

Future-proofing the Australian wine sector



February 2019



Introduction

The Australian wine sector is a driver of jobs, economic growth and prosperity across rural and regional Australia, contributing \$40 billion to Australia's economy from winegrape-growing, winemaking and wine tourism annually. Australian Grape & Wine, the national association of winegrape and wine producers, focuses on providing leadership, strategy, advocacy and support that serves Australian wine businesses now and into the future.

Australian wine businesses are expressing a renewed sense of optimism following a challenging period. The Australian Government's \$50 million Export and Regional Wine Support Package (the \$50 million package) is helping to drive growth in the sector. We are beginning to see improved market sentiment and sales in key export markets, particularly China and the USA, along with increased wine-related tourism in Australia. While these early signals are positive, we are conscious that current funding arrangements will end on 30 June 2020.

Australian Grape & Wine is working to make sure these early gains are protected and built upon, but we cannot do it alone. The Australian wine sector is on the cusp of transformational change and we are uniquely placed to partner with the Australian Government to future-proof our sector.



The opportunity

We are seeking a government investment of \$103 million over the next four years to grow our exports, boost the economies of wine regions across rural and regional Australia, increase wine tourism numbers, and harness innovation to ensure we maintain our competitive edge over the long-term.

An investment of this kind, at this moment, would deliver real and measurable benefits to Australian wine businesses over the long term, removing the need for further assistance in the future, forging a sustainable and profitable sector for future generations.

Year	Investment activity	Amount
2019-2020	Build demand	\$17 million
	Increase wine tourism	\$3 million
	Harness innovation	\$20 million
	Supply-side optimization	\$3 million
2020-2021	Build demand	\$17 million
	Increase wine tourism	\$3 million
2021-2022	Build demand	\$17 million
	Increase wine tourism	\$3 million
2022-2023	Build demand	\$17 million
	Increase wine tourism	\$3 million
	Total	\$103 million

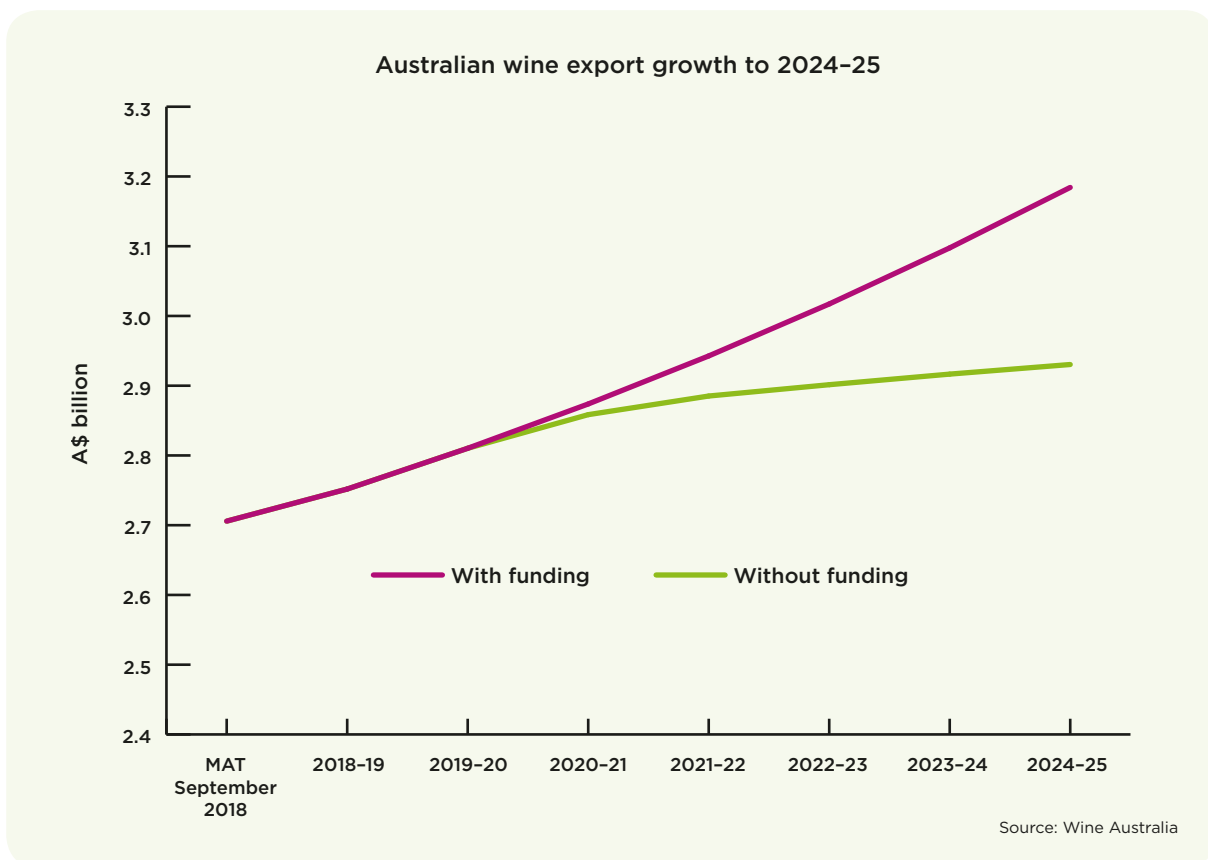
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Priority 1: Building demand

