Submission to the Rural and Regional Affairs and Transport References Committee for –

Inquiry in to the industry structures and systems governing the disbursement of marketing and research and development (R&D) levies in the agricultural sector.

Introduction

The following matter was referred to the Rural and Regional Affairs and Transport References Committee for inquiry and report by 24 November 2014:

The industry structures and systems governing the disbursement of marketing and research and development (R&D) levies in the agricultural sector, with particular reference to:

(a) an audit of reports, inquiries and reviews relevant to this inquiry;
(b) the basis on which levies are collected and used;
(c) competing pressures for finite R&D funds;
(d) the opportunities levy payers have to influence the investment of the levies;
(e) the transformation of R&D and marketing into increased returns at the farm gate, including the effectiveness of extension systems;
(f) collaboration on research to benefit multiple industry and research sectors;
(g) industry governance arrangements, consultation and reporting frameworks; and
(h) any other related matter.

Background

The Winemakers' Federation of Australia (WFA) and Wine Grape Growers Association (WGGA) have a clearly defined agri-political role to advance the interests of the Australian Wine Sector through advocacy and policy development.

This submission has been developed by both of these organisations. Funded predominantly through voluntary membership fees, both WFA and WGGA are representative organisations for the purposes of the legislation referred to in this document. This submission is made in this capacity, on behalf of the Australian Wine Sector.

WFA and WGGA are recognised as representative organisations under the *Australian Grape and Wine Authority Act* (AGWA) and is recognised by the Australian government as representing the interests of all winemakers.

The Winemakers' Federation of Australia

WFA membership represents over 80% of the national wine grape crush and has over 380 wineries as members. WFA represents small, medium and large winemakers from all across Australia's wine making regions. The Board is made up of equal representation from each of these groups and reflects the diversity of the industry itself. Any policy decision made by the Board requires 80 percent support, meaning that no sector can dominate the decision making process. In practice most decisions are determined on a consensus basis.

WFA works in partnership with the Australian government and our sister organization Wine Grape Growers Australia (WGGA) to develop and implement strategy and policy in the wine sector's interest.

Wine Grape Growers Australia

Wine Grape Growers Australia (WGGA) is the national voice for Australian winegrape growers. Membership is open to all growers – both independent growers and winemaker growers. It is an incorporated association that is accountable to its members through a representative Executive Committee.

There are roughly 6,200 winegrape growers in Australia and WGGA can count around 3,250 of these as having a direct involvement in the organisation. The organization is funded by voluntary levies in South Australia and in other parts of Australia, by project funding from regional associations or by voluntary subscriptions.

In close collaboration with the other national bodies, WGGA gives growers a national voice on key policy issues. These include biosecurity, vine health, and improving market access for winegrapes. On market access, we take an active role in negotiating maximum residue limits in key markets for Phos Acid applications in the vineyard, promoting the industry's Code of Conduct and improving commercial practices between growers and wine companies.

Key functions include:

- Provide a national grower voice in conversations with industry and the Commonwealth government.
- Enact national wine sector biosecurity arrangements to protect Australia's vineyards from pest and disease threats.
- Improve market opportunities for winegrapes through initiatives such as negotiating Maximum Residues Limits for phosphorous acid in key markets.
- Facilitate better trading terms with wine companies including a Code of Conduct.
- Deliver information and resources to assist growers' businesses.

The Research Environment

The Australian grape and wine industry has grown and prospered through innovation and strong leadership. Industry has used two processes to drive this innovation – through the provision of new knowledge from research; and through industry led and directed activity. Innovation is driven by the companies that make up the Australian wine industry, either individually or collaboratively, and uses information from a wide variety of sources, such as in-house research and technical activity, publicly funded research, extension and education, suppliers to the industry, private companies and consulting organisations, CSIRO, Universities and the Australian Wine Research Institute (AWRI).

Research and Development in the wine industry is the responsibility of a large number of organisations. The primary stakeholders are the industry (grape growers, winemakers) and the government (Australian and State jurisdictions). Both groups invest directly in R&D as well as through jointly through organisations such as the Australian Grape and Wine Authority (former Grape and Wine Research and Development Corporation (GWRDC)) and Research providers. However, research providers and funders also have high vested interests in the R&D process. Efficiency in the funding and provision of research are essential to ensure that scarce funding is not competed away in the scramble for funding. Coordination of this complex structure is though the National Primary Industries Research, Development & Extension (RD&E) Framework Wine Sector Strategy (PISC Strategy).

From an industry perspective, it is important to ensure that the structures in place to initiate, fund, undertake and provide extension of R&D, maintain capacity and capability by State and federal providers/funders, minimise duplication and maximise efficiency in research and delivery.

Wine Sector Research, Development and Extension Policy

Objective

The objective of the wine sector policy position on RD&E is to enable the efficient provision of research needed to allow the Australian Wine Sector to become the most profitable and competitive supplier of wine to the consumer.

Policy underpinnings

- Government support for agricultural research is essential to address significant market failure issues and under-investment in innovation
- Research activities must align with the wine sector's research priorities, be clearly stated and be of national and/or regional benefit to the sector across the entire supply chain
- Research, development and extension capability within the wine sector needs to be actively built and maintained at an appropriate level to reflect industry conditions
- A cooperative research approach between industry, researchers, funding bodies and government needs to be fostered to ensure seamless integration of grape and wine research across the whole value chain.
- International collaboration in publicly funded research activities should be undertaken only if there is a likely net benefit to the Australian wine sector and/or the wider Australian community.
- Intellectual property management must give priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry.
- Dissemination and extension of the outcomes/results of R&D must ensure an efficient and effective system in line with industry expectations to ensure adoption of research outcomes.

