REGIONAL WINE EXPORT AND TOURISM SUPPORT PACKAGE

STAGE 1: BUSINESS PLAN

Transforming the Australian wine industry
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**Executive summary**

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MINISTER’S FOREWORD

Background

It wasn’t all that long ago when the Australian wine industry seemed like an unstoppable juggernaut, experiencing extraordinary growth in productivity, profitability and exports. Australian wine enjoyed a strong reputation for quality and was in demand around the world, especially in mature affluent markets. Having a supply contract was almost like having a licence to print money.

It was boom time in the Australian wine industry and new vineyards were planted widely to meet this demand, but nothing is forever. The industry has learned this fact in a particularly hard way. Some factors in the industry’s decline from 2007 were outside its control, like the global financial crisis and the appreciation of the Australian dollar.

Other factors in the decline were very much within the industry’s control, which is why the Australian Government strongly welcomed the industry’s approaches to reform legislation and to re-purpose subsequent savings for a concerted effort to regain and improve the prominent position once held by Australian wines in world markets. The industry recognised that its focus had been drawn away from exports as businesses up and down the domestic supply chain sought to capture benefits from the Wine Equalisation Tax (WET) Rebate. Exports declined from a peak of $3 billion in 2005 to a decade-low of $1.8 billion in 2014. Oversupply due to excessive plantings during the boom exacerbated the situation and resulted in growers often receiving prices below the cost of production.

The Australian Government’s $50 million Regional Wine Export and Tourism Support Package (the Package) is, in some respects, a recognition of industry’s united efforts in proposing much-needed WET Rebate reform as part of a renewed focus on export markets, taking advantage of a fall in the dollar and tariff reductions in key export markets. Modest progress has already been made, with exports resuming growth to reach $2.2 billion in 2016; the Package aims to accelerate this growth further.
Legislative reform

From July 2018 the Australian Government will implement changes to the Wine Equalisation Tax (WET) legislation. These changes, introduced at the behest of industry, will improve the integrity of Government support for producers and repair the supply-demand imbalance of previous years.

Restricting WET rebate eligibility to businesses with an investment in regional Australia - and to exclude bulk and unbranded wine - constitutes a long-term commitment to supporting branded wine product and encouraging the re-emergence of ‘brand power’ and equity. This is critical to capturing retail price increases, increased margin share, higher returns for growers and reinvestment in rural communities.

More importantly, the reforms enable the industry to refocus greater attention on the export and tourism markets which offer it the greatest opportunity for growth and sustainability.

Complementing reform

The Australian Government’s $50 million Package is designed to complement the WET reforms. Sustained recovery will rely on increasing the value of exports, driven largely by growth at higher price points, requiring a substantial change in perception and awareness of Australian wine in key markets. The Package provides a sustained focus over three years to grow exports and attract international tourists to our wine regions.

Stage 1 of the Package is this Business Plan, developed by ACIL Allen Consulting with Australian Grape and Wine Authority (AGWA), Australian Vignerons (AV) and the Winemakers’ Federation of Australia (WFA) with support from the Department of Agriculture and Water Resources. Implementing the plan is Stage 2.

Senator the Hon. Anne Ruston
Assistant Minister for Agriculture and Water Resources
PROJECTED OUTCOMES

The Australian Government’s $50 million Regional Wine Export and Tourism Support Package (the Package) aims to help transform the Australian grape and wine industry by showcasing the nation’s wine tourism offering and driving demand for Australia’s wine exports.

It is projected the Package will:

- increase the value of wine exports by $434–565 million to a record $3.3–3.5 billion by 2021–22;
- deliver 7–8 per cent per annum value growth across all export markets from 2017–18 to 2021–22, including 15–17 per cent in China (including Hong Kong) and 6 per cent in the United States;
- increase the average price for Australian bottled wine exports free on board (FOB) by 15 per cent;
- deliver higher returns to grape growers (capitalising on the historic correlation between grape prices and the average export price of wine – see Figure 2); and
- attract 40,000 more international tourists to Australian wine regions by 2019–20, delivering an estimated $170 million in value to the national economy.

Without the Package, it is projected wine exports would grow at a slower rate of 4 per cent per annum to reach $2.9 billion by 2021–22 (see Figure 3). Importantly, these projections are achievable on current vineyard plantings.

**Figure 2 Average grape price per tonne and average export price per litre FOB**

![Average grape price per tonne and average export price per litre FOB](image)
Package design and programs

The Package has been designed by representatives of the Australian wine, tourism and cider industries, with the assistance of ACIL Allen Consulting. It is endorsed by WFA, AV and AGWA, which will also administer the program. Cider Australia supports the elements of the Package relevant to cider.

The Package comprises four programs developed through robust research, analysis and stakeholder consultation:

1. Accelerating growth in international demand ($32.5 million), with dedicated marketing campaigns in China and the US – Australia’s two largest and growing export markets.
2. Creating ‘China-ready’ businesses ($3 million), including a wine export grant scheme and building capability for businesses to capture export and tourism opportunities.
3. Capturing growth in wine regions ($10 million), comprising a competitive grants program and an additional grants program for state-leveraged activities.
4. Transforming cider businesses ($0.5 million).
Export market environment

In 2016, Australia ranked fifth in global exports behind Spain, Italy, France and Chile, and fourth in average value of bottled exports behind New Zealand, the US and France. The top five import markets by value were the US, the UK, Germany, China and Canada. In these markets, Australia ranked second by value in China, third in the UK and fourth in the US and Canada. It was the strongest placed in China, with a market share of 24 per cent by value.

Annual growth in global wine sales has slowed in recent years, with both volume and value recording nearly flat growth rates from 2010–15. Sales in the region with greatest consumption, western Europe, have fallen by an average of 1.2 per cent per year in this period. By contrast, sales in North America have increased 2.4 per cent and in the Asia Pacific by 7.4 per cent.

This regional divergence is driven by trends in per capita consumption. Globally this decreased by 0.3 per cent in 2015 and in western Europe by 1.8 per cent, however it increased in North America (1.6 per cent) and the Asia Pacific (7 per cent).
**United States**

The US is the world’s largest wine consumer and the largest import market by value. It is Australia’s second most significant export destination, accounting for 21 per cent of our wine exports in 2016, but over the past decade a perception issue has developed for Australian wine that is closely connected to entry price points.

In 2016 Australia had the lowest average value per litre of the top 10 countries for bottled wine imports to the US; 93 per cent of Australia’s bottled wine exports by volume are currently below $5 per litre FOB compared with 61 per cent in 2007. These statistics are reflected in the US off-trade market, with more than 90 per cent of Australian wine sales in the big-volume US$4–7.99 per bottle price segment and with Australian wines holding 13 per cent of this segment.

In contrast, Australian wine holds just 1.7 per cent value share of the US$11-25 segment, the best performing segment as a whole, currently worth US$4 billion and growing at 9 per cent per annum. Concerted efforts to change perceptions of Australian wine have seen sales grow by 6 per cent in this segment over the past 12 months.

Current economic conditions suggest disposable income in the US is growing, and with the fall of the Australian dollar over the past five years this creates an opportunity for increased expenditure on Australian wine. Coupled with the change in perceptions to be delivered by the Package, this economic environment is expected to create 6 per cent per annum value growth for exports to the US from 2017–18 to 2021–22.

