

REGIONAL REPORTS

NEW7

north east wine zone project



**ALPINE VALLEYS
BEECHWORTH
GLENROWAN
KING VALLEY
RUTHERGLEN**

REGIONAL REPORTS

PREPARED FOR
THE AUSTRALIAN ALPINE VALLEYS AGRIBUSINESS FORUM INC.



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EXECUTIVE SUMMARY (excerpt from Main Report)

The North East Zone of Victoria has a rich history in viticulture with each of the five regions, Alpine Valleys, Beechworth, Glenrowan, King Valley and Rutherglen, all having record of vineyard plantings in their regions since the mid 1800's.

The zone has experienced exceptional growth in recent years including now more than 235 vineyards comprising total plantings of 3,681 hectares of which 3,311 hectares are bearing. 14.8 percent of the plantings are to 25 different white grape varieties whilst 20 different red grape varieties account for the remaining 85.2 percent.

Intended planting of vines over the next ten years will see an increase of 421 hectares (70.5%) in white varieties and 259 hectares (8.4%) in red varieties by 2013. Overall, additional plantings will represent an 18.5 percent increase in total vine planted compared to current plantings.

52 percent of the vineyard mass has been planted within the last five years, with a further 29 percent being between five and ten years old.

The 3,311 hectares of bearing vines produced 30,918 tonnes of grapes which represents a yield 9.34 tonnes per hectare. 84 percent of the total tonnage was in red grape varieties. Almost two thirds of the total production of the zone was sold by its grower to another party, the balance was made into wine by the grower or under contract. Approximately 8,355 tonnes of grapes were sold outside the zone, which ensures that the economic benefit of the winemaking process was not lost to the area. Approximately 11,800 tonnes of grapes were sold by growers to producers within the zone.

Therefore, of the 30,918 tonnes produced in the zone, including wine made outside the zone under contract, only 8,355 tonnes are leaked outside the zone, leaving 22,563 tonnes (73 percent) of the grapes grown in the zone to be processed in the zone and therefore retaining the greatest percentage of the economic impact within the zone.

Of grapes sold to any third party, 89 percent were sold under contract and only 11 percent on the spot market.

Within the North East there is currently winery capacity to process 48,545 tonnes of fruit and bulk wine storage capacity of 37.8 million litres in tank and barrel.

In addition to grapes grown and processed in the zone, a further 1,119 tonnes was purchased outside the zone for processing within the zone, bringing the total volume of grapes crushed within the zone to 23,433 tonnes.

Extractions rates being achieved by winemakers average at 696 litres per tonne - comprising 675 litres for white and 704 litres for red grapes. Based on the calculation of total tonnes processed multiplied by average litres per tonne, we suggest that 16,318,579 litres of wine is produced in the zone's 70 production facilities with 4,356,035 being white wine and 11,962,544 being red wine. Of the total wine produced, approximately 63 percent was packaged in the Super Premium Category – between \$10 and \$20 retail. The total retail value of wine produced in the region is approximately \$206,000,000 with 74.6 percent of that value being in the in the Super Premium category.

Of course the full benefit of the retail must be considered in the context of how the product is distributed and the margin reductions and costs associated with such distribution. A breakdown of how the North East's wine is sold reveals that just under \$20,000,000 goes through the cellar doors of the zone and a further \$10,000,000 is sold via direct mail and internet sales. Just over \$79,000,000 (of full retail value) passes through the wholesale distribution channel, an impressive \$72,600,000 (of full retail value) goes to export and \$24,000,000 is sold as bulk wine.

The nature of the North East wine industry is substantially family based and this fact affects the ability to properly account for employment levels as business owners do not often account for their own labour. However, based on the research, we have identified that the wine industry employs (pays wages to) the equivalent of 689 full time employees. Using a salary figure of \$28,000 per year that equates to just over \$19,000,000 paid in annual salaries. 95.35 percent of all employees are located within the zone and therefore the economic flow on of those jobs remains in the area. The number of non-paid family members involved in grape and wine businesses in the zone is estimated to be in the vicinity of 400 which mean that the industry is providing jobs for approximately 1,100 people.

The industry's total expenditure on equipment and supplies for the year was over \$13,000,000, however it should be noted that many respondents were reluctant to supply this level of financial information. We estimate, based on the size and nature of the businesses, that this figure is significantly lower than reality, however it is clear that the greatest proportion of the expenditure occurs in the vineyards.