Strategies

To efficiently provide the research needed to allow the Australian Wine Industry to become the most profitable and competitive supplier of wine to the consumer. the sector requires strategies that will ensure that returns from R&D activities are maximised and driven by industry demands; that will encourage a high level of industry participation in setting the R&D agenda; will provide the research needed to allow industry to innovate and become more profitable and competitive; will guide the expenditure of the Government matched levy; will build research capability and maximise efficiency in delivery and will expand the funding base for R&D through the attraction of new investors and a broader range of research participants.

The sector has set the following strategies:

1. **Maximize the return from the efficient investment of levy funds and funds from other sources in research, extension and pre-competitive technical activities**
2. **Ensure that clear policy advice is provided from the peak industry bodies to the government on R&D issues on behalf of the wine industry;**
3. **Ensure that the wine industry's research priorities, including relating to a licence to operate) are clearly stated and that they meet national and regional need across the entire supply chain;**
4. **Dissemination and extension of the outcomes/results of R&D must ensure an efficient and effective system in line with industry expectations; and**
5. **A cooperative research approach between industry, researchers, funding bodies and government needs to be fostered.**
6. **Maximise the efficiency in service delivery of the R&D functions of the Australian Grape and Wine Authority.**

1. Maximize the return from the efficient investment of levy funds and funds from other sources in research, extension and pre-competitive technical activities

The government has recently implemented a number of improvements to the publicly funded R&D model with important implications for the grape and wine sector, including the ability for the Australian Grape and Wine Authority (AGWA) to invest non-matching funds in R&D; the removal of the maximum levy rate in legislation and enhanced corporate governance and accountability requirements for statutory authorities.

WFA and WGGA are recognised in the legislation as representative bodies for the Australian Grape and Wine Authority requiring it to be accountable to these bodies (and the Australian government) in strategic planning and expenditure of funds. The WFA Strategic Plan commits WFA to formally monitor the value of the Australian Grape and Wine Authority and has established a WFA “Oversight” Standing Committee to undertake this role. This group will work with the Australian Grape and Wine Authority and through the Joint Policy Forum to ensure better communication of Performance Indicators (KPIs) from the authority, and of industry priorities to the Authority. WGGA rates RD&E highly in its Strategic Priorities. It is a critical issue for growers and in order to represent growers in this matter, sets itself the task of monitoring, reviewing and consulting with the RD&E function within AGWA on a regular basis.

WFA and WGGA are also committed to ensuring the Australian Grape and Wine Authority retains its focus on research funding and maintains the investment of research levies for research activities. The legislation establishing the Authority is clear in that it maintains research funds (including reserves) for R&D activities. However, there is a critical role for the industry representative organisations to undertake an oversight role of the Australian Grape and Wine Authority to ensure that the Authority does not allocate funds from the R&D levies to cross –subsidise market development activities or administration.

1.1 Maintain funding for R&D activities for the Australian wine sector

Wine industry RD&E is funded by the grape and wine industry through levies and direct investment, by the Australian Government through levy co-investment, by State Governments (via research agencies and infrastructure grants), by the universities and by CSIRO.

The major vehicle for industry RD&E investment is the Australian Grape and Wine Authority (formerly Grape and Wine Research and Development Corporation) funded by a levy of $2 per tonne of grapes delivered and $5 per tonne of grapes crushed matched by Australian Government (up to 0.5% of the Gross Value of Production). The total fluctuates with the harvest but is around $25 million per annum with $40 million in project partnerships.

In addition to the monies spent in this collaborative sense, many of our wine companies (both large and small) have active research departments or individuals working on their own ‘unique value proposition’.

WFA and WGGA play an active role in liaising with government on the need agricultural research for the return it provides to industry and the general economy.

a. Support for the RDC concept

The Commonwealth Government has in the past demonstrated a commitment to Rural R&D Corporations and R&D in the wine sector, by matching such industry contributions up to a maximum of 0.5% Gross Value of Production.

This commitment to Rural Research and Development Corporations (RRDCs) recognises the significant market failure typical in rural industries. Most rural enterprises have insufficient capacity to commission research on their own behalf, and/or are unable to exclude “free riders” from also sharing in the benefit of the research.

Consequently, without Government intervention, there would be substantial under-investment in rural related research.

The benefit to Government, and the broader economy, accrues through the improved international competitiveness of Australian rural industries, and the resulting impact on trade, regional investment and taxation, as well as the social impact on regional communities and better management of Australia's natural resources.

WFA and WGGA continue to support investment in R&D through an industry levy matched by the government, with a cap on matching contributions for all statutory levies at 0.5 per cent, managed on behalf of industry by the Australian Grape and Wine Authority.

b. Funding allocation within levy funds

The Australian wine industry has a long history of providing levy funds in partnership with the Australian Government to support cooperative endeavours where market failure is occurring. These funds have been administered through the two statutory corporations the GWRDC and Wine Australia Corporation (WAC) on behalf of the industry and Government with the ultimate objective of creating a more efficient and competitive industry.

Whereas the promotional and regulatory levy funds were expended directly by Wine Australia Corporation, the research and development funds were allocated to secondary service providers by the GWRDC on the basis of competitive bids from a range of relevant institutions.

The exception is that a significant proportion of the levy funds for R&D have been hypothecated to the Australian Wine Research Institute and the NWGIC by the GWRDC. This has occurred because of the perceived need to provide enough funds to give the AWRI administrative and research critical mass to allow it to operate as an independent wine focussed research institute; and to try and build capability in the NWGIC.

WFA and WGGA have a position that support the industry established research organisation, the AWRI, with sufficient funds to undertake core activities and to harness to the maximum extent the resources of all wine industry supportive organisations, including CSIRO, the universities and Departments of Agriculture/Primary Industries, by collaborative and non-duplicative endeavour.

c. *The maximisation of funding from other sources than industry levies*

In real terms levy funds available for research are declining over time. Therefore, we need to encourage utilisation of resources from a much broader base.