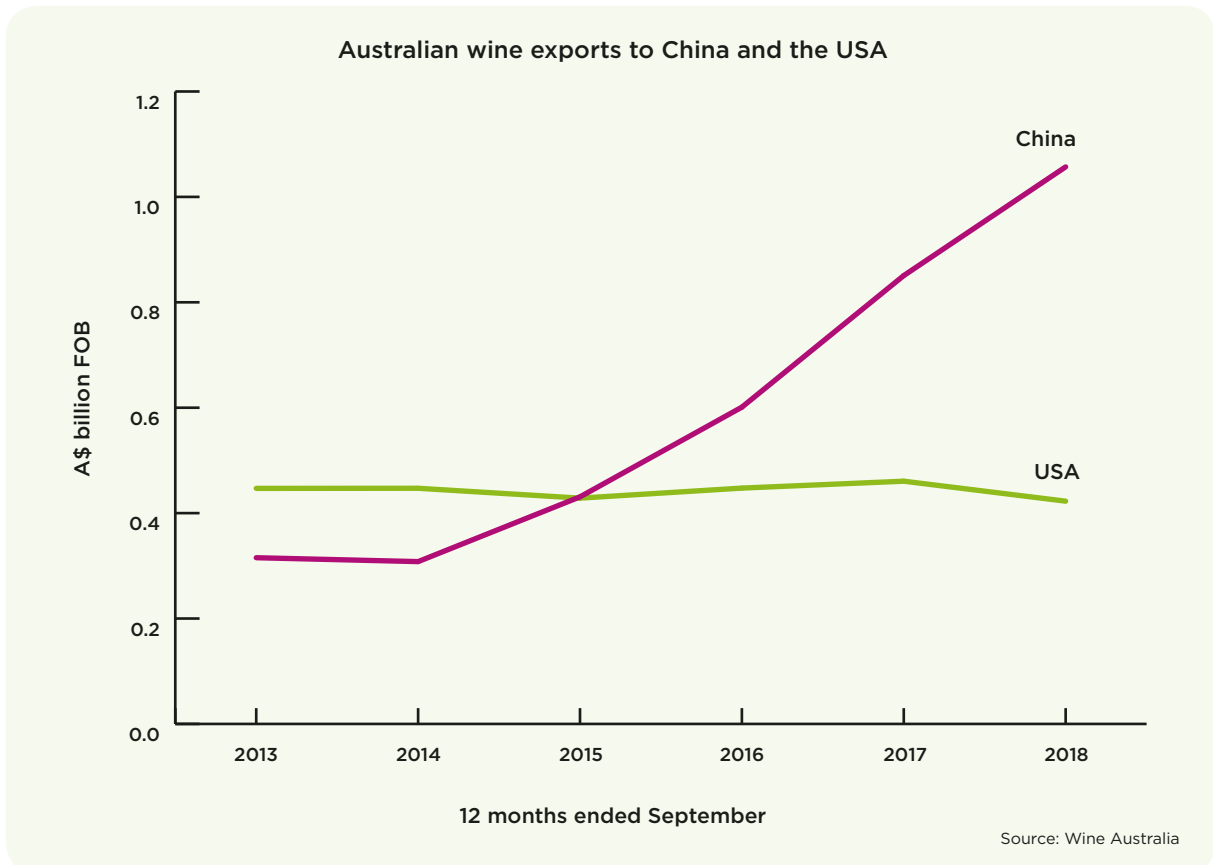
The future profitability of the Australian wine sector depends on exports. Growth in the domestic market is slow, and the biggest gains for Australian producers in 2018 came from the exports to high-growth markets overseas. In total, 63 per cent of Australia's wine production was exported to 125 markets in 2018.