**China**

China has been Australia’s fastest growing export market over the past five years, becoming our highest value market in 2016 with exports valued at more than $520 million. The market is highly competitive, with Australia at a disadvantage relative to Chile and Spain at lower price points due to their lower production costs, and to France which has a higher market share and is very competitive at higher price points.

There is nevertheless strong growth potential in the market for Australian wine. This represents a substantial opportunity to increase Australian market share and capitalise on the China-Australia Free Trade Agreement (ChAFTA). The Package is expected to deliver 15–17 per cent per annum value growth in China and Hong Kong from 2017–18 to 2021–22.

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5. IRI
6. Ibid
7. Ibid
Existing supports for exporters

Free trade agreements (FTAs) are central to Australia’s economic policy with 10 currently in force, one concluded but not yet in force, and another seven under negotiation.

A substantial range of supports exist for current and aspiring exporters, including:

- financial support such as the Austrade Export Market Development Grants (EMDG) and the Export Finance and Insurance Corporation;
- training, tools and business supports such as those provided by the Austrade TradeStart program and the Export Council of Australia;
- industry and commodity-specific supports including AGWA’s established export support strategies and the Department of Agriculture and Water Resources’ Trade and Market Access Cooperation program; and
- state-provided locally based export support programs including capability building, trade missions, market information and networking opportunities.

Feedback from existing and potential exporters indicates it is difficult, particularly for smaller businesses, to identify and navigate myriad programs. Activities under Program 2 of the Package are aimed at helping businesses better understand the assistance available to help them.

Tourism opportunities

Wine tourism is a significant component of Australia’s tourism offering; food and wine are key influencers in holiday decision-making.

The majority of international wine tourists in 2015 visited five regions: Margaret River and the Yarra, Hunter, Swan and Barossa valleys (see Figure 4).
Overall visitor numbers are closely linked with the total number of cellar doors (see Figure 5); Victoria, Western Australia and New South Wales lead the nation on both counts in this respect.

The proportion of wineries with a cellar door has fallen from almost 80 per cent a decade ago to less than two-thirds in 2016. Sharp regional variations are evident. For example, nine out of ten Queensland wineries operate a cellar door compared with just over half in South Australia.

Wineries are increasingly relying on websites and social media for promotion although the sector is lagging behind other industries. As of 2016, 31 per cent maintained a Facebook page and 8 per cent used Twitter. In contrast, a survey found 94 per cent of small businesses and 89 per cent of medium-sized businesses had a presence on Facebook, while 17 per cent and 38 per cent respectively used Twitter.

8. Wine Titles, 2017
9. Wine Titles, 2017
Tourist perceptions

Wine-based tourism works best when there is a clear understanding of customer needs for wine and other experiences. Research by Tourism Australia on perceptions about our food and wine formed the basis for the recent Restaurant Australia campaign.

International travellers who had not visited Australia ranked us the sixth most popular destination for a food and wine holiday, with only 26 per cent listing Australia as their top choice. Among travellers who had visited Australia, our rank improved to third place just after France and Italy (see Figure 6).

![Figure 6 Ranking of global food and wine destinations](source: Tourism Research Australia)
Tourism 2020 strategy

Responding to the ongoing challenges and emerging opportunities for the Australian tourism industry, the Tourism 2020 strategy provides a framework for growth to assist tourism businesses focusing on four priority areas:

1. Encourage high-quality tourism experiences, including Indigenous tourism.
2. Limit the tax, red tape and other regulatory burdens faced by industry.
3. Undertake coordinated and effective marketing campaigns to drive demand.
4. Work with industry to support the development of tourism infrastructure that can drive demand.

Activities in the Package have been designed to complement the significant investments under the strategy made by Tourism Australia, state tourism authorities and private providers.

Opportunities for the Australian cider industry

In 2015–16 there were 125 cider production businesses in Australia (excluding the Northern Territory). Total industry revenue in 2015–16 was $309.7 million; it is forecast to reach $404.4 million by 2021. The industry is dominated by two large firms that have around 55 per cent of market share. Apple cider was estimated to account for 65.5 per cent of revenue, with pear cider accounting for 16.5 per cent and other fruit-flavoured ciders 18 per cent; the latter is the fastest growing market segment.

Industry growth has been substantial, with average annual growth of 11.4 per cent from 2011–16 and a forecast annual growth rate of 5.5 per cent from 2016–21. Export value in 2015–16 was $16.5 million, and exports have increased as a share of revenue since 2010–11 (see Figure 7).

Figure 7 Cider industry revenue and exports as a proportion of revenue
Cider tourism is embryonic. No coordinated regional or state-level campaigns have been identified other than the Tasmanian Cider Trail. There are some private regional cider tours available and several regional festivals are held.

Australia has not yet established a strong reputation for quality cider exports but there is potential for growth leveraging Australia’s reputation for high quality products. There are five Australian craft cider producers exporting significant quantities in addition to the two major producers, however most of this activity is leveraged from existing wine industry relationships and is scattered around a number of countries. Given the relative size of the current export market, there is great benefit in producers working together to grow the reputation of Australian cider in specific targeted markets.

Consultation

Broad consultation with the grape and wine industry was paramount in development of this Business Plan.

WFA, AV and AGWA established a Reference Group to provide input, chaired by WFA and comprising members with expertise in winemaking, grapegrowing and tourism. Membership included representatives from WFA, AV, AGWA, peak state industry bodies, Tourism Australia and the Department of Agriculture and Water Resources.

More than 100 submissions were received from industry on activities that could be included in the Package. The WFA, AV and AGWA boards were extensively briefed before endorsing the final recommendations.

WFA and AV consulted directly with state organisations and Cider Australia on the draft Business Plan in two rounds of consultation, the second of which involved industry workshops held in each state from January to April in 2017. State organisations undertook additional consultations with memberships and regional associations.

Industry support

Industry is supportive of the Package’s export focus and the use of international promotion and marketing to increase the reputation, price and demand for Australian wine. The importance of increasing demand through exports is widely understood and supported, as is the need to capitalise on more favourable trading conditions. Industry as a whole sees value in targeting markets with the strongest growth potential, and is confident this investment will generate the largest returns to industry.

During the consultations there was considerable discussion around which markets to target: growth markets, existing markets and emerging markets; the number of markets; price points and specific activities. There was significant debate around how funding should be allocated to achieve the best returns on investment.

The determination that a targeted approach focusing on the US and China should be the focus of the Package received the majority of support. It was also determined that a portion of funding be allocated to allow flexibility to respond to signals in other markets where there was potential for export value growth.

There was clear consensus that the UK, Europe and Canada remain very important markets; it was envisaged that industry would continue to maintain a strong presence in these markets through AGWA’s activities.
Industry as a whole also saw value in building export capability and capacity to encourage wineries to take advantage of the increase in demand created by international marketing and promotion. There was strong support for improving the communication and coordination of existing export facilitation programs and information so industry could make best use of what was available.

The consultations reinforced the importance of wine-based tourism. The importance of tourists to winery profitability, and that many wineries would remain focused on the domestic market for sound commercial reasons, were consistent themes accentuating the need to strengthen regional wine-based tourism.