1.2 Maintain research capability and capacity

There is a critical decline in viticulture capability in our research institutions.

State Governments have also significantly pulled out of publically funded agricultural extension.

In addition, declining funding in 'real terms' to through matched industry levies has meant increased pressure on funding to key research agencies. It is important that sufficient funding is available to maintain research capability in key areas.

2. Ensure that clear policy advice is provided to the government on R&D issues on behalf of the wine industry

A peak advisory Working Group - the Innovation Policy Working Group (IPC)[1] has been created to provide recommendations and advice that will enable the WFA and WGGA (on behalf of the Australian Wine Sector) to state and promote clear policy and strategy. The Committee is expertise based.

In addition, WFA is actively involved in the National Wine Strategy Implementation Committee which is responsible for the development and implementation of the PISC strategy to ensure that wine RD&E is responsive to industry and government requirements and is conducted and delivered in the most efficient and effective manner.

The PISC Strategy was developed to build upon the existing wine RD&E collaborative arrangements so that they met the requirements of the RD&E Framework. The Strategy has established a process to achieve a set of agreed outcomes. WFA and WGGA need to play an active role in the implementation of the strategy to ensure the maintenance of capability and capacity, industry led research priorities and efficient allocation of resources for R&D.

3. Ensure that the wine industry's research priorities are clearly stated and that they meet national and regional needs

WFA and WGGA have an active involvement in setting research priorities for the Australian Wine and Grape Sector through the development of the GWRDC Five Year plan and in the future through the development of the Australian Grape and Wine Authority Five-Year Corporate Plan.

The current GWRDC (The Corporation) Five Year R&D Plan commenced in July 2012. In developing its Plan the Corporation must take into account the following strategies:

1) The Australian Government's Rural Research and Development Priorities
2) The National Primary Industries R, D & E Framework – Wine Sector Strategy
3) The National Strategic Rural Research and Development Plan
4) PIMC - Standing Committee on R&D

Key stakeholders involve the funding providers, namely the Australian Government, Wine Grape Growers Australia (WGGA) and Winemakers' Federation of Australia (WFA). Each of these groups is consulted with separately with a view to gaining what they see as priorities and researchable questions for the coming Five Year R&D Plan. The consultation process recognises the special relationship of the peak industry bodies – WGGA and WFA and should serve as a model for future plans. It is important that research priorities from publically funded research maintain a focus on national priorities although it should be recognised that regional priorities cannot be ignored.

3.1 The need for research relevant to the sector's 'licence to operate'

Corporate Social Responsibility (CSR) represents an important dimension in contemporary business practices. The wine sector, both internationally and in Australia, is subject to intense public debate on its social licence to operate due to concerns relating to alcohol related harm. For the wine industry, this has manifested itself in; increasing levels of scrutiny on the corporate social responsibility commitments of individual companies; pressure from some quarters for increased regulation including taxes; and, increased expectations from governments that the industry will pro-actively self-regulate and pursue voluntary activities aimed at reducing levels of harm.

The whole innovation process should therefore take into consideration the social contribution.

[1] **IPC Terms of Reference are in Annex 1.**

4. Dissemination and extension of the outcomes/results of R&D must ensure an efficient and effective system in line with industry expectations;

Research uptake is a priority area in the management and delivery of R&D to the wine industry. There is a wide variety of investment in current programs designed to achieve research uptake.

Key issues surrounding extension include:

1) the importance of having the primary researcher directly involved in extension and research uptake, recognising that some are very good at it whilst others are not.
2) the need to acknowledge "not one size fits all" in terms of extension programs, i.e. what works well in a workshop for one project might work better for another project via a field trial etc.
3) although user-pays has some advantages, will such a policy help to promote research uptake or inhibit dissemination?

In nearly all primary industries, there are those who want to continually update and upgrade sources of information and intelligence that assists their operations to perform better. These individuals/companies endeavour to be plugged into all the key intelligence available through many sources these days, most notably through email and the internet – in relation to R&D, they will always be on the lookout for outcomes which might benefit their businesses. On the other hand, there are those who are less inclined to help themselves – many of these individuals/companies see AGWA or other research agencies as having an "obligation" to "hand feed" them, and even then, there can be no certainty that the R&D information supplied will be put to the best use.

In the education sector it should be recognised that there are training institutions that play a critical role in promoting a "learning and innovation" culture in the industry as well as incorporating new R&D outcomes into external education and training courses and materials.

The National Wine Extension and Innovation Network has a key role to play in the national coordination of extension.

4.1 Intellectual property management must give priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry;

The following policy principles surrounding IP in R&D have been adopted:

1) The protection and commercial exploitation of IP from publicly[2] funded research will only be pursued if there is a net benefit to the Australian grape and wine industry and a partner willing to take the risk and fund commercialization is identified.
2) Any intellectual property management must give priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry.
3) Ownership of IP should be assigned by an appropriate contractual arrangement between the research funders and the providers, in association with a commercialization partner.
4) The pre-condition for international participation in publicly funded research is that all research results will be made available as a priority to the Australian industry. IP ownership will be on the basis of the negotiated contractual arrangement between the partners.
5) Where benefits accrue from the commercialization of intellectual property developed through publicly funded research, these should be returned for further industry R&D.

---

[2] Publicly funded research is defined as research funding obtained partially or wholly from government sources or industry levy funds. It does not refer to research funded solely through private investment.

6) Research agencies and other key providers should be encouraged to maintain a focus on R&D and leave commercialisation activities to industry or commercial organisations.

5. Cooperative research approach between industry, researchers, funding bodies and government needs to be fostered

Each institution, especially those relying on levy funds for core infrastructure, needs to identify its key capabilities with an aim to reduce duplication and to increase efficiency of the use of scarce research funds. There is a need for collaboration between institutions to seamlessly integrate the grape and wine research and education endeavour from the environment to the vineyard, winery, market and society.