The \$50 million package is helping build demand in key markets like China and the United States. However, without additional investment, we risk falling short of capitalizing on this growth and capturing the immense opportunity before us.

A continued annual investment of \$25 million in global marketing funding (i.e. an additional \$17 million per annum, over and above the recurrent industry funding of \$8 million from existing levies and user-pays funding) would conservatively see wine exports reach around \$3.2 billion by 2024-25. When combined with the other planks of the future-proofing strategy, a more realistic estimate is \$4-5 billion.



This additional investment would focus on cementing and building our recent extraordinary growth in **China**, by strategically targeting the anticipated 750 million people who will make up China’s middle-class by 2022. Ongoing investment will allow us to educate these consumers about Australian wine by improving Australia’s social media presence in current and new channels, and driving our engagement in e-commerce channels. It will also enable the continued and expanded delivery of our ambitious education program to Chinese consumers.

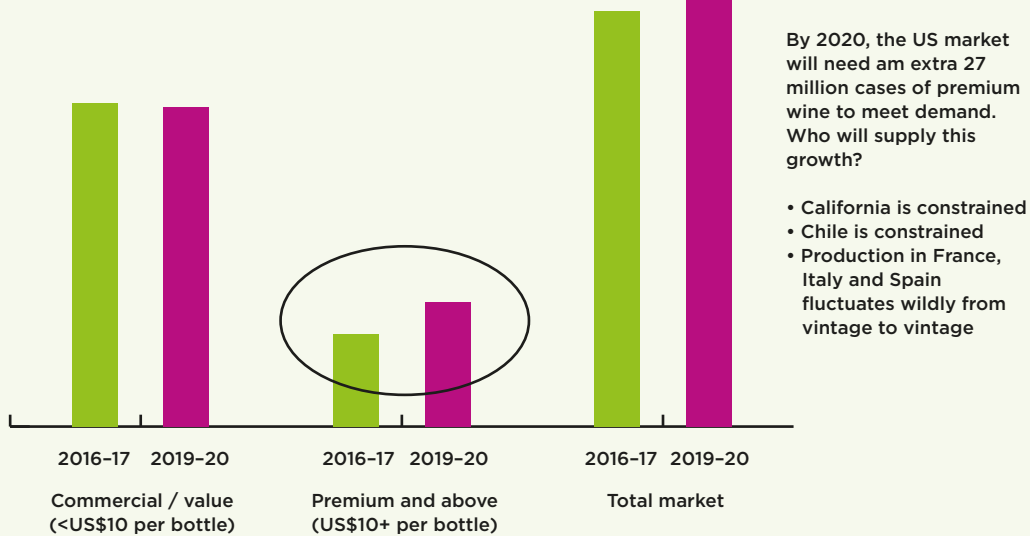


We continue to see tremendous opportunity to re-capture market share in the **United States**. Australian wine has underperformed since the Global Financial Crisis, when Australia lost significant ground in the premium wine segment to competitors based on factors including the exchange rate, consumer perceptions and falling demand.

