drive value through our business.

Extension and adoption

We will focus on supporting a clear pathway to market for R&D, from the initial project design to the extension of the results. We will use a range of delivery networks and programs to disseminate R&D outcomes and encourage the adoption of new technologies and practices.

We will continue to partner with wine sector organisations to enhance the adoption of R&D outcomes.

Our Regional Program is a valued vehicle for promoting the adaption and adoption of research outcomes. We will continue to partner with 11 regional clusters to deliver extension and practical trials that meet regional priorities.

Corporate affairs

Our corporate affairs function will support clear and effective communications with internal and external stakeholders.

Corporate services

We will work to deliver cost-effective and timely support to our global operations, including timely guidance on fiscal matters and the provision of information and communications technology (ICT).

We will continue working with the Department of Agriculture to improve the efficiency and reduce the costs of levy collection, primarily by taking over responsibility for the collection of the wine export charge.

Table 4: Summary of our supporting functions and their outcome, strategies, programs and measures of success

Supporting functions		
Outcome	<p>Deliver new knowledge to and encourage the personal and professional development of grapegrowers, winemakers and wine businesses to increase their competitiveness, profitability and sustainability.</p> <p>Provide commercially oriented services to the supply chain to support our strategic vision.</p> <p>Enable us to operate cost-effectively through the efficient provision of a range of cross-company support services.</p>	
Strategies	Programs	Measures of Success
Extension and adoption	Extension and adoption	<p>Pathways to extension and adoption are incorporated into the planning and approval process of research projects.</p> <p>We partner with regions through the Regional Program to deliver extension and practical trials that encourage adoption and adaption of research findings.</p> <p>Our delivery networks and programs are strongly supported, as demonstrated by user participation and feedback.</p> <p>Levels of understanding and adoption of R&D outcomes are regularly measured and supported.</p>
Corporate Affairs	Corporate Affairs	Timely, fit-for-purpose, accessible and appropriately targeted wine sector information and analysis is available to the wine sector through a range of channels.
	Sector Engagement	<p>Two-way dialogue and understanding with national, state and regional representative bodies are improved.</p> <p>Positive change is measured in sector and stakeholder awareness of our activities and outcomes from 2015 benchmarks to 2020.</p>
Corporate services	Finance and administration	<p>Ensure forward contracts reserve is sufficient to cover annual contractual commitments.</p> <p>Adhere to operating reserves policy.</p> <p>Maintain reserve of \$5m to cover obligations.</p> <p>Ensure our commercial needs are reflected in our contracts.</p> <p>Manage adherence to policy and procedures, and mitigate risk.</p>
	People and culture	<p>Employee engagement survey undertaken and actions developed to target opportunities for improvement.</p> <p>Personal development plans developed and implemented by each team member.</p> <p>Compliance with employment laws and statutory requirements in each jurisdiction.</p>
	ICT	High (99 per cent) availability of systems with no planned outages.

Alignment of sector and Australian Government priorities

Table 5 demonstrates the alignment of the grape and wine community's strategic priorities with our RD&E program areas and the Australian Government's Science and Research Priorities and Rural R&D Priorities.

Table 5: Alignment of wine sector and Australian Government priorities

AGWA strategic priorities	AGWA strategies	Science & Research priorities	Rural Research and Development priorities
Increasing demand and the premium paid for all Australian wine	Protecting the reputation of Australian wine	Food (1.1 and 1.3)	Productivity and adding value Supply chain and markets
	Building Australian grape and wine excellence	Food (1.3)	Supporting the priorities
Increasing competitiveness	Improving resource management and sustainability	Food (1.1) Environmental change (8.3)	Climate variability and climate change Supply chain and markets
	Improving vineyard performance	Food (1.3) Soil (2.2 and 2.3) Environment (8.3)	Biosecurity Climate variability and climate change
	Improving winery performance	Food (1.3)	Natural resource management
	Enhancing market access	Food (1.1)	Productivity and adding value Supporting the priorities
	Building capability	Food (1.3) Soil (2.2 and 2.3) Environmental change (8.3)	Supporting the priorities
	Business intelligence and measurement	Food (1.3)	
Both priorities	Extension and adoption	Food (1.1 and 1.3) Environmental change (8.3)	

Key

Food

- 1.1 Knowledge of global and domestic demand supply chains and the identification of country-specific preferences for food Australia can produce
- 1.3 Enhanced food production

Soil

- 2.2 Better understanding of sustainable limits for productive use of soil, freshwater, river flows and water rights, terrestrial and marine ecosystems

- 2.3 Minimising damage to, and developing solutions for, restoration and remediation of soil, fresh and potable water, urban catchments and marine systems

Environmental change

- 8.3 Options for responding to the impacts of environmental change on biological systems, urban and rural communities and industry

Key performance indicators

We have nine key performance indicators (KPIs) against which we measure and report on our performance against our strategic priorities and the Australian Government priorities as shown in Table 6.