Broadly speaking the same principles that apply to international collaboration also apply within Australia and between Australian research institutions. Principally, collaboration should be undertaken only if there is a net benefit to the Australian grape and wine industry and/or to the Australian people.

It is acknowledged that *ex ante* it is difficult to measure the potential costs and benefits of collaboration. Collaboration may not lead to immediate gains, but the development of strategic partnerships may have long term benefits.

Given the limited (and in real terms diminishing) funds available for wine sector research in Australia, domestic and international collaboration is particularly important because it allows participation in, and access to, activities from which scientific and technological innovation largely derive, especially where the cost of major research facilities and associated research projects are prohibitive when spread across Australia's research institutions.

The most effective transfer of the benefits of research collaboration into commercial application requires the integration of the wine sector into the process. The nature of the wine industry does mean that the practical results of research diffuse quickly to other producing countries, either through formal company links, flying winemakers and viticulturists or through researcher interaction.

Commercialization of IP is not the key driver for wine industry research. From the industry perspective, the critical issue surrounding R&D is to make sure that any policy does not prevent the timely dissemination of research results. It is critical that potential IP be identified at the beginning of the research project and that the owners of such IP also are identified and that that IP be available to Australian industry.

It should also be recognized that the ability to collaborate internationally can add to the skills base of Australian researchers and add to their incentives to remain in Australia.

Policy principles surrounding collaboration are[3]

1) International collaboration from publicly funded research will only be pursued if there is a net benefit to the Australian grape and wine industry. To achieve these following tests must be met:
   a) there must be clear justification of why research is done in a particular country, a particular institution, with a particular investigator, with a particular participant and in a particular community.
   b) the pre-condition for any international collaboration must give priority to the timely dissemination of research results and uptake of research by the Australian grape and wine industry.

[3] This policy should be read in conjunction with the WFA Intellectual Property principles

2) Research by Australian research institutions on behalf of overseas (non-levy payer) interests should only be undertaken if there is a **net gain** to the Australian grape and wine industry. To achieve these the following tests must be met:

   a) Researchers cannot be taken off research if it will impact on meeting project outcomes or the undertaking of new priority research.

   b) The results of the research must be made available to Australian levy payers in a timely fashion.

3) Before submission of a collaborative research proposal, there shall be clear agreements on all aspects of the research. These include intellectual property sharing, management of the research process, division of responsibilities, finances, spreading of benefits and burdens, and any other appropriate aspects.
4) Ownership of IP should be assigned by an appropriate contractual arrangement between the research funders and the providers, (and if applicable, in association with a commercialization partner), but must not restrict access by the Australian grape and wine industry to the IP. IP ownership will be on the basis of the negotiated contractual arrangement between the partners.
5) Collaboration cannot be forced and should not be a pre-condition of funding.
6) It is recognised that transaction costs from collaboration can be high and it is important that these be taken into account when establishing collaborative ventures.
7) There are many different forms of collaboration and measurement on the basis of shared publications and joint projects is not always an appropriate measure.

6. Maximise the efficiency in service delivery of the R&D functions of the Australian Grape and Wine Authority

The Australian Grape and Wine Authority combines the dual responsibilities of funding marketing and promotion activities on behalf of the Australian wine sector and investing research levies on behalf of the funders –Australian grape growers, winemakers and the Australian government.

The Australian government has acknowledged that RDC investment decisions are guided by a both industry and government priorities and as a jointly funded body, the AGWA needs to be accountable to both levy payers (through the representative bodies, WFA and WGGA) and the Australian government.

Under the legislation establishing the Authority and the Statutory Funding Agreement which will guide its activities, performance and accountability protocols and measures will be established. Statuary authorities have strong governance requirements imposed by legislation and the government and industry are increasingly demanding improved performance measurement. Key areas of performance surround:

1) Delivering of objectives in the Strategic plan;
2) Efficient and cost-effective provision of services;
3) Meeting legislated objectives and obligations;
4) Communication with the industry bodies on the development of strategy, priorities and operational issues (primarily, but not limited to, WGGA and WFA) was undertaken in an effective manner;
5) The communication process with WGGA and WFA (and other interested stakeholders) to discuss the outcomes of the Annual Operational Plan (AOP); and
6) The communication process that correlates to the Annual Report period so that stakeholders are aware of performance against the KPIs established for the AOP and Five-Year plans.

The Australian government has stated it would monitor RDC performance in a way that enables ready assessment of outcomes for the whole program, and identification of specific performance problems.

WFA and WGGA consider that due to the dominant role of the AGWA in the landscape of research, development and extension in the wine sector and because of WGGA and WFA's roles as representative bodies under the *Australian Grape and Wine Authority Act* it is appropriate to identify specific policies related to its operations.

Policy principles relating to operation of AGWA and investment of industry levies

- WGGA and WFA, as the legislated representative bodies, are partners with AGWA and the Australian government in the investment and administration of research levies and the provision of policy advice to the government on R&D issues on behalf of the wine sector.
- There needs to be a high level of industry participation through the peak bodies - WGGA and WFA - in setting the R&D agenda and determining research priorities.
- AGWA plays a key service provision role by funding, coordinating and reviewing completed research, development and extension to the wine sector and ensuring that AGWA funded projects are managed according to stakeholder expectations and legislated responsibilities. AGWA does not set R, D & E policy or strategy. As the industry R, D & E funding manager AGWA maintains a clear separation by not acting as a service provider in the R, D & E area beyond the above roles.
- The portfolio of winegrape growing and winemaking research projects should reflect a mix of short-term, medium-term and long-term projects that is responsive to changing industry needs
- Principles of transparency, consistency and credibility are essential in selecting research projects for funding
- Industry development is a legitimate use of levy funds, as is research related to the sector's social licence to operate
- The AWRI deserves special consideration as the industry focused research and development provider, and should be provided with sufficient funds to undertake core activities and to harness to the maximum extent the resources of all wine industry supporting organisations

Levy system in the wine sector

Compulsory levies are collected in the wine sector to fund a variety of industry activities, including marketing, biosecurity and Research & Development.