Additional investment in the United States would unlock our potential in this market, returning sales growth to \$1 billion per annum. The United States market is one of the few traditional wine markets which is still growing, with the expectation that by 2020, an extra 27 million cases of premium wine will be required to meet demand. Australia is well placed to capture this opportunity, but we need to overcome current consumer-perception barriers. Our proposed investment would focus on re-capturing shelf-space with major retailers and continuing to engage with influential wine figures in the United States, including critics and leading sommeliers, to ensure Australia’s talented winemakers get the recognition they deserve.

Doubling current sales of Australian premium wines in the United States only requires an extra million cases worth US\$100+ million in retail value. We can do so much more. We expect additional investment would unlock growth of half a billion dollars over the next five years.

US demand for premium wines is rising



Source: IWSR/Wine Australia

The average export price and average winegrape price are closely linked. The export growth generated by the \$50 million package is underpinning higher prices for winegrapes in Australia, delivering growth along the value chain. During the 2018 vintage, the average purchase price for winegrapes increased by 8 per cent to \$609 per tonne, the highest level since 2008. An investment in building demand will pay dividends along the supply chain and is the best way to grow profitable and sustainable wine businesses.

Average wine export price and average winegrape price over time



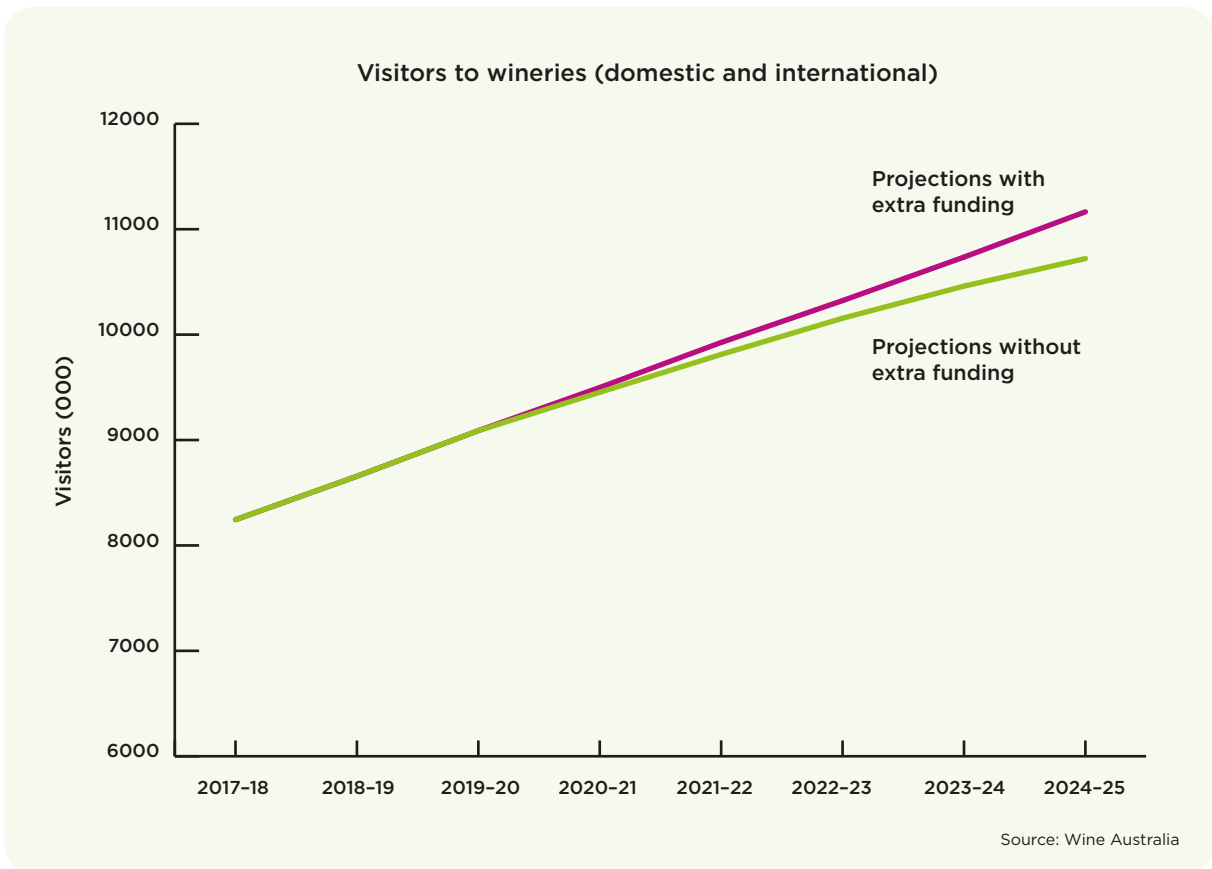
Source: Wine Australia

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Priority 2: Increasing Wine Tourism