Table 6: Key performance indicators 2015–16 to 2019–20

Key performance indicators	2015–16	2016–17	2017–18	2018–19	2019–20
R&D projects are funded in line with the approved Annual Operational Plan.	100%	100%	100%	100%	100%
R&D contracts are actively managed through regular and ongoing monitoring of the research.	100%	100%	100%	100%	100%
The number of user-pays activities hosted with wine sector partners to engage influencers in key markets.	42	42	42	42	42
The number of Wine Australia-funded activities to engage influencers in key markets.	70	70	70	70	70
Improvement in customer satisfaction rating for usage of wine sector intelligence services, as measured by actual customer satisfaction survey.	73.5%	74.0%	74.5%	75.0%	75.5%
An increased number of Innovators' Network members.	1100	1200	1200	1200	1200
The number of regional clusters participating in the Regional Program is maintained.	11	11	11	11	11
Risk-based audits reinforce a culture of compliance and help protect the reputation of Australian wine.	300	300	300	300	300
Export Market Guides provide accurate information about import requirements for largest export markets.	27	28	29	29	29

Investment, income and expenditure forecast

We were formed to improve service delivery for levy payers under a unified, coordinated strategy. Our strategy is to address the key ongoing and emerging issues facing the wine sector that are within our remit.

Of significance is the fact that funding streams are tied to certain activities, which imposes constraints on our flexibility in allocating resources.

We are committed to using our funds as effectively as possible and we are constantly seeking the best return for the wine sector's and Australian Government's investment.

It is important to note that our purchasing power will contract year-on-year over the term of this Strategic Plan because the levies that we receive are not indexed to the consumer price index (CPI).

Projected income

Figure 2 shows our projected income for 2015–16. Levy revenue income is projected based on estimates of vintage size and the free-on-board (FOB) value of wine exports. Commonwealth matching income is estimated based on eligible RD&E expenditure. Remaining income sources are projected based on estimated activity levels.