Taking into account the total revenues for the zone, subtracting the leakages from within the zone to outside areas and applying the statistical economic indicator for agriculture, it is determined that the net economic impact of grape and wine businesses to the area is \$244,605,144.

FAST FACTS (excerpt from Main Report)

NORTH EAST VICTORIA ZONE PROFILE

Vineyards

3,681 hectares planted

3,311 hectares bearing

14.8 percent of plantings to white grape varieties

85.2 percent of plantings to red grape varieties

25 Different white grape varieties

20 Different red grape varieties

52 percent of vine has been planted in the last five years

29 percent of vine is between five and ten years old

An additional 420 hectares of white grape varieties will be planted by 2013

An additional 259 hectares of red grape varieties will be planted by 2013

Yield

30,918 tonnes of grapes are produced

Average yield of 9.34 tonnes per hectare

84 percent of total yield is in red grape varieties

20,139 tonnes of grapes are sold to other parties

11,784 of these tonnes are sold to producers within the North East Zone

8,355 tonnes are sold to producers outside the North East Zone

89 percent of all grapes sold were sold under a contract

11 percent of all grapes sold were sold on the spot market

Wineries

48,545 tonnes of fruit can currently be processed in regional wineries

37.8 million litres of wine can currently be stored in tank and barrel

675 litres of white wine extracted from each tonne of white grapes (average)

704 litres of red wine extracted from each tonne of red grapes (average)

16,318,579 litres of wine produced

4,356,035 litres of white wine

11,962,544 litres of red wine

62 percent of wine produced packaged in the Super Premium Category (between \$10 and \$20)

70 production facilities (wineries)

Value of Wine

\$206 million retail value of wine produced (full retail value, not actual sales)

\$19.8 million in cellar door sales

\$10.2 million in mail order or internet sales

\$79 million through wholesale (full retail value, not actual sales)

\$72.6 million to export (full retail value, not actual sales)

\$24 million in bulk wine sales

Economic Impact

689 equivalent full time jobs

\$19.3 million paid in wages

95.35 percent of all employees reside in the zone

\$4.9 million spent on consumable items (vineyards accounted for largest percentage)

\$8.3 million spent on equipment (vineyards accounted for largest percentage)

\$244.6 million total economic contribution of the industry to the North East Zone

\$90.5 million paid in taxes to three levels of government

THE FIVE REGIONS

As an extension of the North East Wine Zone Strategic Research Study, a further report has been generated which looks at each of the five wine Regions within the Zone.

Alpine Valleys

Beechworth

Glenrowan

King Valley

Rutherglen

This part of the research addresses the differences between the five regions in relation to plantings, yield, production, employment, sales and economic impact. We should stress that whilst we are confident in our research methods and data analysis techniques, some caution should be exercised when analysing the results. For the total sample, more than 114 respondents participated in the research and good projections and analysis can be made on this data. However, when we allocate those respondents across the five regions on the basis of representation from each region, the imbalanced sub-sample can create some minor skewing of results.

This is particularly the case in the situation where there is a high level of intra and inter region sales, movement of grapes prior to crushing and processing for sale (transportation) under the provisions of Phylloxera protocols.

THE POPULATION

There are 236 growers and wine makes in the North East Zone. King Valley is the largest in terms of number of industry players and size – area under acreage.

| NUMBER OF VINEYARDS | | | | | | |
|-----------------------|----------------|------------|-----------|-------------|------------|-------|
| | Alpine Valleys | Beechworth | Glenrowan | King Valley | Rutherglen | TOTAL |
| Potential Respondents | 56 | 23 | 8 | 97 | 51 | 235 |

PLANTINGS

The King Valley has the greatest volume of vine plantings, with approximately 35% more land planted to vine than the next largest region of Rutherglen. Rutherglen and Glenrowan are established as “red grape regions” with a very high ratio of red to white grapes planted.