Tourism remains an important vehicle for driving growth in rural and regional economies and enhancing understanding of Australia's wine offering. The \$50 million package is on track to deliver its ambitious international tourism performance indicator of an extra \$170 million spent by international tourists who visit a wine region as part of their trip to Australia by 2020. Additional investment will maintain this momentum over the long-term, enabling continuing accruing benefits in rural and regional economies.

We project that an **additional annual spend of \$3 million would see an additional 400,000 - 450,000 domestic and international tourists** visit wineries over five years, on top of Tourism Research Australia's National Forecast from 2017, firmly placing Australia as a source of outstanding wine-based tourism experiences over the long-term, and building demand for high-quality Australian wines when tourists return home.



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Priority 3: Harnessing innovation

Innovation is a critical driver of productivity, increasing quality and improving sustainability in the Australian wine sector, and in the agricultural sector more broadly. While we are confident the current model of industry and government investment in Wine Australia's Research & Development (R&D) investments is well placed to drive the sector into the future, there is one piece of ageing infrastructure preventing the sector from unlocking the full potential of our world class R&D.

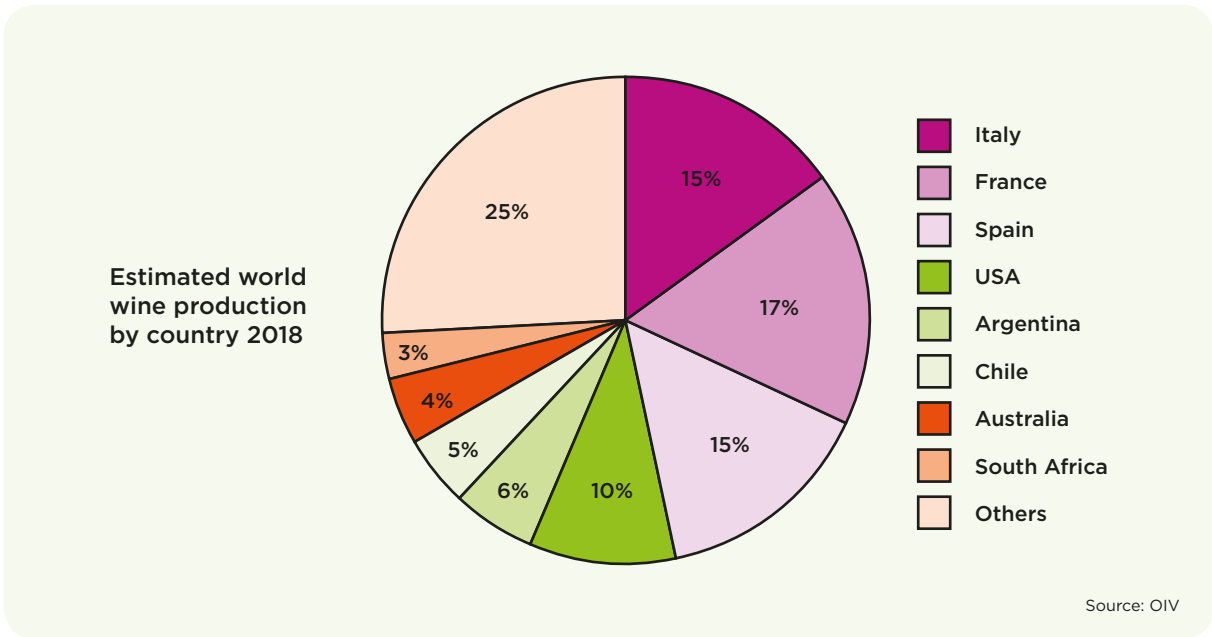
The University of Adelaide's **Hickinbotham Roseworthy Wine Sciences Laboratory** at the Waite campus was established in 1998 and plays an integral role in research, education and service to the wine industry. State-of-the-art at the time, the winery is now too small and dated to provide our researchers with the infrastructure required to provide the innovation we need. A new winery is urgently needed to ensure our researchers are on par with our competitors in the US, Europe and South Africa who have invested in new facilities.