Figure 2: Projected income 2015–16 by funding source

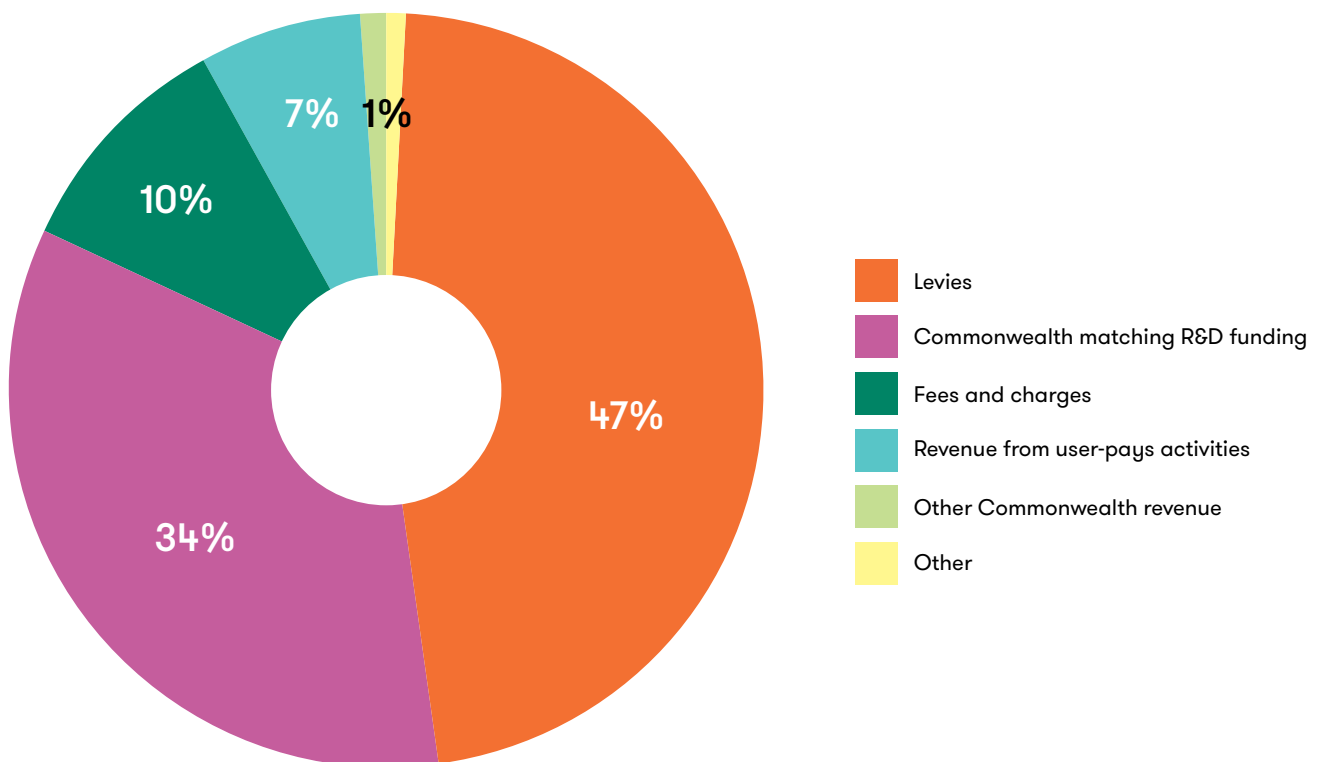


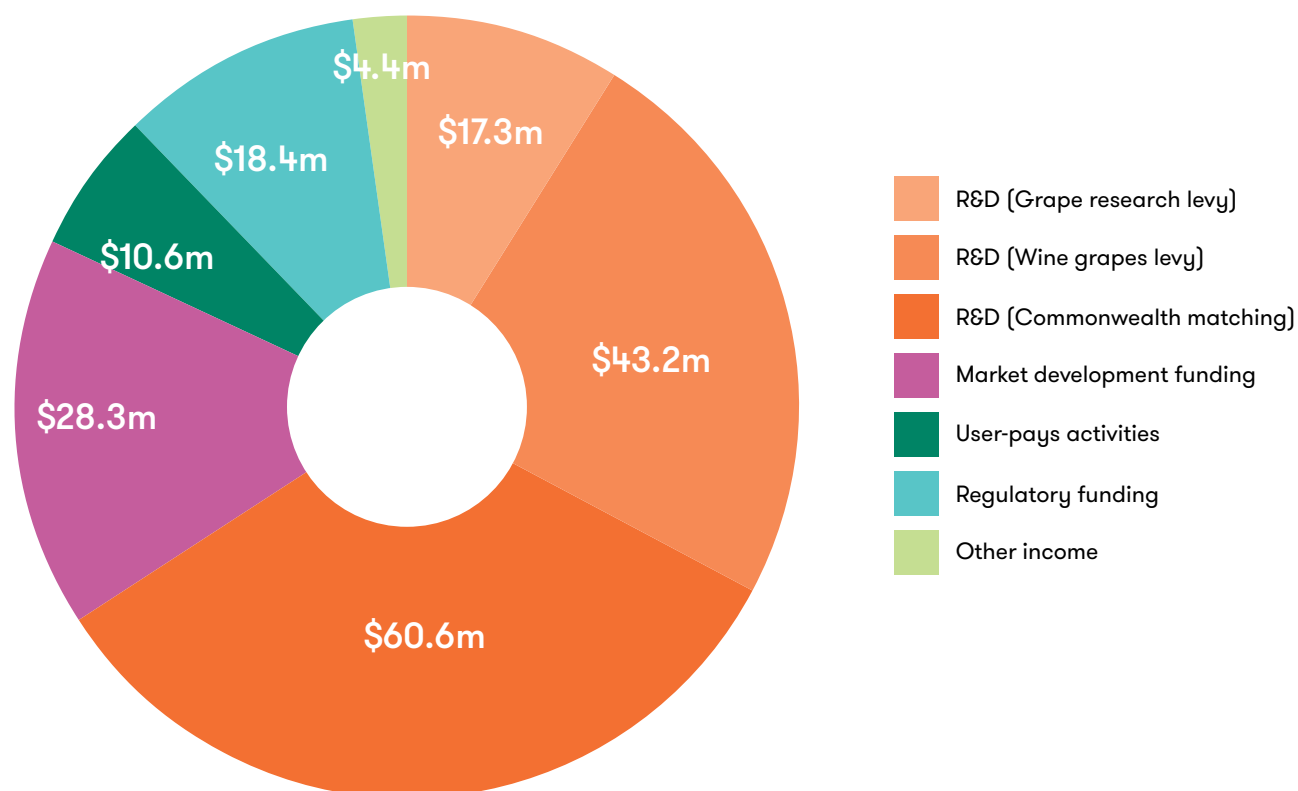
Table 7: Projected income 2015–16 and 2019–20 (assuming 2% growth p.a. in wine export charge)

	2015–16 \$m	2016–17 \$m	2017–18 \$m	2018–19 \$m	2019–20 \$m	Total \$m
Grape research levy	3.3	3.4	3.4	3.4	3.4	16.9
Wine grapes levy	8.3	8.5	8.5	8.5	8.5	42.3
Commonwealth matching	12.4	11.9	11.9	11.9	11.9	59.9
Total RD&E Funding	5.5	5.6	5.7	5.7	5.8	28.3
Market development funding (assuming 2% growth in wine export charge)	2.5	2.5	2.5	2.5	2.5	12.4
User-pays activities	3.6	3.6	3.7	3.7	3.8	18.4
Regulatory funding	0.9	0.9	0.9	0.9	0.9	4.4
Other income	3.3	3.4	3.4	3.4	3.4	16.9
	36.4	36.4	36.5	36.6	36.6	182.5

Assumptions:

- Wine export charge – based on 2 per cent growth per annum (included in market development funding sector of Figure 5 below)
- Grape research levy – 2016–17 onwards is five-year average including 2015–16 estimate
- Wine grapes levy – 2016–17 onwards is five-year average including 2015–16 estimate
- User-pays activities – for 2016–17 onwards is the same as 2015–16 budget

