

HD New Australian Grape and **Wine** Authority (AGWA)

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AGWAAGWA ActOn 1 July 2014, the Australian Grape and **Wine** Authority () was established, assuming the functions of **Wine** Australia Corporation and the Grape and **Wine** Research and Development Corporation pursuant to the Grape and **Wine** Legislation Amendment (Australian Grape and **Wine** Authority) Act 2013 ().

The establishment of AGWA has resulted in a single consolidated body to support the Australian **wine** industry, combining:

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GWRDCresearch and development functions previously conducted by the Grape and **Wine** Research Development Corporation ()

WACmarketing and export oversight previously undertaken by **Wine** Australia Corporation (), including the continued use of the **Wine** Australia **brand** and intellectual **property**.

The formation of AGWA was proposed in 2012 by key industry bodies, **Wine** Grape Growers Australia and the Winemakers' Federation of Australia, to facilitate the industry realising various economies of scale, developing and following a coordinated strategy in which both research and development and marketing functions are brought together, as well as to ensure that progressively diminishing levy payments observed in recent times did not result in a reduced service offering to industry.

AGWA is a Commonwealth statutory authority which, like other Rural Research and Development Corporations, will be funded through a combination of levies on production and Commonwealth funding for research and development activities. The organisation will have a budget of \$34.7 **million** in 2014-15, including approximately \$11.5 **million** provided by Commonwealth. This represents a reduction of the previous combined annual funding of GWRDC and WAC of approximately \$3.5 **million**.

The formation of AGWA reflects a collective effort to preserve important resources for an industry which is currently facing significant structural and **commercial** challenges. In particular, the Australian **wine** industry has been challenged by the over-supply of both grapes and **wine** making capacity which has driven prices down, and made it difficult for many producers to meet their cost of production. This is, in part, a consequence of the highly fragmented nature of the industry which is made up of a number of small producers who do not benefit from the economies of scale that bigger producers can access and do not have strong avenues for distribution, while larger producers do not always have the flexibility to easily respond to changing market conditions.

Similarly, the high Australian dollar has caused difficulties for Australian producers competing in the export market where relative buying power has moved unfavourably for Australian wines. Australian **wine** has traditionally been a favourite "value for money" product, however with the high Australian dollar traditional competitors have once again become competitive in this regard. History suggests that where price parity is reached between Australian and French wines, the French equivalent will usually be preferred by international buyers. In addition, there has been increased competition from other **wine** exporting countries and, in fact, a recent study funded by GWRDC found that the value of Australian **wine** exports to countries other than **China** actually decreased by \$1.3 **billion** between 2007 and 2012. A more positive story in exports is in **China**, to which **wine** exports grew by 333% in value in the same period and reflected 6% of total **wine** exports¹.

Although these market forces are likely to continue to impact the industry for some time, and the industry is in a state of transformation and rationalisation as a consequence, the **wine** industry remains Australia's fifth biggest agricultural exporting sector, a \$4.2 **billion** industry and is responsible for creating 54,000 jobs across Australia - primarily in regional communities. A strong statutory authority with clear strategies and directions can only benefit the industry and assist its members to manage the numerous challenges ahead.

AGWA's functions have been clearly identified in the AGWA Act and include:

Research and Development

investigating and evaluating requirements for grape or **wine** research and development

coordinating or funding grape and **wine** research and development

reporting to Parliament, the Minister and representative organisations on grape and **wine** research and development and the impact on the grape or **wine** industries of any research and development activities.

Marketing

facilitating the commercialisation of grape and **wine** research and development

promoting the consumption and **sale** of grape products (both domestically and overseas).

Compliance

controlling the export of grape products from Australia, including compliance with the Food Standards Code

licensing exporters and issuing permits for Australian **Wine** and Brandy exports

operating a labelling integrity program, to prevent false and misleading labelling and ensure compliance with the AGWA Act restrictions on how **wine** can be described

maintaining the Register of Protected Geographical Indications and Other Terms, which restricts the use of certain indications in labelling **wine** products

supporting the Geographical Indications Committee which defines each of the **wine** grape producing regions of Australia.

AGWA is currently in its establishment phase, with the chair and **board** of directors appointed for an initial term of three months to facilitate the establishment of the new entity. The **Company** has announced the appointment of Andreas Clark (formerly WAC's Acting Chief Executive Officer) as Acting Chief Executive Officer for an initial period of three months to establish the authority and ensure continuity of existing services to the **wine** sector.

The establishment of AGWA and the merger of the functions of two significant industry bodies is demonstrative of a collective desire to consolidate in order to reduce red tape and unnecessary duplication of administration. This is not unique to the **wine** industry, and in July 2013 Sugar Research Australia was formed which established a similarly streamlined and consolidated entity absorbing the functions of BSES Limited, Sugar Research and Development Corporation and the research elements of Sugar Research Limited.

It remains quite likely in our opinion that other rural research and development corporations and industry bodies may take steps towards consolidation of some their functions or find other ways to realise similar efficiencies. While future mergers may not result in a consolidated entity like AGWA, we expect that a number of bodies may reach agreements to share facilities and resources, such as back-office and administrative support, to ensure their ability to continue to deliver the same level of service despite reductions in Commonwealth support and levy revenue.

Footnote

1Centaurus Partners, **Wine** Industry Report: Expert Report on the Profitability and Dynamics of the Australian **Wine** Industry (prepared for the Winemakers Federation of Australia) (August 2013), Winemakers' Federation of Australia

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If you have found this publication of interest and would like to know more or wish to obtain legal advice relevant to your circumstances please contact one of the named individuals listed.

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