These research facilities are critical to the entire sector, but are particularly important to the future productivity of small and medium-sized wine businesses that do not have the capacity to engage in their own large-scale R&D activities. In addition, the winery acts as a major piece of infrastructure to attract new Australian and international students, strengthening the pool of highly trained oenologists entering the industry, and contributing further to Australia's educational export earnings.

Supply side efficiency- optimisation

Australia's grape and wine sector does not operate in isolation from the rest of the world. The global wine supply and demand situation is a major determinant of winegrape pricing in the warmer inland regions. At 1.29 billion litres, Australia is a relatively small producer in comparison to the major producers of France, Italy, Spain, and, to a lesser degree, the United States. The supply situation in these countries has a significant impact on Australia's trade, particularly at the price-driven commodity end of the market.

To ensure enduring profitability of the winegrape growing sector, Australia must invest in improved technology to ensure we can compete in terms of production efficiency with our global competitors. We recognise a significant scientific effort has concentrated on viticultural production systems in recent years and that over the last two decades innovation has played a significant role in the industry's growth. As the industry matures, however, there is a need to balance the scientists' interest in an incremental change within a particular field, with the need for practitioners to manage their properties in the best interest of their businesses. A 'quantum leap' in productivity is required, focusing on a holistic approach to the application of science.



More recently, there has been an awakening realisation amongst some industry leaders that horticulture R&D would benefit greatly from collaboration, particularly through a cross-disciplinary approach to research. This approach, when utilised well, has provided some significant benefits to industry. An excellent example of the success of approach is the work transforming Australia’s almond industry into the most profitable in the world.

Riverland Wine Growers, in partnership with a world-class set of researchers, have assembled a team that we believe could unlock the potential of our vineyards, improve our resilience in the face of climate change and drought and massively improve our productivity. It proposes to follow the basic methodology utilised so successfully in the almond industry to develop winegrape-specific management optimisation guidelines and tools.

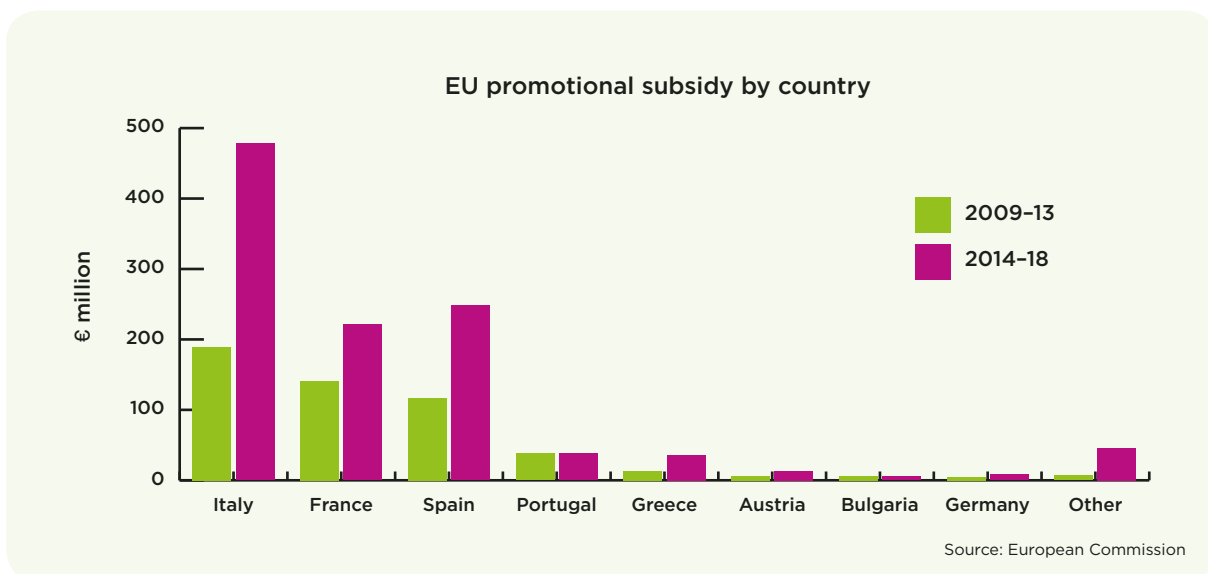
Early indications, based on the success of similar work carried out in Spain, are that the region’s winegrape industry has the potential to improve yields per hectare while improving quality outcomes and optimising, and quite possibly reducing, the amount of irrigation water required to produce a crop, eliminating any waste of water. It goes without saying that in a time of continued pressure on water supplies, the significant environmental and economic benefits flowing from such research would be a game changer for our sector.

