Winemakers' Federation of Australia

WGGA
Wine Grape Growers Australia

Proposed merger of GWRDC and WAC

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Introduction

The Australian wine industry has made significant advances over the past two decades, particularly in identifying new market opportunities and capitalising on its ability to take quality product to market. Underpinning these successes has been a willingness and ability to invest in joint or collaborative marketing, knowledge development, R&D, policy development and relationship building.

Continuing these activities is important if we are to provide the necessary support for growers, winemakers and others in the value chain in their efforts to take product to market. However, the way we do this must be in tune with current needs and modern thinking.

There is a clear view that the large number of individual organisations supporting the industry adds unnecessary complexity to setting and implementing strategy and communicating with stakeholders. There is confusion about "who does what", and there are different interpretations of what is needed for the industry to address the myriad challenges that confront it.

This paper sets out a proposal to initiate a rationalisation and consolidation of the industry support structure by merging the Grape and Wine Research and Development Corporation (GWRDC) and Wine Australia Corporation (WAC) to create a single statutory authority.

The proposal has been developed jointly by the industry's representative bodies, Winemakers' Federation of Australia (WFA) and Wine Grape Growers Australia (WGGA), and is the next step in building a closer working relationship between the four national organisations following their recent co-location in Adelaide. WFA and WGGA will remain separate organisations.

The primary benefit of the proposed merger is achieving co-ordination by one organisation, against one set of strategies, of the major sum of monies invested by winemakers and growers in the future of the wine sector. Over the past three years GWRDC has invested $22-25 million annually in Research, Development & Extension, while WAC currently invests just over $5 million annually in its core activities. This represents 90% of industry investment in the national organisations.

The Minister for Agriculture, Fisheries and Forestry, Senator the Hon Joe Ludwig, has approved this initiative being taken forward for industry consultation. WFA and WGGA have made a commitment to present a formal case by 31 July 2012, incorporating an overview of all comments received during the consultation phase. The Government will then consider the submission and make a decision. If the Government agrees to the merger, legislation to replace the two bodies with a new body will need to be drafted and then considered by the Parliament.

Background

GWRDC and WAC are statutory authorities, established by and responsible to the Australian Government. Their functions are determined under legislation, they are subject to direction by the Minister and they are prohibited from undertaking industry advocacy or other activities not specifically provided for in the relevant Acts of Parliament.

GWRDC was established under the *Primary Industries and Energy Research and Development Act 1989*. Its role is to plan and fund collective R&D programs and facilitate the dissemination of the results to industry. It does not undertake R&D itself; it funds research providers, notably the Australian Wine Research Institute (AWRI), CSIRO and universities. The Corporation's responsibilities are to:

- develop and implement a Five Year R&D Plan and ensure programs in the Plan produce their desired outcomes
- evaluate research outcomes and extend the benefits of R&D
- report to and liaise with stakeholders (including industry groups, R&D providers and the Australian Government)
- maintain a watching brief for opportunities (including awareness of activities of other R&D organisations in Australia and overseas).

WAC was established under the *Wine Australia Corporation Act 1980* and works to increase and sustain demand for Australian wine via five core responsibilities: Market Development, Knowledge Development, Compliance, Trade and Geographic Indications. Responsibilities include:

- promotional activity
- regulatory affairs, including export regulation
- wine sector information and analysis
- maintaining the integrity of Australia's wine labels and winemaking practices
- defining the boundaries of Australia's wine producing areas.

GWRDC and WAC exist because industry believes their functions are important and because the Government is willing to make legislative provisions to raise levies to enable those functions to be undertaken. Both statutory authorities interact directly with industry, as well as via industry associations at the national (WFA and WGGA), state and regional level.

GWRDC funding is provided only for R&D activities, with projects funded at the discretion of its Board. WAC funding is used across its five functional areas, at the discretion of its Board. While both Boards are formally appointed by the Minister, members are recommended by committees nominated by industry. WFA provides input into priority setting by both GWRDC and WAC. WGGA provides input to GWRDC but is not a prescribed body for WAC.