| VINES PLANTED - HECTARES | | | | | | |
|--|----------------|------------|------------|--------------|------------|--------------|
| | Alpine Valleys | Beechworth | Glenrowan | King Valley | Rutherglen | TOTAL |
| Total hectares planted | 617 | 160 | 199 | 1,588 | 1,117 | 3,681 |
| Total hectares bearing | 522 | 145 | 199 | 1,395 | 1,050 | 3,311 |
| Total hectares bearing Red Actual (percentage) | 433 83% | 118 81% | 175 97% | 1,108 78% | 972 93% | 2,806 85% |
| Total hectares bearing White Actual (percentage) | 89 17% | 27 19% | 5 3% | 306 22% | 78 7% | 505 15% |
| Ha planted in last five years | 249 | 121 | 12 | 754 | 780 | 1916 |
| Percentage | 40% | 76% | 7% | 47% | 70% | 51% |
| Ha planted in last ten years | 237 | 44 | 103 | 516 | 163 | 1063 |
| Percentage | 38% | 27% | 58% | 32% | 15% | 29% |
| Additional plantings by 2013 - red | 2 | 18 | 0 | 117 | 122 | 259 |
| Additional plantings by 2013 - white | 34 | 35 | 0 | 234 | 116 | 420 |

Beechworth is the “newest” region with a large percentage of the current plantings being less than five years old, however, it has grown from a very small base. All other regions with the exception of Glenrowan have ‘middle age’ vineyard. The King Valley appears to have the most ambitious planting program with intentions to add an extra 350 ha in the next 10 years.

YIELD

The total grape yield produced within the Zone was 30,918 tonnes. Breaking this total down across the regions reveals that the King Valley is producing the greatest volume, which follows logically from the fact they have the largest plantings.

Beechworth has emerged as the region producing the lowest tonnes of fruit per hectare of vine planted. The survey data revealed that the Beechworth region is characterised by small growers of ultra and premium quality price segments, which is in line with a low per hectare yield.

| GRAPES PRODUCED – TONNES | | | | | | |
|----------------------------------|----------------|------------|-----------|-------------|------------|--------|
| | Alpine Valleys | Beechworth | Glenrowan | King Valley | Rutherglen | TOTAL |
| Tonnes of grapes produced | 5,523 | 593 | 2,167 | 14,078 | 8,556 | 30,918 |
| YIELD - TONNES PER HECTARE | | | | | | |
| Total Yield (tonnes per hectare) | 10.58 | 4.09 | 10.87 | 10.10 | 8.14 | 9.34 |

The authors wish to advise that the distribution of grape sales/transfers within the following table may be misleading. Careful scrutiny of the responses has indicated that in some instances, inter-company transfers within the zone may have been treated by the respondent as sales, and therefore the 'sale' volume may appear inflated. The authors advise that any external reporting, or use of these numbers for any purpose should be carefully considered. It should also be noted that the collection of data allowed for growers to identify that fruit that would normally be sold as whole fruit but is affected by PIZ (phylloxera infested zone) protocols.

| GRAPE SALES (transfers) | | | | | | |
|---|-------|-----|-----|-------|-------|--------|
| tonnes of grapes sold to other parties | 3,396 | 416 | 138 | 9,166 | 7,024 | 20,139 |
| tonnes sold to other producers within the NE Zone | 1,950 | 133 | 41 | 6,188 | 3,473 | 11,784 |
| percent of all grapes sold under contract | 96% | 78% | 91% | 82% | 94% | 89% |
| percentage of all grapes sold on spot market | 4% | 22% | 9% | 18% | 6% | 11% |

WINERIES

The respondents were invited to identify their winemaking capacity. The King Valley has by far the largest capacity, which is again logical based upon the planting and yield outcomes. Extraction rates vary to some degree, however within a small range with red grapes yielding a volume slightly above that extracted from white grapes.