There are three levies and a charge that are collected to fund the activities of the Australian Grape and Wine Authority (AGWA) and Plant Health Australia (PHA). **These are:** the Grape Research Levy (for RD&E), the Wine Grapes Levy (for marketing and RD&E), the PHA Levy (a component of each of the Grape Research Levy and the Wine Grapes Levy - for membership of PHA), and the Wine Export Charge (for Brand Australia marketing).

The Wine Grapes Levy (WGL), the Grape Research Levy (GRL), the PHA levy and the Wine Export Charge (WEC) are statutory levies and charges imposed under Commonwealth legislation to raise funds for research and development (R&D), marketing and biosecurity activities and are collected by the Levies Revenue Service (LRS) – an agency within the Australian Government's Department of Agriculture, Fisheries and Forestry (DAFF).

<u>Marketing levies</u>

Wine producers pay a Wine Grapes Levy, and exporters pay a Wine Export Charge.

<u>Wine Export Charge</u>

The Primary Industries (Customs) Charges Act 1999 imposes a levy on all exported Australian wines to provide funds for the Wine Australia Corporation (WAC) to undertake international promotional work aimed at creating a sustainable increase in the demand for Australian wine. The Levies

Revenue Service (LRS) receives the charges and distributes the proceeds to the AGWA. Levies and export charges are introduced and administered by the Australian Government at the request of Industry.

The levy is payable by licensed wine exporters and is based on the FOB value of the wine exported. Export Charge is calculated as a percentage of the free on board sales value. Export Charge is calculated as a percentage of the free on board sales value. The rate of export charge is as follows:

Wine Free On Board (FOB) Sales Value For the Levy Year	Export Charge Rate		
	Levy Base Amount	Plus	Amount of Levy Payable
$0 to $20 million	-	-	0.20% of value
$20 million to $70 million	$40,000	+	0.10%of value between $20m and $70m
$70 million and over	$90,000	+	0.05%of value over $70m

For example, if the FOB sales value is $75,000.00, the charge payable is calculated as: $75,000.00 x 0.2% = $150.00

Wine Grapes Levy

The Primary Industries (Excise) Levies Act 1999 imposes a levy on ‘prescribed goods used at a winery in Australia ... in the manufacture of wine’ payable by the owner of the goods at the time they were first subjected to the winemaking process. The Act defines prescribed goods as fresh grapes, dried grapes and grape juice, whether single-strength or concentrated, being grapes or grape juice produced in Australia.

AGWA receives all levies received via the Wine Export Charge and the Wine Grapes Levy.

Wine Grapes Levy - rates

Quantity	**Amount of Levy Payable Per Tonne of Fresh Grapes (or equivalent)**	**Plus**	**Levy Base Amount**
More than 0 to not more than 10 tonnes	$5.00 per tonne	+	$200.00
More than 10 to not more than 3,000 tonnes	$9.20 per tonne (including first 10 tonnes)	+	$180.00
More than 3,000 to not more than 6,000 tonnes	$8.80 for each tonne over 3,000 tonnes	+	$27,780.00
More than 6,000 to not more than 9,000 tonnes	$7.00 for each tonne over 6,000 tonnes	+	$54,180.00
More than 9,000 to not more than 12,000 tonnes	$6.30 for each tonne over 9,000 tonnes	+	$75,180.00
More than 12,000 to not more than 20,000 tonnes	$5.60 for each tonne over 12,000 tonnes	+	$94,080.00
More than 20,000 to not more than 40,000 tonnes	$5.50 for each tonne over 20,000 tonnes	+	$138,880.00
More than 40,000 tonnes	$5.40 for each tonne over 40,000 tonnes	+	$248,880.00

The levy is distributed to AGWA and PHA as follows; 497.6 cents per tonne is forwarded to AGWA for R&D, 2.4 cents per tonne is forwarded to PHA and the remainder of the levy is forwarded to AGWA for marketing.

The remaining portion of the Wine Grapes Levy is received by AGWA as *winemakers'* contributions to fund research and development. Changes to the legislation were passed by Parliament in early 2004 increased the maximum rate permitted under the legislation to $10 per tonne. The operative rate of the wine research component of the levy ('the wine research levy') is currently $5.00 per tonne (fresh grape equivalent) of which 497.6 cents goes to AGWA for research purposes and 2.4 cents per tonne which goes to PHA.

Grape Research Levy

Grape producers contribute to research and development by means of a levy on fresh and dried grapes and grape juice used in the manufacture of wine and *delivered to an establishment for processing*. Wineries which grow their own grapes for winemaking are also required to pay this grape research levy. The operative rate of the grape research levy is currently $2.00 per tonne. The levy is distributed to AGWA and PHA as follows; 198.4 cents per tonne is forwarded to AGWA for research purposes and 1.6 cents per tonne is forwarded to PHA.

The Grape Research Levy is not payable on prescribed goods (fresh grapes, grape juice and dried grapes) processed at a processing establishment that receives **less than twenty tonnes** of prescribed goods in a levy year.

Government matching funds

The Australian Government matches the expenditure of AGWA on grape and wine R&D activities limited to no more than either the total of industry levy contributions to eligible R&D activities or to 0.5% of the gross value of production, whichever is the lower amount.

Plant Health Australia

Plant Health Australia is the national coordinator of the government-industry partnership for plant biosecurity in Australia. Their purpose is to work with federal and state governments and industry representatives to promote strong biosecurity practices that minimise plant pest impacts on Australia, enhance market access and contribute to industry and community sustainability. WGGA is a member of PHA and pays an annual membership levy. The Plant Health Australia levy is set at a rate of $0.040 per tonne as outlined above.