The focus and level of international wine tourism development and potential varies considerably across Australia. There is significant potential to improve coordination between regions at a state and national level, and opportunities to leverage investment with state governments.

Industry supported a competitive grants program to fund international wine tourism and export promotion as the most efficient, equitable and effective option given the diversity of arrangements and needs across Australia. Guidelines and criteria will need to be clear and transparent. Industry supported a minimum allocation at a state level to drive collaboration, and a national contestable pool to provide a national focus.

Industry as a whole was comfortable allocating the majority of resources to export promotion (provided it was transparent, accountable and targeted) due to the existence of many programs already facilitating export readiness.
Analysis

More than 100 stakeholder submissions were received during consultations and more than 80 individual options for the Package were identified. Following assessment and analysis to identify the distributional benefits and other impacts, additional consultations were held to further refine these options.

The Package components (programs) as identified are:

- Program 1: Accelerating growth in international demand ($32.5 million);
- Program 2: Creating China-ready businesses ($3 million);
- Program 3: Capturing growth in wine regions ($10 million); and
- Program 4: Transforming cider businesses project ($0.5 million).

Benefit-cost analysis

ACIL Allen Consulting undertook a benefit-cost analysis (BCA) on Programs 1 and 2; the benefits and costs of the other programs have not been assessed. Until grant proposals for Program 3 are submitted and assessed, there is no information available on what will be funded and how this may impact the industry. Information on the target markets and specific strategies to increase cider exports is currently limited.

The assumptions and results of the BCA, including a sensitivity analysis, are detailed in Appendix A.
The Package has been designed to deliver increased profitability for industry and regional wine producing communities, including beverage makers, growers and other regional businesses in the supply chain.

To capture the greatest possible benefit, four programs have been designed to deliver the largest and most sustainable export growth and the strongest support for increased international wine tourism. Together the programs are anticipated to transform industry and underpin its future prosperity through:

- an improved perception of all Australians wines in the US and China markets;
- sophisticated social media networks with a deep reach to consumers, particularly in China;
- enduring online educational resources for all potential and existing exporters and tourism-focused businesses; and
- building a stronger pull for Australia’s food, wine and experience tourism leading to more visitors and more resilient and competitive wine-based tourism businesses.

Key performance indicators were developed to demonstrate three-year and five-year impacts of the Package:

- total value of Australian wine exports grows by a compound annual growth rate (CAGR) of 7-8 per cent per annum, delivering projected total export value of $3.3-3.5 billion by 2021-22;
- average price for Australian bottled wine exports FOB increases by 15 per cent to $5.94 by 2019-20 and $6.28 by 2021-22 (from $5.46 in 2016-17); and
- 40,000 more international tourists visit wine regions by 2019-20, delivering additional international tourism expenditure of $170 million (based on maintaining current average expenditure in Australia of $4200 per visitor).

While each program has distinct activities and measurable outputs, the outcome of each activity builds on the outcomes of other activities. All work in concert to achieve the Package’s objectives (see Table 1).

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<th>Financial year 2019 ($m)</th>
<th>Financial year 2020 ($m)</th>
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Table 1
Programs and indicative budget allocation per year
Program 1: Accelerating growth in international demand

For the first time Australia will be able to mount dedicated, significant and sustained multi-year marketing campaigns in the US and China representing a more than eight-fold increase on current investment in these markets. They will completely change the focus of export marketing for Australian wine.

This program will increase the perception of, and demand for, Australian wine and wine tourism among the wine trade and consumers in key markets. It includes the following three elements:

1. Print, broadcast, online and social media campaign.
2. Key influencers engagement and events campaign.
3. Consumer and trade education campaign.

The program will be agile and responsive, and will embrace innovation to meet each market’s specific needs. Australian wines will be brought to life through social media, new technologies and digital assets that provide an immersive experience of our wine regions, our people and their stories. AGWA will work with Tourism Australia to ensure the program complements and amplifies existing activities in the US and China.
United States

The US is the largest wine market in the world, the largest importer of wine by value and the third largest importer by volume.

Australian exports to the US peaked at $930 million in 2005. A combination of factors such as the global financial crisis, appreciation of the Australian dollar and a loss in confidence in the Australian wine category resulted in exports falling to $430 million in 2014. This was most significant for wines priced at $5 per litre and above FOB where value fell from $405 million to $75 million.

It is at higher price points where Australian wine faces the greatest challenges. Australian wine sales are concentrated in lower price segments and along with the strong Australian dollar this has hindered efforts to reignite the Australian wine category at the higher value end of the market. Research shows 89 per cent of US wine drinkers view Australian wine as ‘good value for money’ but only 46 per cent see it as being ‘expensive/fine’. In comparison, 92 per cent and 84 per cent of US consumers view French and Italian wines respectively as ‘expensive/fine’.

The perception of Australian wine is gradually improving. Exports to the US grew 3 per cent to $458 million in 2016, with the strongest growth (23 per cent) in the greater-than A$10 per litre FOB segment. Research shows the US wine trade is becoming more optimistic about the Australian wine category’s prospects, with the best growth opportunity in the US$11-25 per bottle retail segment. This is a growing segment of the market in which Australia is seriously under-represented with only 1.7 per cent of market share.

10. Wine Intelligence, Brand Health Survey 2016
11. Wine Opinions (WOP 1401)
China

ChAFTA underpins opportunities for Australian wine in China where there is a strong focus on quality, an emerging wine culture, and where Australia enjoys a positive country image.

Growth in Australian wine exports over the past decade has been extraordinary, climbing from $75 million in 2007 to $521 million in 2016. Mainland China is now the top destination by value for Australian wine exports, growing by 40 per cent in 2016 alone (twice the rate of all other countries combined). Australia is also well placed in mainland China with the highest average value per litre among the top 10 exporting countries, and second only to France in bottled wine exports.

Chinese consumers have a positive perception of Australian wine with 91 per cent believing Australian wines are ‘good value for money’, 74 per cent believing they are ‘expensive/fine’ and 84 per cent believing it is ‘for special occasions’.

The challenge for the Australian wine category is to maintain and build on this strong image and continue to capture growth in this highly competitive market. A sophisticated social media campaign using the most popular Chinese social media platforms including Sina Weibo, Tencent Weibo and WeChat is anticipated to help drive Australian wine recognition and reputation, and build customer loyalty.

12. Wine Intelligence, Brand Health Survey 2016
Other markets

The US and China, as the two markets with the strongest current growth potential, are the focus of the Package however all of Australia’s export markets are important and the program will retain the flexibility to respond to opportunities in these markets.

Australia’s established, emerging and new markets will also continue to receive support through AGWA’s current programs and in-market offices in London, San Francisco, Shanghai, Sydney (Asia-Pacific), Toronto and Vancouver. For example, AGWA’s London-based team engages with the UK and European wine trade, wine influencers, media and consumers with more than 30 activities and 10 visits to Australia from these markets planned for 2016–17.
Program 2: Creating China-ready businesses

This program seeks to build the capability and capacity of grape and wine businesses to capture export and tourism opportunities.

The first element will invest in export and tourism capability building; the second is a wine export grants scheme for current and new exporters to facilitate increased exports and secure further sales of wine, particularly in China.