WFA and WGGA are funded largely through voluntary membership fees and have clearly defined agri-political roles with respect to advancing the interests of the sector through lobbying and policy development and implementation.

The best reform model

WFA and WGGA considered the following three models for reform before developing this proposal.

- *Closer Cooperation*. Achieved with closer cooperation between the Boards and senior management of WAC and GWRDC working more closely together and through sharing of common services.
- *New Statutory Authority (NSA)*. The creation of a NSA entity under either the PIERD Act or a new Act.
- *Industry Owned Company (IOC)*. The creation of an Industry Services Body under corporations law with a statutory funding agreement (SFA) with the Australian Government for the allocation of levies.

The relative merits of each model are set out in the following table.

Issue	Closer Cooperation	NSA	IOC
National strategy implementation	Severely constrained due to different mandates and different constituencies	Significant improvement on integration between two statutory corporations.	Closest link between strategy implementation model and industry
Cost to establish (eg legal)	None. Already in operation	Government absorbs to take on majority of costs. Remaining costs associated with winding up.	Highest cost option. IOCs in other industries have cost more than $1 million to establish
Likely cost savings after implementation	Some inefficiencies exist, though cost savings could be delivered, for example through shared services	Additional administrative savings (e.g. one less Board)	Additional administrative savings (e.g. one less Board)
Wine Australia Compliance	No change. Existing WAC Act covers.	Compliance regulated in new statutory framework.	Additional regulatory organisation would be required to manage WAC compliance role.
Accountability to Industry	Ultimate accountability to the Commonwealth but provisions exist for industry consultation.	Ultimate accountability to the Commonwealth but provisions exist for industry consultation.	Industry owned but accountability to Commonwealth required for allocation of levies (ie all expenditure)
Legislative functions	No change	Replicate functions under PIERD and WAC Acts	Replicate functions under PIERD and WAC Acts

WFA and WGGA's considered view is that the NSA model is the best choice because:

- Closer Cooperation would not lead to sufficient improvements in the key areas of strategy implementation and operational efficiencies
- An IOC model, irrespective of its other strengths, would be too expensive to implement and would require the establishment of a second organisation to manage WAC compliance responsibilities.

The scope of the proposed reform

This proposal does not attempt to address broader issues of national/state/regional organisational reform or the appropriate division of activity and responsibility between the statutory authorities and the industry representative bodies (at national, state and regional level).

However, it takes an important step towards greater efficiency and consistency in planning and service delivery to industry by providing better alignment and flexibility around the allocation of the majority of industry funding [See *The case for the proposed reform* below]. Importantly, it will not affect further industry discussion about broader reform or preclude any specific proposals.

WFA and WGGA believe it is appropriate that any legislative changes required to establish a single statutory authority not change the functions and objects of the existing bodies. The aim is to maintain the current capacity and resources of GWRDC and WAC, albeit in one rather than two organisations. The reform proposal is not affected by recent changes to WAC's export approval process.

We are not seeking to change the level or structure of levy payments; any money saved through efficiency gains will be used for service delivery, replacing some of the income lost because of a recent decline in total levy receipts linked to changed economic circumstances in the industry.

Levies currently directed to GWRDC for R&D will be quarantined for R&D within the new merged entity and industry levies directed towards WAC will be retained for current WAC functions, notably market development and market access. [See Appendix 1]

We would propose to include relevant references to the Primary Industries & Energy Research & Development (PIERD) Act in any new legislation drafted to ensure that R&D funding is protected by the provisions of that Act. As defined by the Act:

> ***research and development***, in relation to a primary industry or class of primary industries, means systematic experimentation and analysis in any field of science, technology or economics (including the study of the social or environmental consequences of the adoption of new technology) carried out with the object of:
>
> (a) acquiring knowledge that may be of use in obtaining or furthering an objective of that primary industry or class, including knowledge that may be of use for the purpose of improving any aspect of the production, processing, storage, transport or marketing of goods that are the produce, or that are derived from the produce, of that primary industry or class; or
> (b) applying such knowledge for the purpose of attaining or furthering such an objective.