Emergency Plant Pest (EPP) Response Levy

Under the Emergency Plant Pest Response DEED (EPPRD) of which WGGA is a signatory, if there is an exotic plant pest incursion into Australia, the affected states, Australian government and affected industries (of which there may be more than one) will decide a response and share the costs of such a response. If a Response plan is implemented, the Australian government will initially fund the wine sector's Cost Sharing obligations.

For the wine sector to fund its share, the EPP Response levy has been set at zero on the grape levy. If there is a response plan, WGGA must ensure that the Industry repays the Commonwealth within a reasonable period (generally expected to be no longer than 10 years). Repayment must be on the basis of preserving the net present value of the amount paid by the Commonwealth (i.e. including interest payable at a rate equivalent to the annual inflation rate in respect of each year (or part) during which the amount remains outstanding. The rate of the levy will therefore be increased to such operative rate as will enable the Party to meet its repayment obligations to the Commonwealth.

The EPP levy can be enacted prior to an incursion/response plan to build up a reserve and/or undertake biosecurity preparedness activities.

Changing levies

Changing levies is a time consuming and expensive process. Because of the difficulty in gaining strong industry support in times of challenging market conditions, levy changes are undertaken infrequently in the grape and wine sector and only for compelling reasons.

The mechanism is where the industry representative bodies (WFA and WGGA) identify a need to respond with collective industry funding via a levy or charge. The Levy Principles and Guidelines were developed to help industry bodies prepare a sound case for the introduction of a levy or charge or a change to an existing levy or charge, to be considered by industry members. The principles and guidelines require industry bodies to inform all potential and existing payers about the proposal and to provide an opportunity for all prospective and existing levy payers and other interested parties to express their views. These principles mean that no levy can be changed if any sector shows significant opposition.

Cost of levy collection

The cost of levies collection for the statuary levies has increased substantially, imposing serous cost pressures on the statutory authorities and reducing the revenue available for marketing and research. The Department of Agriculture has implemented a revised wine levy compliance program to improve cost effectiveness in wine levy administration, but for major cost savings a complete review of the levy structure and collection mechanism is required.

The Government's role, through the Department of Agriculture, is to liaise with industries that want a levy system and to implement an effective collection system at minimum cost. The current levies collection costs (LCC), which is now based on a costs recovery model, for the three levies are expensive when compared to other industries.

Table 1 Typical revenue and costs

	Revenue	LCC	Costs as a percentage of revenue
Wine Grapes Levy	$12,225,000	$665,000	5%
Grapes Research Levy	$3,699,000	$158,000	4%
Wine Export Charge	$2,220,000	$397,000	18%
	$18,144,000	**$1,220,000**	**7%**

Note: Based on revenue for 2012/13 and cost estimates for 2013/14.

Error! Reference source not found. 1 shows the split of revenue by each levy/charge. It is important to note that the LCC for the WEC is high when compared to the levies as the revenue is lower. The LCC associated with the GRL give an indication of the LCC if the number of agents can be reduced significantly.

AGWA is assisting WFA and WGGA to explore options for structural changes to levies to arrive at a more efficient and commercially acceptable outcome. The objective of the review is to identify areas to reduce the costs of levies collection while maximising net revenue.

Once this review is completed, recommendations will be made to the government to reduce the cost of collections. This may include options of amalgamating levies into a single levy or removing the collection responsibilities from the Department of Agriculture to AGWA.

Collaboration on research to benefit multiple industry and research sectors

There is clearly potential for more collaboration between RDCs. However, Government initiatives to encourage the RDCs to undertake cross-sectoral or so-called 'cross cutting' R&D of benefit beyond the industry are not always effective, as collaboration for collaboration's stake is not necessarily a good use of funds.

Broadly speaking the same principles that apply to international collaboration also apply within Australia and between Australian research institutions. Principally, collaboration should only be undertaken if there is a net benefit to Australian grape and wine industry and/or the Australian people. Collaboration shouldn't be undertaken if it is only beneficial to research institutions and if the benefits do not outweigh the transaction costs.

It is acknowledged that *ex ante* it is difficult to measure the potential costs and benefits of collaboration. However, if researchers consider collaboration could lead to future gains <u>and</u> they can (or even if they can't) get funding then such collaboration could be considered. Collaboration may not lead to immediate gains, but the development of strategic partnerships may have long term benefits

Proponents of research collaboration include the following benefits:

- Reduced unnecessary duplication of research efforts;
- Enhanced economies of scale and scope in research teams;
- An improved ability to exploit synergies between different capabilities, types of instrumentation and natural circumstances;

- Improved knowledge transfer;
- Enhanced skills development and recruitment;
- More effective work addressing challenges; and
- Facilitating access to research infrastructure.

Given the limited (and in real terms diminishing) funds available for wine sector research in Australia, domestic and international collaboration is particularly important because it allows participation in and access to activities from which scientific and technological innovation largely derive, especially where the cost of major research facilities and associated research projects are prohibitive when spread across Australia's research institutions.

In addition, to permit the most effective use of research collaboration being transferred into commercial application it requires the integration of the wine sector into the process.

Unfortunately most of the definitions of collaboration and measurement indices revolve around publications data or research projects. These measurement indices do not provide a good measurement of effective or productive collaboration.

Increase the capability to use knowledge generated elsewhere

A frequently quoted statistic is that Australia generates only 2 per cent of the world's knowledge, so must seek the remaining 98 per cent overseas. Many countries, particularly in Europe, are making major investments to strengthen their access to international knowledge, through a variety of programs, such as: enabling students to move between universities in many countries during their degree studies (the Barcelona Agreement), supporting students to study abroad for a semester or year, international exchange programs, funding for researchers to participate in international research programs and funding for the interchange of personnel between Research Institutions and industry. The same level of investment for similar programs does not exist in Australia.