Figure 3: Projected income over the five years to 2020 by funding source



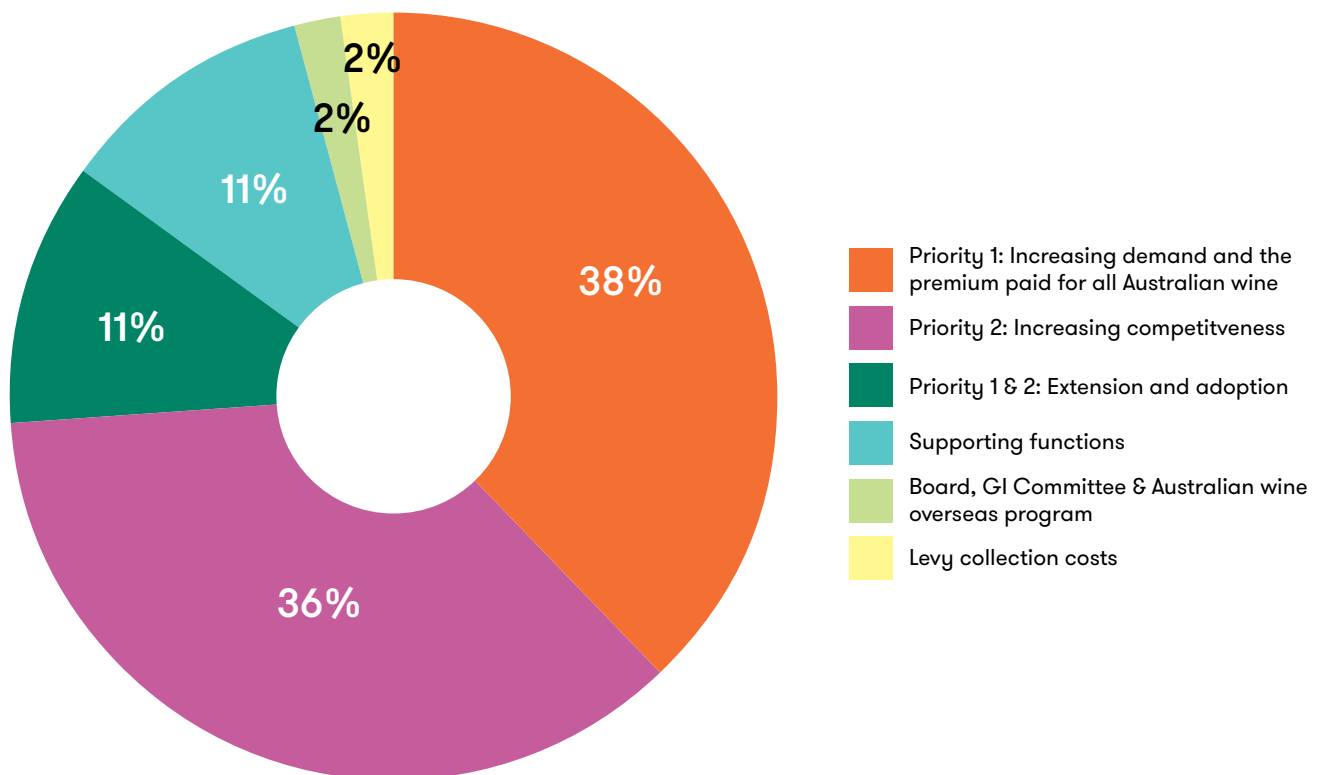
Levy allocation

Of significance is the fact that funding streams are tied to certain activities under the Act, which imposes constraints on our flexibility in allocating resources.

Funding allocation – investment by priority

Our investments will be guided by our priorities and we will work within the constraints imposed by funding being tied to certain activities. In the first year of our new Strategic Plan, we will invest 35 per cent in increasing demand and the premium paid for all Australian wine; 36 per cent in increasing competitiveness and 29 per cent on supporting functions to capture the benefits for the Australian wine community.

Figure 4: Projected investment by priority in 2015–16 (percentage)



Forecast operating result

We generally aim for a break-even financial result, however we currently hold reserves in excess of our minimum reserve level and so we anticipate that we may draw down on these reserves appropriately to deliver on our priorities under the Plan. Of the \$7.6 million we hold in reserves, \$7.1 million is hypothecated to RD&E.

We aim to maximise the returns on our funders' investment and the services offered to them.

Monitoring and evaluation

We are committed to providing quantifiable returns on wine sector and Australian Government investments across our portfolio of activities and we have a detailed system for the assessment of investment return.

We set clear measures of success in our Strategic Plan and our Annual Operational Plan, we measure our effectiveness in achieving these measures and we report the outcomes in our Annual Report.

To measure our effectiveness, we:

- evaluate our performance against our Strategic Plan and our Annual Operational Plans
- evaluate investment proposals against clear and public criteria
- actively manage and review current projects and activities, and
- evaluate completed activities and programs of investment.

We will undertake CBAs of selected completed activities and programs. These analyses will measure the results of projects and the rates of adoption of the outcomes, where relevant.

We are committed to continuous improvement and we will refine our processes and activities based on the outcomes of these evaluations.



Our operating environment

Wine sector snapshot

Table 8 provides a snapshot of the size and value of the Australian grape and wine sector and its contribution to the Australian economy.

Table 8: 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 ¹	2014	71	
Direct employment – winemaking	2012	16,122	
Direct employment – grapegrowing	2012	7,500	
Direct employment – total	2012	23,622	
Economic value-add ²	2013	50	A\$ billion

1 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.

2 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.

Situation analysis

The Australian wine category competes in a global alcoholic drinks market, with sales of 252 billion litres valued at more than \$1 trillion in 2013. We are a relatively small player, with 1.1 billion litres of Australian wine sold across the world last year – this represents a 0.4 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 but we also compete against beer, spirits, ready-to drink beverages (RTDs) and cider for space on retailers' shelves and websites and on listings in pubs, clubs and restaurants.

In 2014, Australia exported more than 16,000 different wine products.

Supply situation

Global supply

With 60 per cent of Australian wine production exported, the profitability of the sector is heavily reliant on the state of the global wine market. Although Australia is the world's fifth largest exporter of wine, the Australian wine sector accounts for only 4 per cent of global wine production and is therefore subject to developments in global wine supply.

Global wine production is dominated by the big three European producers: France, Italy and Spain. Together, they produce almost half of the world's wine.