Export and tourism capability building

Industry consultation has highlighted a lack of knowledge, market intelligence and capability as barriers to capturing wine export and tourism opportunities. There is an opportunity to upskill regional wine producers and wineries to help build capability both in terms of export readiness and developing wine tourism products and services.

This initiative will provide this support by aggregating and delivering information on how businesses can become export and tourism-ready. Activities include:

- regional wine education forums and presentations;
- an online toolkit and resources for exporters and regional wine tourism operators; and
- access to detailed market analysis data.

AGWA will facilitate a series of regional wine forums and workshops to provide information and services about export market strategies and promote the full suite of support available under the Package and elsewhere.
Wine export grant scheme

This scheme offers grants to wine exporters to support activities that increase wine exports, especially in targeted markets where there is significant growth potential, particularly China.

It is proposed the scheme will share 50 per cent of the costs of the following activities:

- overseas travel for market visits;
- attendance at international trade fairs and trade missions;
- in-market trade displays and new promotional activities;
- securing in-market distribution or marketing arrangements; and
- interpreter services.

It is proposed that activities ineligible under the scheme will include:

- existing in-market activities or business-as-usual activities;
- food, accommodation and hospitality expenses;
- general marketing costs;
- freight and transport costs;
- travel insurance;
- vehicle hire, telephone and internet costs;
- salaries and commissions; and
- activities that are in receipt of funding from another Commonwealth or state grant program.

Grants will be capped at $50,000 and allocated to eligible wine exporters on a matching dollar-for-dollar basis, an approach consistent with numerous other export readiness and facilitation schemes. It is designed to complement existing export grant programs.

The scheme is aimed at reducing the transaction costs of exporting for fast-growing exporters by improving relevant information. It is designed to deliver broader flow-on benefits to the whole wine sector through spill-over to other wine exporters and by stimulating productivity benefits experienced by trade-exposed wine businesses.

It is expected that while many first-time exporters will access EMDG and state export programs, the wine export grant scheme will focus on supporting high-export-growth wine exporters in targeted markets with 75 per cent of grants allocated to existing exporters. The scheme aims to maximise export sales growth by assisting high-potential and successful wine exporters to undertake new in-market activities and leverage AGWA’s new campaigns. It will also support small and medium-sized enterprises (SMEs) to secure new distribution channels in China and the US.

The scheme’s project guidelines, eligibility criteria and application processes will be designed to complement existing support and investments in this space and will be subject to Ministerial approval. It is proposed that successful projects will be selected through a competitive, merit-based process and approved by the AGWA Board based on the recommendations of an Expert Assessment Panel.
Program 3: Capturing growth in wine regions

This program will offer state-based and competitive grants to strengthen wine-based regional tourism and exports by helping to develop exciting wine tourism experiences. It will complement initiatives under the Tourism 2020 strategy; food and wine experiences are an important plank of this strategy, which aims to grow the overnight spend to more than $115 billion by 2020 (from $97.1 billion at 30 June 2016).

The program’s objective is to help meet increased demand created by Program 1 by building regional wine-based tourism capacity, stimulating innovation and encouraging export activities focused on regions and their wines.

It will include:

- a grants program for state-leveraged activities where a portion of funding will be specifically allocated to each state based on the value of production and the number of international visitors ($1 million for South Australia, New South Wales, Victoria and Western Australia, and $500,000 for Tasmania and Queensland); and
- a competitive grants program, where the balance of funds will be contestable.

Eligible recipients such as state-based wine associations may choose to lodge a state-based bid or multiple bids for the fixed allocation, and must meet eligibility criteria. Co-contributions will be sought, and applications from groups of stakeholders proposing to work collaboratively are likely to be prioritised.

Examples that may be funded include:

- regional wine and wine tourism marketing campaigns to attract international tourists or promote exports;
- support for regional wine events that increase cellar door sales;
- wine trails connecting wine regions and clusters across borders;
- common user infrastructure that directly supports regional wine tourism (such as booking and central reservation systems) and has a benefit for both individual cellar doors and the region as a whole; and
- innovative products or services that have a broader benefit to multiple wine businesses, which may include new e-commerce or online platforms, improved regional data capture, and use of new technologies such as virtual and augmented reality.

Project guidelines, eligibility criteria and application processes will be determined through consultation and will be subject to Ministerial approval. It is proposed that successful projects will be selected through a competitive, merit-based process and approved by the AGWA Board based on the recommendations of an Expert Assessment Panel.

Potential criteria may include, but not be limited to, the potential economic benefit of a project (applicants will need demonstrate how it will increase international wine tourism and sales), the strategic benefit of a project and its alignment with broader industry and regional objectives, increased collaboration between stakeholders, and the leverage the project receives from other funding sources.

Legislative changes will be required to implement this initiative, so activities may not commence until the first quarter of the 2018 calendar year.
Program 4: Transforming cider businesses

Cider producers are hampered by the limited information available on cider markets around the globe. Other barriers include the lack of a coherent go-to-market (GTM) strategy that producers can follow to maximise impact in chosen markets, and the lack of a strong 'brand proposition' that is unique to Australia and meaningful in chosen markets.

As a consequence, activities to be funded under the cider program include:

- market research and analysis;
- developing an Australian cider brand proposition; and
- developing the Australian cider GTM strategy.

These activities will be delivered by AGWA with the support of external consultants, and will be guided by a work plan subject to agreement and input from the Department of Agriculture and Water Resources, Cider Australia and other key stakeholders.

Legislative changes will be required to implement this initiative, so activities may not commence until the first quarter of the 2018 calendar year.
AGWA will be responsible for delivering the Package in accordance with a funding agreement with the Commonwealth Government, represented by the Department of Agriculture and Water Resources. Package activities will be undertaken by:

- direct delivery by AGWA;
- contracted delivery managed by AGWA; and
- competitive grant processes administered in accordance with the Public Governance, Performance and Accountability Act 2013 and the Commonwealth Grants Rules and Guidelines.

The funding agreement will provide for robust governance arrangements to ensure transparency and clarity at all levels, empowering decision makers to set the direction of programs, resolve disputes, identify and manage risks, and monitor progress against objectives and desired outcomes.

AGWA will work closely with WFA and AV to design and execute the Package. Respective chairs will meet to agree the annual operational plan for the Package each year, which will be subject to AGWA Board approval, and to undertake mid-year reviews. The AGWA Board will also measure and report progress. Chief executives of AGWA, WFA and AV will meet quarterly, or as required, to review progress and discuss aspects of the programs which may require amendment or stakeholder briefings. WFA and AV will be responsible for regularly briefing state associations.
Resourcing model

AGWA will not seek to recover fixed ongoing costs from the Package. To ensure accountability, the resource model will distinguish between fixed and variable costs.

For this Business Plan, fixed costs are defined as those costs incurred by AGWA that do not experience a material change with the introduction of the Package. Variable costs are defined as additional material costs generated by the Package's introduction; these will be met from the $4 million allocation to AGWA to support administration of the Package.