The case for the proposed reform

WFA and WGGA believe a merger of the two Corporations will enhance industry service delivery by aligning their functions around unified strategy that also removes duplication.

Alignment of strategy

The four national organisations (GWRDC, WAC, WFA and WGGA) allocate approximately $33 million annually towards a range of functions on behalf of wineries, growers and taxpayers. These functions are not discrete, and there is regular interplay between the objectives and activities of the four bodies.

However, each organisation has its own Strategic Plan, Board, executive teams and stakeholders, with the inevitable consequence that alignment of strategy is compromised. In aligning the functions of GWRDC and WAC, there will be much greater consistency in implementation of strategy.

Furthermore, it will align strategy implementation from vineyard to market in a much more cohesive way, particularly if WFA and WGGA are able to give greater clarity on strategy and issues.

Consolidating all of the existing functions of GWRDC and WAC in one organisation will provide for better coordination of activities across the value chain, more focussed strategies for the industry as a whole and greater responsiveness to emerging trends.

For example, while the merger will not mean that funds collected for R&D can be used in marketing programs, one Board and one authority will be able to fund both market research and marketing in a more coordinated way.

Market research will continue to be funded by the R&D levy under the same definition in the current charter of "scientific and economic research" and this research will guide the marketing that will continue to be funded by the existing Wine Australia levy. As is the current situation, this market research includes country competitor analysis, consumer trend research and market access intelligence.

There are existing examples of R&D and marketing being combined in one organisation (in the dairy and horticulture industries, among others) and in these cases there are clear guidelines around expenditure.

Better service delivery

The wine industry currently has a multitude of service-delivery functions. For example:

- WAC coordinates regional marketing workshops and disseminates statistics and market analysis
- GWRDC runs a Regional Network program providing research extension at the regional level
- WFA coordinates the WineSkills, Entwine and wine tourism programs
- WGGA facilitates biosecurity and delivers VineBiz, a vineyard financial planning tool
- State and regional bodies coordinate a range of programs.

The merged statutory authority will present an immediate opportunity to coordinate the first two of these delivery avenues and will set a platform for further cooperation between statutory and industry organisations to ensure the delivery model is improved and the "calendar of events" is planned efficiently, with the user in mind.

Providing one pathway

A single statutory authority will provide 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.

Efficiency gains

Efficiency gains may occur through the removal of duplication in staffing, lower Board costs due to the creation of a single Board, lower costs in reporting to the Government, and synergies across governance functions, audit, IT and a range of administrative functions. Any financial savings will be redirected towards enhanced services to R&D, Market Development and Knowledge Development.

Summary of merger benefits

Primary benefits

- Unity of policy from vineyard to marketplace, alignment of strategy and priorities and operational integration

Secondary benefits

- Creating financial efficiencies
- Growers being a prescribed body to an expanded statutory authority and accessing all benefits

Residual benefits

- More coordinated research and promotional activities
- Reduced overlap/duplication
- Simplified structure for all levy payers
- Single, unified communication and engagement with levy payers, regions and states and advocacy bodies
- Simplified communication and interaction with government

Next steps

- April to June 2012: Consultation process, including regional meetings in each state
- 14 July 2012: Deadline for comments from industry and stakeholders
- 31 July 2012: Submission to Minister, including summary of industry support or rejection for proposed merger and collation of comments
- August 2012 to January 2013: Government consideration of submission and decision, policy approval, drafting legislation
- 2013 Introduction and passage of Bill through Parliament
- 1 July 2014: New Corporation operational

Consultation process

WFA and WGGA are seeking written feedback on this proposal by 14 July 2012. Comments will be collated and included in a formal recommendation to be made to the Minister by 31 July 2012.

Comments should be sent to either:

- Tony Battaglene, General Manager Strategy & International Affairs, Winemakers' Federation of Australia, at PO Box 3891, Manuka, ACT 2601 or by email to tony@wfa.org.au; or
- Lawrie Stanford, Executive Director, Wine Grape Growers Australia, at PO Box 950, Kent Town, SA 5071 or lawrie.stanford@wgga.com.au.