Table 9: Wine production by country (billion litres)

	2010	2011	2012	2013	2014 (forecast)	Change in 2014
France	4.4	5.1	4.2	4.2	4.6	10%
Italy	4.9	4.3	4.6	5.2	4.4	-15%
Spain	3.5	3.3	3.1	4.6	3.7	-19%
USA	2.1	1.9	2.2	2.4	2.3	-4%
Argentina	1.6	1.5	1.1	1.5	1.5	1%
Australia	1.1	1.1	1.2	1.2	1.3	2%
China	1.3	1.3	1.4	1.2	1.2	0%
South Africa	0.9	1.0	1.1	1.1	1.1	4%
Chile	0.9	1.0	1.3	1.3	1.0	-22%
Other	8.8	9.5	9.3	9.7	9.3	-4%
Total	26.5	26.7	25.6	28.8	27.1	-6%

Source: OIV State of Conditions Report, October 2014

Global supply has been reduced because of a significant reduction in vineyard area, particularly in the European Union (270,000 hectares removed between 2008 and 2011) as a result of financial incentives offered by the European Commission. After a significant increase in 2013 driven by Spain, the International Organisation of Vine and Wine (OIV) estimated that global wine supply fell by 6 per cent in 2014, back to the average levels that may ease commodity and commercial wine pricing pressure. The US had two successive record-sized vintages in 2012 and 2013 and, while 2014 was down, it was still the third-largest vintage on record. Chilean production was expected to be down on 2013 while the New Zealand harvest was up 29 per cent to a record 445,000 tonnes.

Australian supply

Australia is the world's sixth-largest producer of wine and production has stabilised at approximately 1.2 billion litres per annum after peaking at 1.4 billion litres in 2004, 2005 and 2006. The reduction in wine produced is a result of a lower winegrape crush, which in turn is due to reduced vineyard area and generally lower yields. Over the last five years, the winegrape crush has averaged approximately 1.7 million tonnes, down from the peak of 1.9 million tonnes in 2005. Vineyard area peaked at 174,000 hectares in 2007 but has since fallen to 142,000 hectares as of 2013 (Figure 5).

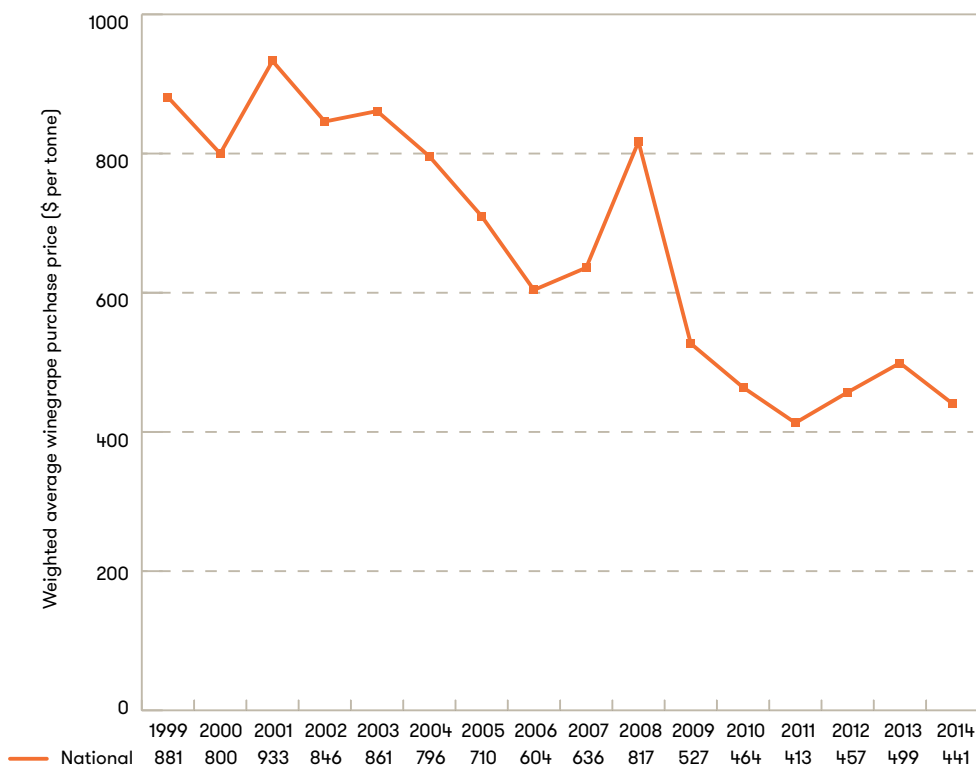
Figure 5: Australian winegrape vineyard area over time



Source: ABS

Australian winegrape purchase prices have been on a general downward trend since 2001, when the national average was \$933 per tonne (Figure 6). 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 decline in the overall average purchase price reflects the fact that Australian wine production exceeded Australian wine sales in 2012 and 2013, resulting in an increase in Australian stock levels. This, coupled with an increase in global supply in 2013 (particularly out of Europe), has put downward pressure on winegrape prices in general. However, there are different results by region and variety.