Risk

The following risks have been identified as important to the effective delivery of the Package:

- delays in securing key legislative changes impacting on programs 2, 3 and 4 (note that a Bill outlining changes to the Australian Grape and Wine Authority Act 2013 required to support the cider and regional tourism components of the Package has been given high priority and approval is expected by January 2018);
- funding not being allocated by AGWA in a timely way and funding subsequently being recovered to Consolidated Revenue;
- financial transparency and accountability not being maintained by AGWA or contracted parties;
- over- or under-demand for Package resources that cannot be met, or lead to under-utilisation of existing program or Package allocation;
- failure of the funded programs and initiatives to deliver the anticipated impact of the Package; and
- lack of innovation in funded activities, and Package funding being used to support business-as-usual activities.

Mitigation strategies include:

- developing draft program guidelines for consultation and feedback while amendments are being considered by Parliament;
- establishing project management milestones, including financial milestones;
- publishing the decision timeframe with program guidelines to set expectations with industry on when spending decisions will be made;
- establishing a separate reporting entity within AGWA's financial system;
- ensuring strong requirements for financial probity are included in program and grant guidelines, and supporting them with a robust financial audit process;
- capping all grants programs to set clear expectations for applicants;
- undertaking a mid-point review to ensure program allocations are appropriate;
- establishing clear performance and accountability indicators (not activity indicators);
- establishing data collection and evaluation approaches at the outset of the Package, which will include some level of benefits realisation planning; and
- ensuring innovation is embedded in program guidelines and funding agreements between parties involved in the Package.
Measuring success

Success will be measured against 10 key performance indicators; four at the Package level and six specific to individual programs (see Table 2). Indicators will be tracked through existing monitoring systems and specific Package surveys. These include AGWA’s existing wine export statistics and brand health surveys, Tourism Research Australia’s international visitor survey, and media monitoring.

A full monitoring and evaluation framework will be developed in consultation with WFA and AV, including an externally conducted mid-term review and final program evaluation using qualitative and quantitative indicators.

Table 2 Performance indicators (subject to finalisation of the monitoring and evaluation framework)

<table>
<thead>
<tr>
<th>Package/Program</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Package</td>
<td>1. Wine exports – Compound annual growth rate (CAGR) of total Australian wine exports increases by 7–8% per annum (primarily targeting USA and China) by 2021-22</td>
</tr>
<tr>
<td></td>
<td>2. Price/perception – Increase average price received for Australian bottled wine exports per litre FOB by 15% by 2021-22</td>
</tr>
<tr>
<td></td>
<td>3. Wine tourism – increase international wine tourism expenditure by $170m by 2020 arising from an extra 40,000 international wine tourists spending $4,200 in wine regions and Australia</td>
</tr>
<tr>
<td></td>
<td>4. Return on investment – achieve a benefit-cost ratio (BCR) of greater than 5:1 across the whole Package</td>
</tr>
</tbody>
</table>
| Accelerate growth in international demand for wine | 5. Engagement  
a. Coverage and reach  
b. Online views  
c. Influencers engaged  
d. Positive coverage |
| Creating China-ready businesses  | 6. Increase in consumer and influencer perceptions of the quality of Australian wine |
|                                  | 7. 50% of the 40 grant recipients have doubled wine exports by 2020 |
|                                  | 8. 30 existing wineries commence exports to China and/or other FTA markets as a result of participating in the wine capability program by 2020 |
| Capturing growth in wine regions | 9. Increase in international tourist expenditure in regions |
| Cider program                    | 10. 75% of Cider Australia producers participate in developing, and support, the strategy. |
Implementation schedule

Table 3 and Figure 8 identify the key timeframes for implementation. Note that the timing of some initiatives will be contingent on securing amendments to the Australian Grape and Wine Authority Act 2013 (AGWA Act).

Table 3 Implementation schedule

<table>
<thead>
<tr>
<th>Program/initiative</th>
<th>Start</th>
<th>Finish</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program 1: Accelerating growth in international demand for wine</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Print, broadcast and online media campaign</td>
<td>July 2017</td>
<td>30 June 2020</td>
<td></td>
</tr>
<tr>
<td>Key influencers campaign</td>
<td>July 2017</td>
<td>30 June 2020</td>
<td></td>
</tr>
<tr>
<td>Consumer and trade education campaign</td>
<td>July 2017</td>
<td>30 June 2020</td>
<td></td>
</tr>
<tr>
<td>Program 2: Creating China-ready businesses</td>
<td></td>
<td></td>
<td>Contingent on establishment of granting guidelines.</td>
</tr>
<tr>
<td>Wine export grant scheme</td>
<td>1 Jan 2018</td>
<td>30 June 2020</td>
<td>Contingent on establishment of granting guidelines.</td>
</tr>
<tr>
<td>Wine and tourism capability building</td>
<td>1 Jan 2018</td>
<td>30 June 2020</td>
<td>Contingent on procurement of services.</td>
</tr>
<tr>
<td>Program 3: Capturing growth in wine regions</td>
<td></td>
<td></td>
<td>Contingent on amendments to the AGWA Act. Contingent on establishment of granting guidelines.</td>
</tr>
<tr>
<td>Competitive grants</td>
<td>1 Jan 2018</td>
<td>30 June 2020</td>
<td>Contingent on amendments to the AGWA Act. Contingent on establishment of granting guidelines.</td>
</tr>
<tr>
<td>Program 4: Transforming cider businesses</td>
<td>1 Jan 2018</td>
<td>30 June 2019</td>
<td>Contingent on amendments to the AGWA Act.</td>
</tr>
</tbody>
</table>

Note: All dates are indicative and subject to Government approval

Figure 8 Package timeline

All dates are indicative and subject to Government approval
A benefit–cost analysis (BCA) of the Accelerating growth in international demand program (Program 1) and the Creating China-ready businesses program (Program 2) was undertaken by ACIL Allen Consulting. Programs 3 and 4 were not assessed. The Regional wine tourism program (Program 3) is a grants-based program and was not assessed as the costs and benefits of specific grants prior to their proposal and approval are unknown. Further research and design needs to occur before a BCA on the cider component (Program 4) of the Package can be conducted. The findings and assumptions for the BCA of Programs 1 and 2 are outlined below.

**Approach and methodology for assessing program benefits**

In the BCA model, Program 1 generates additional demand for Australian wine exports to the US and Chinese markets, while Program 2 ensures that the increased demand can be met. The BCA thus jointly assesses both programs because of their complementary nature.

In addition, the BCA estimates the additional international visitor spend in Australian wine regions as a result of the international wine tourism marketing campaign as part of Program 1.

Program 2 is targeted at raising exports of Australian wines to the US and China. The BCA analyses historical wine export revenues and projects future wine export revenues by price category in these markets. It is assumed that the impact will be greater for higher priced wine exports than lower priced wine exports.

The historical data on export revenues by market were provided by AGWA while Tourism Australia provided the wine region visitor data.

**Base case**

In the base case, that is, without the Package, it is assumed that the annual growth rate of exports to the US and Chinese markets by price category over the next five years will be equal to the compound annual growth rate (CAGR) from the last three years (see Table A1).