If you need any further information please contact:

- Tony on 0413 014 807 or (02) 6239 8304; or
- Lawrie on 0417 859 282 or (08) 8133 4401

Appendices follow

Appendix 1: EXISTING LEVIES AND PROPOSED ALLOCATION IN NEW ENTITY

The following illustrates the proposed allocation of levies as described on page 3 (*The scope of the proposed reform*)

Existing Levy	Existing Provision	Allocation in New Entity
WINEMAKERS & GROWERS Grape Research Levy GWRDC Wine Grapes Levy GWRDC	Expenditure legislated under PIERD Act Payable on grapes delivered to processors $2/tonne Expenditure legislated under PIERD Act. Payable on grapes used to manufacture wine $5/tonne	PIERD Act Provisions incorporated Allocated to R&D
WINEMAKERS Wine Grapes Levy Wine Australia*	Expenditure legislated under WAC Act. Payable on grapes used to manufacture wine Graduated rate commencing at $5/tonne reducing to $0.4/tonne**	Allocated to Knowledge Development, Compliance, Trade, GIC, Board & Governance, Domestic Marketing
EXPORTERS Wine Export Charge Wine Australia	Expenditure legislated under WAC Act. Payable by licensed exporters and calculated as a % of sales***	Allocated to Export Market infrastructure, supporting user-pays promotional activities

* WAC compliance activities are covered by a user-pays export charge

** Graduated levy commencing at $5/tonne for first 10 tonnes, $4.20/tonne for the next 2,990 tonnes and finishing at $0.40/tonne for more than 40,000 tonnes.

*** 0.2% of FOB sales value for sales < $20M
0.1% of FOB sales value for sales between $20M and $70M
0.05% of FOB sales value for sales over $70M

Appendix 2: FREQUENTLY ASKED QUESTONS

Why is this happening now?

WFA and WGGA have felt for some time that such a merger is appropriate and it has become more of a priority as diminishing total levy payments impact on the budgets of both Corporations. Following a formal approach by us in December 2011, the Government has indicated that it is willing to consider a formal proposal.

How long will it take?

The Government has asked that before we make a formal submission we consult widely with industry. Following this consultation, it will consider our proposal and, if it agrees, will then need to work through the details of the new organisation and draft legislation to create a new organisation. This will then need to be added to the legislative program for debate in both Houses of Parliament. We believe this process will take about two years.

Why not take a broader view and look at other organisations as well?

Merging the two national organisations is just one step in attempting to streamline service delivery at a national, state and regional level. However, we do not want to miss the opportunity to take what would be an important first step, and one which would deliver immediate benefits to industry without prejudicing further discussion and action.

Is this just a cost-cutting exercise?

No. We believe alignment of strategy and better service delivery are the primary benefits. That said, cost savings are important and will permit continued funding of RD&E and market development in a declining funding environment

Is there opposition to the proposal?

We are aware of some specific concerns, notably around protecting money collected through levies for the purpose of R&D. However, we believe there is overwhelming support for the merger concept. An important part of the consultation phase will be to address these specific concerns.

The Minister has asked to be made aware of both negative and positive feedback when we report to him, and he will factor this into his thinking.

Will the big companies determine the final outcome?

The Minister has made it clear that he will take into account responses from all levy payers, of all sizes, including wine and wine grape businesses, as well as the views of state and regional associations. It is his specific request that he receive the broadest possible feedback.

What if the Government says 'no'?

The ultimate decision lies with the Government, so if it rejects the proposal it will not proceed in this form at this time. For that reason we are seeking as much industry feedback as possible so we can both show genuine support for the concept and answer any concerns.

What guarantees are there that levies won't be increased?

This proposal keeps levies unchanged and no increase could happen without widespread industry support and following a detailed consultation process specifically about that issue as set out in the Levy Principles and Guidelines. It cannot happen as a part of this process. The Guidelines can be found at http://www.daff.gov.au/__data/assets/pdf_file/0003/253353/levy-principles-guidelines.pdf.

How can I comment?

We are seeking written feedback on this proposal by 14 July 2012. Comments will be collated and included in a formal recommendation to be made to the Minister by 31 July 2012.
Comments should be sent to either

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