Figure 6: Australian winegrape prices over time



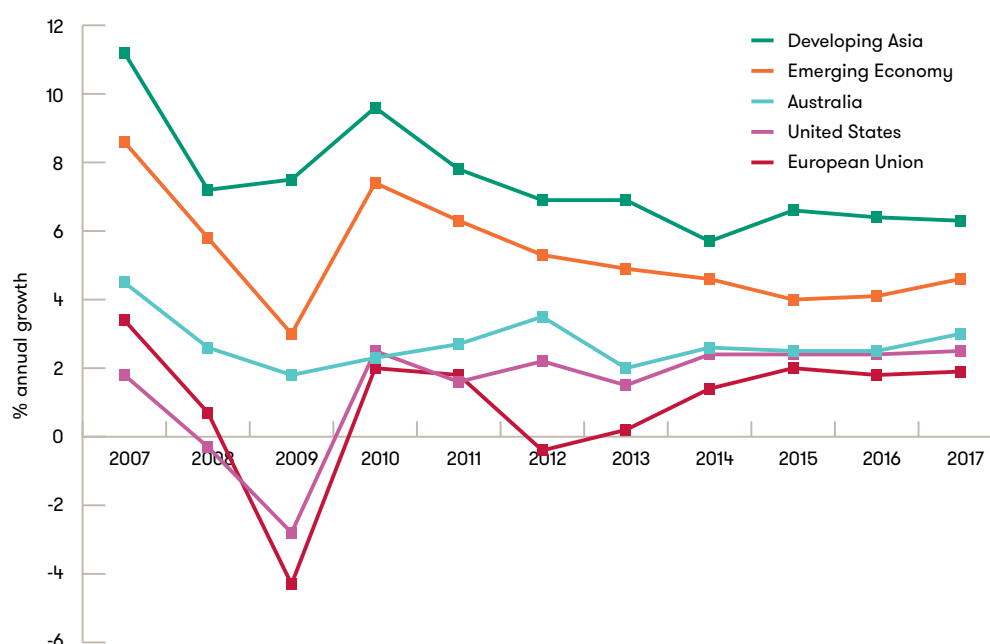
Source: Wine Australia

Demand situation

Macroeconomics

A key macroeconomic indicator of the ability of a country to spend is its gross domestic product (GDP). Figure 7 illustrates the annual growth in GDP in some of the key markets to which Australia exports wine. Developing Asian and emerging economies are clearly showing the strongest economic growth. While all economies were negatively impacted by the global financial crisis (GFC), the US and European Union were hit hardest, with the EU yet to recover. Australia came through the GFC relatively unscathed and the growth in GDP for the country is expected by the International Monetary Fund (IMF) to be stable over the next five years. Growth in the US economy is gaining pace and is expected by the IMF to overtake Australia's growth rate in 2015. The UK is the fastest-growing economy in Western Europe. This is somewhat offset by slower growth in China.

Figure 7: Annual growth rate in real GDP in key markets



Source: IMF

While GDP growth is an important indicator of the economic health of a country, it has to be put in context against the relative purchasing power of a country's population. While developing Asian and emerging economies are showing the strongest rates of economic growth, they still trail the US, Australia and the EU by a long margin in terms of GDP per capita. This highlights the fact that while developing Asian and emerging economies offer great growth potential, the US, Australia and (perhaps to a lesser extent) the EU still have a greater capacity to spend. It is also important to note that China (part of developing Asia) has a large and growing middle class and it is this segment of their population that consumes wine.

Exchange rates

Over the past five years, the Australian dollar (AUD) has appreciated against not only the currencies of many of our major export markets but also against those of our major wine-producing competitors. This means that not only did our wine become more expensive in the major markets, but our competitor's wines also became relatively cheaper in comparison. This assisted competitors such as France, Italy, South Africa and Chile in the UK and US, our key overseas markets, but it also made their wines more affordable in our largest market, namely Australia.

While the AUD has weakened against the US dollar (USD) in the past 12 months, it is still comparatively strong against the currencies of our competitors.

Global beverages markets

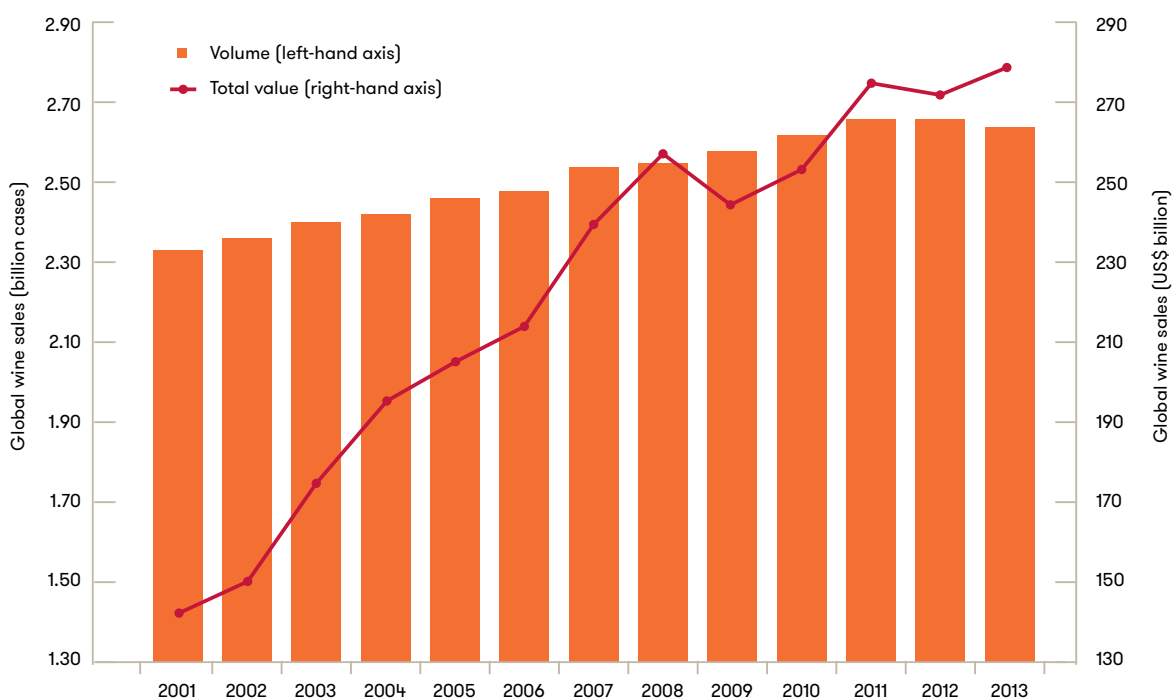
Growth in the global alcoholic drinks market slowed in 2013, with volume growth of just below 1 per cent compared to an annual average growth of 6.6 per cent achieved between 2009 and 2012. The impact of maturity in developed markets such as Europe has been exacerbated by slowdowns in emerging markets such as Brazil, where alcohol consumption is in decline. Economic uncertainty continues in many countries, which has affected consumption. China, which has underpinned much of the recent growth in alcoholic drink consumption, has seen high-end sales affected by austerity measures introduced in late 2012. However, China remains the biggest alcoholic drinks market in the world, ahead of the US, Brazil, Russia and Germany. There are differences in performance by category. Beer remains the number one category in sales, ahead of wine, spirits, RTDs and cider, but has the lowest growth rate. Off a relatively low base, cider is the fastest-growing category ahead of RTDs. Cider can be viewed as a threat to white wine sales.