<table>
<thead>
<tr>
<th>Price category</th>
<th>USA (Last 3 years 2014–16)</th>
<th>USA (Last 5 years 2012–16)</th>
<th>China (including Hong Kong)</th>
<th>China (including Hong Kong)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.49 and under</td>
<td>-6.8% 67.0%</td>
<td>0.1% 22.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$2.50 to $4.99</td>
<td>2.1% 26.8%</td>
<td>-1.2% 14.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5.00 to $7.49</td>
<td>-6.9% 16.6%</td>
<td>-12.4% 14.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$7.50 to $9.99</td>
<td>-8.2% 23.1%</td>
<td>-0.8% 17.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$10.00 and over</td>
<td>8.7% 31.0%</td>
<td>4.6% 26.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>0.1% 27.8%</td>
<td>-1.4% 19.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: based on AGWA data
Key assumptions

The BCA involves making a number of assumptions and choices of parameter values relating to:

1. The impacts that the initiatives under Program 1 will have on the growth rate of exports to the USA and China over the next five years above the baseline growth rates.1
2. The impacts that the initiatives under Program 2 will have in enabling the additional demand to be realised by exporters.

In choosing appropriate parameter values for the impacts of the initiatives under Program 1 – namely the media campaign, key influencer campaign, consumer and trade education, and the wine tourism campaign – the following points are taken into consideration:

- The impact of the program is likely to be greater in the higher price categories.
- The program’s impact is likely to grow and then diminish as program funding ends.
- The program’s impact is likely to be greater on the Chinese market than the US market due to the higher baseline growth rate in the Chinese market.
- The media campaign is likely to have the greatest impact relative to the other initiatives as it receives a greater share of funding.

The estimated additional export revenue due to the Package is much greater for China (including Hong Kong) than for the US because:

(a) current higher price point wine export revenues are much greater in China;
(b) the projected baseline growth rate for higher price point wine exports over the next five years is much higher in China; and
(c) the program is assumed to have stronger impacts on wines greater than $10 per litre FOB.

1. These are assumed to be the CAGR for each of the US and China (including Hong Kong) markets from the past three years.
Estimating the impact of Program 1

The estimated impacts of the media campaign, key influencers campaign, and the consumer and trade education initiatives are presented in Table A2 (lower bound) and Table A3 (upper bound). The initial impact estimate is the additional growth above the baseline rate that is expected in 2017–18. The additional impact estimate accounts for the impact at first intensifying and then dissipating in the years 2018–19 to 2021–22. The upper bound is created by doubling the additional impact from each of the initiatives.

The impact of the initiatives under Program 1 is most significant for wine at higher price points. For example, for the $10 and over category in the US, the impact of the media campaign is 1.5 per cent above the baseline of 8.7 per cent in 2017–18, 2.5 per cent (i.e. 1.5 per cent plus 1 per cent) above 8.7 per cent in 2018–19, 3.5 per cent (i.e. 2.5 per cent plus 1 per cent) above 8.7 per cent in 2019–20, 2.5 per cent (i.e. 3.5 per cent minus 1 per cent) above 8.7 per cent in 2020–21, and 1.5 per cent (i.e. 2.5 per cent minus 1 per cent) above 8.7 per cent in 2021–22.

Table A2
Expected impact of the initiatives under Program 1 (lower bound)

<table>
<thead>
<tr>
<th>Price category</th>
<th>Media campaign</th>
<th>Key influencers campaign</th>
<th>Consumer and trade education</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Initial impact*</td>
<td>Additional impact p.a.**</td>
<td>Initial impact*</td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5.00 to $7.49</td>
<td>0.40%</td>
<td>0.25%</td>
<td>0.30%</td>
</tr>
<tr>
<td>$7.50 to $9.99</td>
<td>1.00%</td>
<td>0.80%</td>
<td>0.75%</td>
</tr>
<tr>
<td>$10.00 and over</td>
<td>1.50%</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>China (including Hong Kong)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5.00 to $7.49</td>
<td>0.75%</td>
<td>0.30%</td>
<td>0.50%</td>
</tr>
<tr>
<td>$7.50 to $9.99</td>
<td>1.50%</td>
<td>0.85%</td>
<td>1.00%</td>
</tr>
<tr>
<td>$10.00 and over</td>
<td>1.75%</td>
<td>1.00%</td>
<td>1.25%</td>
</tr>
</tbody>
</table>

Note: * above baseline growth; ** Additional impacts: e.g. for the $10 and over category in the USA, the impact of the media campaign from 2018 to 2022 is 1.5% (i.e. 1.5% + 1%), 3.5% (i.e. 2.0% + 1%), 5.5% (i.e. 3.0% – 1%) and 15% (i.e. 2.5% – 7%) above the baseline of 8.7% respectively (to account for the impact at first intensifying and then dissipating as funding ends)

Table A3
Expected impact of the initiatives under Program 1 (upper bound)

<table>
<thead>
<tr>
<th>Price category</th>
<th>Media campaign</th>
<th>Key influencers campaign</th>
<th>Consumer and trade education</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Initial impact*</td>
<td>Additional impact p.a.**</td>
<td>Initial impact*</td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5.00 to $7.49</td>
<td>0.40%</td>
<td>0.25%</td>
<td>0.30%</td>
</tr>
<tr>
<td>$7.50 to $9.99</td>
<td>1.00%</td>
<td>0.80%</td>
<td>0.75%</td>
</tr>
<tr>
<td>$10.00 and over</td>
<td>1.50%</td>
<td>2.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>China (including Hong Kong)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5.00 to $7.49</td>
<td>0.75%</td>
<td>0.30%</td>
<td>0.50%</td>
</tr>
<tr>
<td>$7.50 to $9.99</td>
<td>1.50%</td>
<td>0.85%</td>
<td>1.00%</td>
</tr>
<tr>
<td>$10.00 and over</td>
<td>1.75%</td>
<td>2.00%</td>
<td>1.25%</td>
</tr>
</tbody>
</table>

Note: * above baseline growth; ** Additional impacts: e.g. for the $10 and over category in the USA, the impact of the media campaign from 2018 to 2022 is 1.5% (i.e. 1.5% + 1%), 3.5% (i.e. 2.0% + 1%), 5.5% (i.e. 3.0% – 1%) and 15% (i.e. 2.5% – 7%) above the baseline of 8.7% respectively (to account for the impact at first intensifying and then dissipating as funding ends)
Estimating the joint impacts of Program 1 and Program 2

Program 2 is designed to enable Australian wine exporters to fulfil the potential additional demand generated by Program 1 in the US and Chinese markets.

Conservative estimates of the impacts of Program 2 – the wine export grant scheme and wine and tourism capability building – are set at 20 per cent of the realisation of the additional demand generated by Program 1. Other existing export facilitation activities contribute the remaining 80 per cent. The estimated additional export revenue for the US and Chinese markets due to the joint effects of Programs 1 and 2 are shown in Figure A1. The present value of the increased export revenues is $148.6 million in 2017 dollars under a 7 per cent discount rate.

The international wine tourism campaign, which is a part of Program 1, is also expected to increase international visitor spending in major Australian wine regions, particularly by visitors from the US and China.