This is one area where Australian wine researchers (and perhaps more significantly Australian wine innovators outside the institutionalized research community) have significant opportunities to establish an "Innovation Clusters" in Australia that link the knowledge base with appropriate organizations. This process will also help to develop collaborations that will be of long-term benefit to the process of innovation.

<u>Wine Industry Cluster</u>

The Australian wine sector has already set up a number of collaborative ventures. The launch of the Wine Innovation Cluster (WIC) and the opening of its new $28 million building at the Waite Campus of the University of Adelaide in November 2008 was a prime example of the establishment of a physical collaborative venture, although there are many examples of collaborative activities being undertaken by researchers from different institutions.

The WIC brings together the resources of The Australian Wine Research Institute AWRI), CSIRO Plant Industry, South Australian Research and Development Institute (SARDI) and The University of Adelaide. Benefits include sharing of facilities, and the bringing together of people with a wide range of skills to provide a capability to carry out research and deliver information to the wine industry across the whole wine value chain, from grape to wine to consumer It may be appropriate that the

WIC look at collaborative opportunities across areas of the value chain where they do not have expertise.

The WIC is strongly supported by the wine sector and is seen as a development that needs to be supported and encouraged.

National RD & E Framework

The Primary Industries Ministerial Council comprising the Australian Government and State Government ministers with responsibilities for primary industries developed a national strategic framework for primary industries RD & E. The aim of this initiative is to ensure Australia's research, development and extension capacities are aligned nationally with future sector needs, to initiate collaboration that strengthens Australia's position in international markets and to ensure that RD & E delivery is both more efficient and effective.

The development of the Wine Sector Strategy was been led by the GWRDC, WFA and Primary Industries and Resources South Australia (PIRSA) with support from CSIRO and the State Governments of New South Wales and Victoria. The centrepiece of the strategy is a proposed structure and system that includes:

- A National Wine Research Network
- A National Wine Extension and Innovation Network
- A National Wine RD&E Strategy Implementation Committee.

The National Wine Research Network is a forum for wine research and development providers to share research and information, to encourage consultation, coordination and communication amongst research and development providers and to be a point of contact for sector bodies.

The National Wine Extension and Innovation Network coordinates wine sector extension and innovation services to ensure those services are delivered in the most timely, client-focused and cost effective manner.

The National Wine RD&E Strategy Implementation Committee leads, coordinates and links the parts of the system. It aims to ensure that wine RD & E is responsive to sector requirements and is conducted and delivered in the most efficient and effective manner.

The key outcomes are an Australian wine sector development and extension system that:

- Has clear, market-driven priorities that cover the whole of the value chain and are updated regularly
- Comprehensively meets the needs of the sector
- Is integrated, independent and specialised, with large critical mass and less fragmentation across the nation

- Funds research on the basis of programs requiring collaboration rather than on the basis of projects

- Has a high level of collaboration and exploitation of synergies through strategic partnerships and sharing of expertise and research infrastructure

- Is efficient and effective including in its use of infrastructure

- Retains and builds capability in areas strategically important to participants

- Has national centres of research excellence supported by well-linked development and extension systems so that wine sector research developed in one location will be available nationally for the whole sector

- Has a high level of sector access to international and Australian RD & E capabilities with faster and more effective 'concept to application'.

This structure has been adopted by the States and Australian governments and endorsed by the wine sector.

Australian government view of collaboration

The Australian government is a key funder of research through several institutions and via AGWA. In recent years, the government has taken an approach that collaboration on research projects by different institutions is desirable, and this has directly or indirectly influenced funding decisions by government agencies and consequently the form of applications by research providers.

While collaboration can bring about significant advantages through bringing together of top class researchers and multi-disciplinary research, collaboration for collaboration's sake can also build in mediocrity and increase transaction costs that can slow down research and even reduce its effectiveness. What is necessary is to develop guidelines on when to collaborate and when not to.

One of the advantages of collaboration is that individual institutions are not required to develop their own expertise and capability across all research areas, but can concentrate in their particular areas of strength. This becomes more akin to a commercial model where particular skills are brought in as required. Long term collaborative agreements and relationships as per the WIC can assist this process.

Recent legislative amendments

The Rural Research and Development Legislation Amendment Bill 2013 was introduced in the Federal Parliament in June 2013 and passed by the House of Representatives in November 2013. However, the Bill had not passed the Senate following the end of Parliament. This means that the Bill will need to be re-introduced.

There were a number of amendments proposed in this Bill which have relevance to this inquiry and we believe are important. The amendments were designed to implement the previous government's rural research and development (R&D) policy, along with two companion Bills - the Primary

Industries (Excise) Levies Amendment Bill 2013 and the Primary Industries (Customs) Charges Amendment Bill 2013.

The explanatory memorandum summarised the amendments as follows:

'Currently, there are 15 RDCs - six statutory RDCs and nine industry-owned RDCs - providing services to a diverse range of rural industries. RDCs provide a mechanism for industry to invest collectively in research and development (R&D) and, in the case of industry-owned RDCs, marketing. The Australian Government assists these industries by establishing a levy if an industry so requests, by collecting that levy and by returning the funds to the relevant RDC, less the cost of collection. In addition, the government matches the RDC's eligible R&D spending up to legislated limits. The amendments will assist the RDCs to deliver improved services to levy payers and to lift the productivity of Australia's rural industries.