Emerging markets will continue to drive growth and there are still opportunities in mature markets but innovation is the key. An example of this is the growth in craft beers in markets such as the US, UK and Australia.

Global wine demand

After being subdued during the GFC, global wine sales have grown, with value growth outpacing volume growth over the five years to 2013. According to Euromonitor International, the value of global wine sales grew over the last five years at an average annual rate of 2 per cent, compared to 1 per cent for volume. In 2013, the rate of volume growth slowed to 0.9 per cent while value growth increased to 4 per cent. This may indicate some 'trading up' by wine consumers. This is evident in many markets, such as the US and Australia. It is important to note that the rate of value growth is significantly lower than the average recorded in the five years prior to the GFC. Figure 8 shows the growth in global wine sales by volume and value since 1999.

Figure 8: Global wine sales by volume and value over time



Source: Euromonitor International

Western Europe remains the biggest wine-consuming region in the world but consumption has been falling, particularly in major producing countries such as France, Italy and Spain. Over the past five years, consumption in Western Europe has fallen at an average rate of 1.6 per cent per annum. This has implications for Australian producers as the producers in Europe seek alternative markets for their wine production.

Asia Pacific is the fastest-growing region for wine consumption, with growth of 15 per cent per annum over the last five years. While volumes sold in Asia Pacific (2.9 billion litres) are still relatively small in comparison to those in Western Europe (11.6 billion litres), they are quickly gaining on those in North America (3.5 billion litres). However, with more subdued economic growth and austerity measures introduced in China, this rate of growth may slow. North American growth has been solid at 2.9 per cent per annum over the period.

There is upside in per capita wine consumption in Asia Pacific. Current consumption is low at 0.7 litres per head (or around 1 bottle of wine per person per year). This is significantly lower than the consumption rates in Australia and Western Europe, each at around 23–24 litres per head. Wine consumption per capita has been flat in Australia at this level for the last five years, while wine consumption in Western Europe has continued a long-term downtrend – 30 years ago wine consumption in the region averaged more than 60 litres per head.

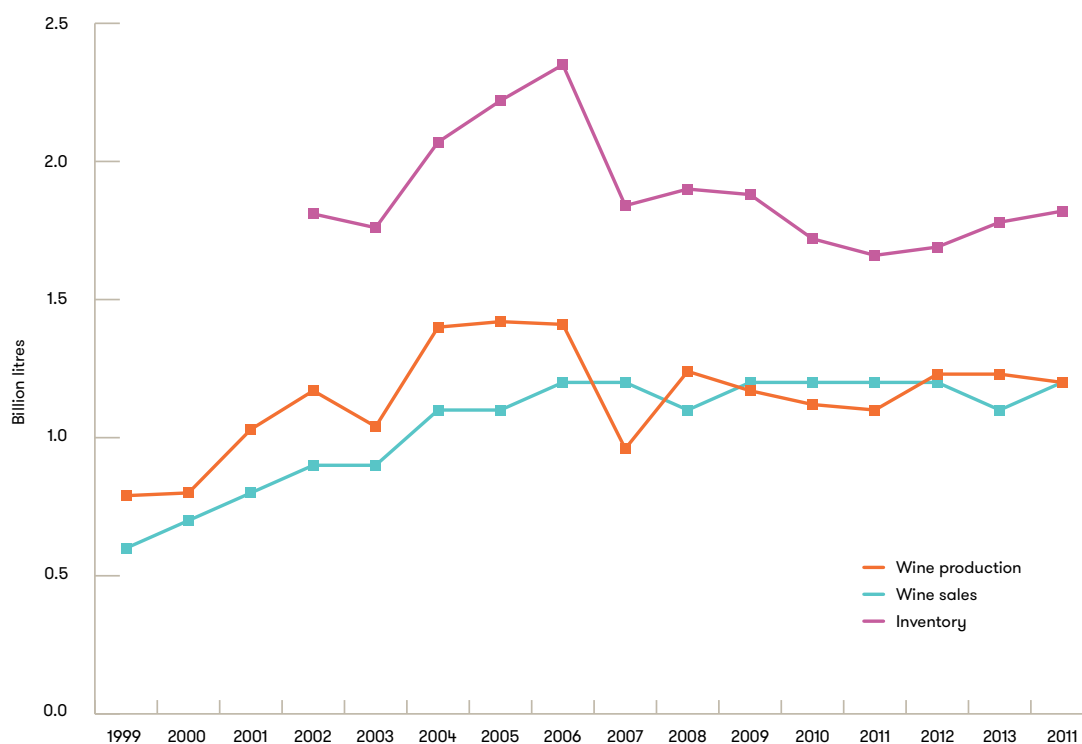
The consumption rate in Asia has accelerated, with an increase of 16.7 per cent in 2013 compared to an average growth rate of 11.8 per cent over the previous five years.