It is assumed that the international wine tourism campaign (which focuses on the US and China) will increase visits from Chinese and US to the top 12 wine regions by 2 per cent above the baseline rate in 2017–18, 4 per cent above the baseline rate in 2018–19, 6 per cent above the baseline rate in 2019–20, 4 per cent above the baseline rate in 2020–21 and 2 per cent above the baseline rate in 2021–22. The baseline rate is assumed to be the growth rate between 2014 and 2015, that is, 22.1 per cent for China and 16.9 per cent for the US. It is assumed that each wine region's share of total visits is invariant over time (that is, it is fixed at the 2015 level).

The impact of the wine tourism campaign first intensifies (to account for the time lag between information being disseminated through the campaign and actual travel taking place and for word-of-mouth effects to occur as visitors with positive experiences encourage their friends and family to do likewise), and then dissipates as the campaign ends after three years.

The projected increase in the number of visitors from China and the US to the top 12 wine regions in Australia as a result of the international wine tourism campaign shows the base case
and the ‘with program’ case grows over time, from 4,840 in 2017–18 to 122,550 in 2021–22, because the additional growth rate is applied to an increasing base (that is, the growth effects are cumulative).

To estimate the increase in international visitor expenditure to the wine regions as a result of the international wine tourism campaign, it is assumed that 10 per cent of visitors are overnight visitors while 90 per cent are day-trippers. According to the Cessnock Council 2016 report (“Tourism Research Australia Data for Hunter Region and Hunter Valley Wine Country”), in 2013–14 there were 14,140 international overnight visitors to the Hunter Valley Wine Country. The Tourism Research Australia data indicates that there were approximately 156,000 day-only and overnight visitors to the Hunter Valley in 2015.

It is also assumed that day-trippers to a wine region spend $100 on average while overnight visitors spend $1,000 on average. According to the Cessnock Council report, Tourism Research Australia data indicated that the average spend by international overnight visitors to the Hunter Valley Wine Country was $835 between 2009–10 and 2013–14. According to Tourism Research Australia’s National Visitor Survey, for the year ending December 2016, average domestic day visitor spend was $108 in the Hunter, $89 in the Barossa and $83 in the Adelaide Hills. The assumption that international day-trippers spend $100 on average is a conservative one, as international day-trippers are likely to spend more than domestic day-trippers. Tourism Research Australia’s International Visitor Survey does not collect data on international day visitors.

Based on the above assumptions, the additional spending in the top 12 Australian wine regions has been projected for international visitors from China and the US to 2022. The additional spending is projected to increase from $0.92 million in 2017–18 to $18.22 million in 2021–22.

The present value of the increased international visitor expenditure is estimated to be $33.6 million in 2017 dollars under a 7 per cent discount rate. The present value of total benefits of Program 1 and Program 2 in terms of increased wine exports and wine region international visitor spending is therefore estimated to be $182.3 million.
Comparison with Package costs and the BCA results

The year-by-year costs of Program 1 and Program 2 and their initiatives, including leveraged funding from industry, are shown in Table A4 (along with those of Program 3). The present value of these two programs’ costs and administrative costs is $36.2 million in 2017 dollars under a 7 per cent discount rate.

Table A4 Program costs per year

<table>
<thead>
<tr>
<th>Initiative</th>
<th>2016–17 ($m)</th>
<th>2017–18 ($m)</th>
<th>2018–19 ($m)</th>
<th>2019–20 ($m)</th>
<th>Totals ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program 1 – Accelerating growth in international demand program</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Media campaign</td>
<td>0.00</td>
<td>4.66</td>
<td>4.67</td>
<td>4.67</td>
<td>14.00</td>
</tr>
<tr>
<td>Key influencers campaign (including international wine tourism campaign)</td>
<td>0.00</td>
<td>2.83</td>
<td>2.83</td>
<td>2.83</td>
<td>8.50</td>
</tr>
<tr>
<td>Consumer and trade education</td>
<td>0.00</td>
<td>3.33</td>
<td>3.33</td>
<td>3.33</td>
<td>10.00</td>
</tr>
<tr>
<td>Leveraged funds</td>
<td>0.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>3.00</td>
</tr>
<tr>
<td><strong>Program 2 – Creating China-ready businesses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export grant scheme</td>
<td>0.00</td>
<td>0.25</td>
<td>0.5</td>
<td>0.25</td>
<td>1.00</td>
</tr>
<tr>
<td>Wine and tourism capability building</td>
<td>0.00</td>
<td>0.66</td>
<td>0.67</td>
<td>0.67</td>
<td>2.00</td>
</tr>
<tr>
<td>Leveraged funds</td>
<td>0.00</td>
<td>0.33</td>
<td>0.33</td>
<td>0.33</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Program 3 – Capturing growth in wine regions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional grants scheme</td>
<td>0.00</td>
<td>1.00</td>
<td>2.50</td>
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<td>5.00</td>
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<tr>
<td>Competitive grants</td>
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<td>2.50</td>
<td>1.50</td>
<td>5.00</td>
</tr>
<tr>
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<td>6.00</td>
<td>20.00</td>
</tr>
<tr>
<td><strong>Program 4 – Transforming cider businesses</strong></td>
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<tr>
<td>Transforming cider businesses</td>
<td>0.00</td>
<td>0.25</td>
<td>0.25</td>
<td>0</td>
<td>0.50</td>
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<tr>
<td>Administration</td>
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<td>1.11</td>
<td>1.11</td>
<td>1.11</td>
<td>4.00</td>
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<tr>
<td><strong>Total program costs</strong></td>
<td>0.67</td>
<td>20.42</td>
<td>29.71</td>
<td>23.70</td>
<td>75.00</td>
</tr>
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</table>

The net present value (NPV), i.e. net benefits, of Program 1 and Program 2, jointly assessed at a lower bound of $144.8 million in 2017 dollars under a 7 per cent discount rate, and an upper bound of $189.4 million in 2017 dollars under a 7 per cent discount rate. These are obtained by subtracting the present value of program costs from program benefits, which are the incremental export revenues to the US and China and increased international visitor spending in Australian wine regions made possible by the two programs.

The benefit–cost ratio (BCR) of the programs, obtained by dividing the present value of benefits by the present value of costs, is estimated to be 4.86 at the lower bound and 6.05 at the upper bound.

The costs and benefits of Program 3 and Program 4 have not been assessed.
Sensitivity analysis

A sensitivity analysis has been undertaken to test the robustness of the BCA results to changes in key assumptions and parameter values.

It should be acknowledged that (external to this BCA, which has been calculated in Australian dollars) there is a likely impact from exchange rate changes on export revenues and international tourism that would have flow on effects on the returns from the Package.

Baseline revenue growth in the USA and Chinese markets

In the BCA, it has been assumed that revenues from Australian wine exports to the US and Chinese markets between 2017–18 and 2021–22 will grow at the same rates as the CAGR in the last three years. If the annual growth rate of export revenues to China (including Hong Kong) between 2017–18 and 2021–22 in the base case in each price category is only half that of the CAGR from the last three years, the NPV for the lower bound of the two programs (assessed together) will decrease from $144.8 million to $91.9 million while the BCR for the lower bound will decrease from 4.86 to 3.45.

Conversely, if the annual growth rate of export revenues to China (including Hong Kong) in the base case in each price category between 2017–18 and 2021–22 is 1.5 times that of the CAGR from the last three years, the NPV for the upper bound will rise to $288.9 million with an upper bound BCR increasing from 6.05 to 8.91.