There is a fully formed research proposal, with substantial industry investment locked away, that only requires an additional one-off \$3 million investment from government to return sustained profitability to growers.

Conclusion

The opportunity before us over the next five years is as immense as it is rare. Australian wine businesses are well placed to capture this opportunity, but without government assistance in the form outlined in this document, it is likely they will fall short of their potential.

Australian Grape & Wine has taken a prudent and strategic approach in developing this submission. We firmly believe the investments we seek are reasonable and fiscally responsible and would ensure the Australian wine sector is profitable and sustainable over the long term. Our claim is clearly supported by a comparison of our request with the levels of ongoing support our European competitors receive from their governments.



The benefits that would accrue from this investment would extend beyond the wine sector. Rural and regional communities across Australia's 65 wine growing regions would benefit from a lift in economic activity by way of increased job opportunities and tourist numbers, lifting the prosperity of rural businesses and those who rely upon them. Such a lift would be particularly timely for those who manage the vagaries of Australia's weather patterns as a part of their normal business every day.

Now is the right time to make this investment in the future of Australia's wine sector, and in the rural and regional communities they support.

Australian Grape & Wine is happy to elaborate on these opportunities with you at any stage.

Sandy Clark
President
Australian Grape & Wine

Tony Battaglione
Chief Executive
Australian Grape & Wine



Who we are

Australian Grape and Wine Incorporated (Australian Grape & Wine) is Australia's national association of winegrape and wine producers. We provide leadership, strategy, advocacy and support that serves Australian grape and wine businesses now and into the future.

We represent the interests of the more than 2,500 winemakers and 5,000 winegrape growers working in Australia. Our role is to help forge a political, social and regulatory environment – in Australia and overseas – that enables profitable and sustainable Australian wine businesses. These businesses make a significant contribution to growing regional economies by driving growth in jobs, regional exports and food and wine tourism.

Australian Grape & Wine's voluntary membership represents over 75% of the national winegrape crush. We represent small, medium and large winemakers and winegrape growers from across the country. Policy decisions by the Australian Grape & Wine Board require 80% support, ensuring no single category can dominate the decision-making process and guaranteeing policy is only determined if it provides significant industry benefit. In practice, most decisions are determined by consensus.

Australian Grape & Wine is recognised as the representative organisation for winegrape and wine producers under the *Wine Australia Act 2013*, and is incorporated under the *SA Associations Incorporation Act 1985*. We work in partnership with the Australian Government to develop and implement policy that is in the best interests of winemakers and winegrape growers across Australia.

For further information, please contact:

Tony Battaglione
Chief Executive
Tel +61 2 6239 8304
Email tony@agw.org.au

Lee McLean
**General Manager, Government
Relations and External Affairs**
Tel +61 2 6239 8301
Email lee@agw.org.au

14-16 Brisbane Avenue
Barton, ACT 2600
PO Box 3891, Manuka, ACT 2605



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