| WINERIES | | | | | | |
|--|-----------------------|-------------------|------------------|--------------------|-------------------|-------------------|
| | Alpine Valleys | Beechworth | Glenrowan | King Valley | Rutherglen | TOTAL |
| Tonnes of fruit that can be processed | 10,115 | 280 | 2,280 | 26,470 | 9,400 | 48,545 |
| Litres of wine that can be stored | 7,801,500 | 120,000 | 760,000 | 19,139,306 | 10,000,000 | 37,820,000 |
| GRAPES PROCESSED | | | | | | |
| Grapes produced | 5,523 | 593 | 2,167 | 14,086 | 8,549 | 30,918 |
| Grapes purchased into the zone | 384 | 2 | 5 | 612 | 16 | 1,019 |
| Grapes sold outside the zone | 1,869 | 301 | 81 | 3,436 | 2,667 | 8,355 |
| Grapes crushed | 4,037 | 294 | 2,091 | 11,113 | 5,898 | 23,433 |
| EXTRACTION RATES | | | | | | |
| Litres of red wine extracted from each tonne of grapes | 714 | 710 | 712 | 701 | 701 | 704 |
| Litres of white wine extracted from each tonne of grapes | 686 | 690 | 630 | 672 | 680 | 675 |
| Average litres of wine extracted from each tonne of grapes | 705 | 704 | 710 | 688 | 701 | 696 |
| TOTAL LITRES OF WINE PRODUCED | | | | | | |
| litres of red wine | 2,037,330 | 147,503 | 1,343,841 | 4,972,963 | 3,460,906 | 11,962,544 |
| litres of white wine | 810,023 | 59,320 | 140,077 | 2,670,418 | 676,196 | 4,356,035 |
| total litres of wine | 2,847,354 | 206,823 | 1,483,918 | 7,643,382 | 4,137,102 | 16,318,579 |

Note: Due to transfers between the regions, particularly with regards to those organizations who operate their vineyards as separate commercial entities, it is not possible to fully reconcile the total zone figures with the individual regions.

VALUE OF WINE PRODUCED

The following table describes the total retail value of all wine and the method by which it is distributed. It should be noted that a 'retail' value is applied, however this does not reflect the revenue returns achieved by wineries. The income to wineries will be affected by the method of distribution – eg. Cellar Door and Mail Order sales are made at retail value, however wholesale and export sales are made at significantly lower values to take into account distributor margins and other supply chain costs. In addition a range of selling costs (agents commissions, freight etc) are incurred against all sales.

| RETAIL VALUE OF WINE PRODUCED – DOLLARS IN MILLIONS | | | | | | |
|--|-----------------------|-------------------|-------------------|--------------------|-------------------|--------------------|
| Retail Value (\$m) | Alpine Valleys | Beechworth | Glenrowan | King Valley | Rutherglen | TOTAL |
| Cellar Door | 3,536,402 | 742,265 | 1,347,861 | 7,712,051 | 6,467,783 | 19,806,361 |
| Mail Order and Internet | 410,016 | 850,181 | 495,101 | 3,317,196 | 5,220,410 | 10,292,904 |
| Wholesale | 7,449,274 | 1,754,714 | 1,644,324 | 45,792,447 | 22,574,191 | 79,214,951 |
| Export | 868,076 | 476,015 | 21,680,704 | 39,671,060 | 9,928,766 | 72,624,621 |
| Bulk | 16,038,297 | 5,027 | 51,070 | 6,827,027 | 1,126,762 | 24,048,182 |
| Total Retail Value | 28,302,065 | 3,828,203 | 25,219,059 | 103,139,779 | 45,317,912 | 205,987,019 |

ECONOMIC IMPACT

The financial contribution by the wine industry to each of the five regions is significant across employment and purchases of supplies and equipment in both the vineyard and the winery. Of the total of 689 people employed in the industry, 279 of those are working in the King Valley.

| | Alpine Valleys | Beechworth | Glenrowan | King Valley | Rutherglen | TOTAL |
|--|----------------|------------|------------|-------------|------------|-------------|
| JOBS | | | | | | |
| Equivalent full time jobs | 168 | 78 | 38 | 279 | 127 | 689 |
| Percentage of Employees living in zone | 100% | 99% | 97% | 93% | 92% | 95% |
| WAGES | | | | | | |
| Paid in wages (\$m) | 4,709,057 | 2,176,155 | 1,052,403 | 7,804,630 | 3,549,630 | 19,291,876 |
| CONSUMABLE | | | | | | |
| Consumables (\$m) | 455,591 | 654,107 | 422,654 | 2,243,930 | 1,163,359 | 4,939,640 |
| Equipment (\$m) | 931,188 | 276,197 | 95,392 | 6,274,570 | 718,628 | 8,295,974 |
| ECONOMIC IMPACT | | | | | | |
| Economic Impact (\$m) | 33,783,740 | 5,524,049 | 23,085,817 | 123,968,646 | 58,242,892 | 244,605,144 |



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