There is also upside in per capita wine consumption in the US, which is currently at 10 litres per head but growing at 2 per cent per annum.

Australian wine demand

Before looking at demand in detail, it is necessary to briefly examine Australia's wine supply and demand situation. Figure 9 shows Australian supply (the blue line), demand (the red line) and inventory levels (the green line).

Figure 9: Australian supply and demand balances over time



Source: Wine Australia, ABS

Australian wine demand and supply have moved into relative balance from a volume perspective. Figure 9 shows 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 down to 1.78 billion litres in 2013. 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 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 Australia has produced more than we have sold in the last three years and this will likely place further 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 under 50 cents a litre, which for most producers is below cost – in other words, at a loss.

Part of the reason for the growth in Australian wine inventories has been a decline in the demand for Australian wine. The volume and value of total Australian wine sales (exports and domestic) peaked in 2007. Both the volume and value of sales have declined since 2007, with a decline in exports the biggest driver. The value of sales has dropped most significantly, falling from A\$5 billion to \$4.2 billion – a loss in value to the Australian wine sector of almost A\$1 billion.

Exports

Australian exports achieved tremendous volume growth from the early 1990s through to 2007, peaking at 807 million litres. Since that time, exports have fallen, down to 700 million litres in 2014. Over this period, we have seen a number of factors affect exports, such as the GFC and the resulting tough economic conditions in many markets, a strong Australian dollar, increasing competition from other producers such as Chile and the US, and resurgence from Italy.

However, there are signs that the decline in exports is turning around, with growth in both volume and value in 2014, the first time we have seen an increase in total value since 2007. Value and volume both grew by 1.9 per cent, to A\$1.82 billion and 700 million litres respectively. In 2014, there were 1,392 exporters exporting to 121 destinations. The majority of exporters recorded volume growth.

A combination of factors is driving this growth, such as:

- the growth in the volume of bulk wine exports, assisted by a weaker Australian dollar, which has made Australian bulk wine more attractive to international buyers. Bulk export volumes were up by 8 per cent (to 402 million litres), but average value was down by 2 per cent to A\$0.99 per litre, reflecting more global supply in 2013, particularly from Spain, and
- continued growth in the average value of bottled wine exports, up 7 per cent to \$4.85 per litre, the highest point since 2004.

Contributing to this growth in the average value of bottled exports were:

- strong growth in premium exports at above \$7.50 per litre in North America, Europe and much of Asia. Exports at A\$7.50-9.99 climbed 5 per cent (to 15 million litres) and at above A\$10 grew 15 per cent (to 17 million litres). The average value of exports also grew above A\$7.50 per litre, up 6 per cent to just more than A\$15 per litre
- the value of wine exports at above A\$10 per litre, which at \$356 million was just below the record high of \$371 million set in 2007, and
- the ultra-premium (above A\$50) segment, which grew 55 per cent, hitting a record A\$107 million. While the segment only accounts for 0.8 per cent of the total volume, it contributes 8 per cent of the total value of bottled exports, of which 90 per cent are destined for Asia.

Some factors assisting this growth in premium exports include:

- the economies of our two key markets, the UK and the US, which are emerging from recessions, providing wine consumers with the purchasing power to spend more on higher priced wines, a category that was hit hard during the recession. There is a trend to growth in premium wines in many markets around the world
- a turnaround in China, where the impact of the austerity measures introduced in late 2012 is easing and we are again seeing growth in Australian wine exports (volume up 8 per cent in 2014 after declining by 16 per cent in 2013), and
- growth in demand for Australian wine in developing markets such as Hong Kong and Singapore.

The growth in higher-priced wine exports also reflects the growing reputation of Australian fine wine around the world. However, more needs to be done to promote the diversity and quality of the Australian wine offering, particularly in the US, where Australia is struggling to break through at the premium-end of the market.

Australia has recently negotiated free trade agreements with South Korea, Japan and China, and this will ease some of the market access barriers that have made it more difficult for some exporters to get their brands in to these growing markets. If the Australian dollar continues at current levels, then it should continue to assist exporters, making Australian wine relatively more affordable.

Domestic sales

While exports are vital to the future of the Australian wine sector, the domestic market remains the largest for Australian wine, accounting for 40 per cent of 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 459 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. As per capita wine consumption has been flat in recent years, this means Australian consumers have broadened their palates, rather than drinking more. Australian consumers are ‘trading up’, with sales of soft-packs and lower-priced bottled wines in decline and sales of premium and fine wines on the rise.



Glossary

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
ICT	information and communications technology
IMF	International Monetary Fund
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>
UPAs	user-pays activities
WFA	Winemakers' Federation of Australia
WGGA	Wine Grape Growers Australia

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Australian Government

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