Impact of Program 1 by price category

ACIL Allen Consulting has made a conservative assumption for the BCA analysis that Program 1 will have no impact on Australian wine exports to the US and China in the two lowest price categories ($2.49 per litre and under FOB and $2.50–4.99 per litre FOB). If the program only impacts wine exports in the two highest price categories but has no impact on the three lowest price categories, then the NPV for the lower bound will decrease slightly from $144.8 million to $136.8 million while the BCR for the lower bound will decrease slightly from 4.86 to 4.65.

If the program only impacts wine exports in the highest price category and has no impact on the four lowest price categories, then the NPV for the lower bound will decrease further to $126.1 million while the BCR will decrease further to 4.37.

This exercise shows that it is the impact of the program on wine exports to the US and China in the highest price category that will deliver the bulk of the program's projected benefits.

Attribution of realisation of potential export gains to Program 2

In the BCA, it has been assumed that 20 per cent of the realisation of the potential export gains generated by Program 1 can be attributed to Program 2. If the attribution rate to Program 2 is 10 per cent instead of 20 per cent, the NPV for the lower bound declines from $144.8 million to $70.5 million while the BCR declines from 4.86 to 2.88. In this case the NPV for the upper bound will decline from $189.4 million to $92.8 million while the upper bound BCR declines from 6.05 to 3.48.
Conversely, if the attribution rate is 30 per cent instead of 20 per cent, the NPV for the lower bound rises significantly from $144.8 million to $219.1 million while the BCR for the lower bound rises from 4.86 to 6.85. The NPV for the upper bound rises from $189.4 million to $286.0 million and the upper bound BCR increases from 6.05 to 8.63.

**Impact of changes to international tourism growth assumptions**

In the BCA, the assumption of growth in international (US and China) tourism is based on actual increases in tourist numbers to the top 12 wine regions between 2014 and 2015. This baseline growth has been projected and a proportional impact of spend on international wine tourism (under the key influencer initiative) has been applied.

If both the baseline growth was halved to 11 per cent for China (from 22.1 per cent actual) and to 8 per cent (from 16 per cent) for the US and the attribution of the impact of the spend was also reduced by half for each financial year, the NPV for the lower bound of the Package would fall from $144.8 million to $124 million and the BCR for the lower bound would reduce from 4.86 to 4.31.

If both the baseline growth was doubled to 44 per cent for China (from 22.1 per cent actual) and to 32 per cent (from 16 per cent) for the US, the NPV for the upper bound of the Package would rise from $189.4 million to $226.7 million and the BCR for the upper bound would increase from 6.05 to 7.05.

**Summary**

Table A5 shows the upper and lower bound NPV and BCR estimates for the Package and compares them with the lowest and highest NPVs and BCRs calculated in the sensitivity analysis above. This indicates the potential range of estimates of the benefits of the Package under this model.

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Package Lower Bound</th>
<th>Package Upper Bound</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPV</td>
<td>$70.5 million</td>
<td>$144.8 million</td>
<td>$189.4 million</td>
<td>$288.9 million</td>
</tr>
<tr>
<td>BCR</td>
<td>2.88</td>
<td>4.86</td>
<td>6.05</td>
<td>8.91</td>
</tr>
</tbody>
</table>
APPENDIX B

STAKEHOLDER CONSULTATION

Chairs and CEOs of Australian Vignerons, Winemakers’ Federation of Australia and Australian Grape and Wine Authority

**Members:**
- Sandy Clark, WFA President
- Joanna Andrew, AV Chair
- Brian Walsh, AGWA Chair
- Tony Battaglene, WFA CEO
- Andrew Weeks, AV CEO
- Andreas Clark, AGWA CEO

**Meetings:**

**Australian Vignerons**
- Australian Vignerons and Heather Webster, Wine Grape Growers Council of South Australia, 15 March 2017
- Australian Vignerons and Ray Garrand, ACIL Allen, 17 March 2017

**Winemakers’ Federation of Australia**
- Board briefing by ACIL Allen Consulting, 28 February 2017
- Draft Business Plan circulated to Board, 21 April 2017
- Board teleconference, 11 April and 26 April 2017

**Steering Committee - Stage 1 project governance**

**Members:**
- Sandy Clark, WFA President
- Brian Walsh, AGWA Chair
- Tony Battaglene, WFA CEO
- Andrew Weeks, AV CEO
- Andreas Clark, AGWA CEO
- Bruce Hampton, AGWA Project Manager
- Kate Harvey, AGWA GM Corporate Affairs and Strategy
- Steven Weinert, AGWA GM Corporate Services
- Stuart Barclay, AGWA GM Marketing
- JP van Moort, ACIL Allen Project director

**Meetings:**

**Reference Group**

**Members:**
- Sandy Clark, WFA President (Chair)
- Andrew Kay, WFA nominee
- Angus Barnes, NSW Wine Industry Association nominee
- Bill Moulardellis, WFA nominee
• Brian Walsh, AGWA Board representative
• Colin Bell, Australian Vignerons nominee
• David Dearie, AGWA Board representative
• Ed Peter, AGWA Board representative
• Eliza Brown, AGWA Board representative
• Georgia Lennon, WFA nominee
• Guy Taylor, Wine Tasmania nominee
• Ivanka Moularadellis, South Australian Wine Industry Association nominee
• Jo Grainger, Department of Agriculture and Water Resources
• John O’Sullivan, Managing Director, Tourism Australia
• Libby Nutt, WFA nominee
• Nikki Palun, Wine Victoria nominee
• Redmond Sweeney, WFA and Wines of Western Australia nominee
• Rod Hill, Queensland Wine Industry Association nominee
• Rodney Harrex, Chief Executive, South Australian Tourism Commission
• Sally Cope, Ultimate Winery Experiences
• Simon Morton, WFA nominee
• Simon West, Australian Vignerons nominee
• Simone Furlong, Leeuwin Estate

Observers:
• Tony Battaglene, CEO WFA
• Andrew Weeks, CEO AV
• Andreas Clark, CEO AGWA
• Stuart Barclay, General Manager, Marketing AGWA
• Steven Weinert, General Manager, Corporate Services AGWA
• Kate Harvey, General Manager, Corporate Affairs and Strategy AGWA
• Bruce Hampton, Project Manager AGWA
• Jan Paul van Moort, ACIL Allen Consulting
• Ray Garrand, ACIL Allen Consulting
• Alexandra Lobb, ACIL Allen Consulting

Meetings:
• 24 January, 10 March and 31 March 2017.

State consultations
• South Australia, 14 March and 26 April 2017
• New South Wales, 16 March 2017
• Western Australia, 21 March 2017
• Victoria, 22 March 2017
• Tasmania, 23 March 2017
• Queensland, 28 March and 18 April 2017
• All States, 26 April 2017

Cider
• Sam Reid, Chair, Cider Australia on 10 February 2017 with JP van Moort, ACIL Allen Consulting and Tony Battaglene, CEO WFA.
• Sam Reid, Chair, Cider Australia and Jane Anderson, Executive Officer, Cider Australia on 15 March 2017 with JP van Moort, ACIL Allen Consulting and Tony Battaglene, CEO WFA.