The Bill will:

- *allow statutory RDCs to undertake marketing at the request of industry*
- *enable government matching funding for voluntary contributions to all RDCs to encourage the private sector to invest in rural R&D*
- *remove the requirement for statutory RDCs to submit their annual operating plans to the minister for approval*
- *make statutory RDC board selection processes more efficient*
- *introduce funding agreements for statutory RDCs to drive performance improvements and increase transparency in the delivery of R&D services*
- *allow individual fisheries industry levies to be collected and matched subject to a cap based on the gross value of production of that industry.*

The Department of Agriculture, Fisheries and Forestry consulted relevant Australian Government agencies and industry stakeholders on the policy changes. In 2011 the Productivity Commission and the Rural Research and Development Council reviewed the rural research, development and extension system in Australia. Around the country, meetings were held with industry representative bodies, RDCs and other stakeholders and many submissions were received in response to the two reviews. The department has continued to consult with RDCs and industry representative bodies throughout the process leading to these legislative amendments.'

WFA strongly support the amendments designed **to** amend six Acts to enable the Commonwealth to match voluntary contributions made to the RDCs by businesses for R&D. Matching Commonwealth funding will only be provided up to the existing cap based on the gross value of production of the relevant industry. The amendments will allow the Minister to determine, by regulations, how the matching funding for voluntary contributions will be provided to each RDC. The amendments will allow funding arrangements to be tailored to the needs of each RDC, and help to ensure that the availability of matching funding for voluntary contributions does not act as a disincentive for industries to fund the RDCs through formal levy collection.

WFA also supported changes to Statutory funding agreements. Schedule 3 of the Bill would have made amendments to the PIERD Act to allow the Commonwealth to enter into an agreement with a statutory RDC. Agreements will provide an important mechanism for RDCs and the Commonwealth to agree on a range of governance and performance related matters to a level of detail that is not provided for in the PIERD Act. These agreements will allow detailed arrangements to be modified over time, without legislative change, to reflect changing government and industry requirements and provide greater consistency in the Commonwealth's relationship with all RDCs.

More recently, the Rural Research and Development Legislation Amendment Bill 2014 was introduced to Parliament. This Bill will make amendments to rural research and development (R&D) legislation to give effect to a 2014-15 Budget measure. The Bill will also make some additional governance amendments. The Budget measure allows the government to recover the cost of membership fees to international commodity organisations. For the wine Sector, this means the International organisation of Wine and the Vine (OIV). This Bill changes the way the government will fund membership cost in line with the 2014-15 budget measure. From the 2015 Membership year, AGWA will be required to pay the Commonwealth an amount equal to the membership fee or the commonwealth may set off the membership contribution against its payment to the Authority of matching R&D funds. However, the Department of Agriculture will continue to be responsible for Australia's membership of the OIV and for the payment of the membership fee.

Given that industry will now be entirely responsible for funding of OIV activities through compulsory industry levies, there will need to be greater involvement of the industry peak bodies in activities that have historically been the preserves of government. These include discussions on the budget, amendments to internal rules and decisions taken on whether to support or oppose resolutions in the General Assembly. This will also require enhanced reporting of activities to AGWA and from AGWA to the Representative bodies. This Bill has been referred to the Rural and Regional Affairs and Transport References Committee.

Future developments in R&D institutional structures in the wine sector

The Bill to establish a new Australian Grape and Wine Authority (AGWA) through the merger of the existing Wine Australia Corporation (WAC) and Grape and Wine Research and Development Corporation (GWRDC) was passed in December 2013, with the new authority coming into being on 1 July 2014.

WFA and WGGA believe the creation of AGWA will enhance industry service delivery by aligning their functions around unified strategy that also removes duplication. Consolidating all of the existing functions of WAC and GWRDC in one organisation provides for better coordination of activities across the value chain, more focussed strategies for the industry as a whole and greater responsiveness to emerging trends.

The merged statutory authority will also present an immediate opportunity to coordinate the service-delivery functions of WAC and GWRDC.

A single statutory authority provides one clear pathway and point of contact for grape growers, winemakers and regional and state associations to access information and services and provide input. The benefits to industry will be greater simplicity in sourcing programs and services and appreciation of whole-of-value-chain issues.

It is probable, that in the next few years, once the new authority has been bedded down, that the grape and wine sector may well look to move to an industry-owned Rural Research and Development Corporation (RDC) model. This model works well for other sector, and allows the combination of marketing and R&D funding services in a single industry owned body.

Such a body would operate within a complex matrix of obligations owed to multiple stakeholders. By virtue of its status as an industry-owned Rural Research and Development Corporation (RDC), it owes obligations to its members and to the Commonwealth and is also subject to the legislative obligations ordinarily owned by corporations.

As an industry owned RDC, such a body would be reliant upon the Australian government for funding; the terms and conditions surrounding the basis upon which that funding is granted set out in a *Statutory Funding Agreement*. This model would give all levy payers increased control over how levies are allocated and spent while maintaining a strong corporate governance model.

Annex 1: IPC Terms of Reference

The IPC will comprise represent Australian wine grape growers and wine makers.

It will meet twice each year, and at other times as required.

Objective

To ensure that R&D, especially R&D funded by industry levy, delivers cost-effective outcomes that meet the current and future needs of the Australian grape and wine industry, consistent with industry strategy.

Terms of Reference

The IPC will provide recommendations and advice to the Boards of the WFA and WGGA with regard to research, development, extension and innovation for the Australian wine industry, and other related matters which may arise from time to time.

This advice will, inter alia, and as required, address:

1. Identifying research priorities for the Australian wine industry.
2. Provision of high level, strategic advice, including the development of the R&D five year plan to the AGWA Board via the WFA and WGGA Boards.
3. Assessment of government policy and preparation of wine sector policy positions with regard to research, development, extension and innovation.
4. Provide wine sector input to the National Primary Industries Research, Development & Extension (RD&E) Framework
5. Recommending potential candidates for Board positions at AGWA and AWRI.
6. Any other R&D related issue that requires a policy position from the wine sector.