NORTH EAST WINE ZONE
STRATEGIC RESEARCH PROJECT 2003

PREPARED FOR

THE AUSTRALIAN ALPINE VALLEY AGRIBUSINESS FORUM INC.

‘This project is supported by funding from the Department of Primary Industry through the Victorian Agribusiness Network

Victoria The Place To Be

Proudly Supported by Regional Development Victoria

victorianagribusinessnetworks van

Prepared by Wine Food Tourism Strategies Pty. Ltd.

Melbourne, Victoria 2003

WINEFOODTOURISM

FOREWORD

The Australian Alpine Valleys Agribusiness Forum Inc (AAVAF) understands the vital importance of the wine industry to the North East of Victoria. As an outcome of its interest the AAVAF initiated meetings with wine industry representatives to discuss the opportunities and impediments for continued success. As a result of these meetings it was determined that a Strategic Analysis of the industry would be undertaken, encompassing the five GI regions of Alpine Valleys, Beechworth, Glenrowan, King Valley and Rutherglen.

Through continued collaboration between the AAVAF, representatives of the wine regions and the Economic Development Officers of the municipalities of Alpine, Towong, Indigo, Benalla and Wangaratta, a Steering Committee was formed and the project criteria developed. A successful funding application to the Victorian Agribusiness Network (via the Department of Primary Industry) preceded the brief for conduct of the project being distributed to ten consulting groups. Melbourne based Wine Food Tourism Strategies Pty. Ltd. were the successful tenderer and have worked with the Steering Committee to the successful completion of the project.

The release of this final report presents an opportunity for the AAVAF and the Steering Committee to appropriately position the area for investment consideration and to inform the wine industry as a whole. With a documented understanding of the nature of the wine industry's size, capacity and performance coupled evidence of its economic contribution to the North East, the report will be of significant interest to local, state and federal governments at each level.

The AAVAF recognises the invaluable contribution of the Steering Committee and the support of the grape growers and winemakers of the entire North East Zone. Cooperation by growers and producers both small and large required painstaking responses to some 1865 questions in total, which is an effort we greatly appreciate. In addition the AAVAF expresses its appreciation to the team at Wine Food Tourism Strategies for comprehensive interpretation of the aims of the project and the professional and committed approach.

Projects such as these require funding and we acknowledge the Minister for Agriculture, The Hon. Bob Cameron for his foresight and commitment. It is without doubt that this project will be a catalyst for future opportunities and we look forward to the Minister's continued support. Such support is fundamental to regional agriculture and its ability to realise full potential and sustain its contribution to the growth and prosperity of Victoria.

Peter J. Long
Chairman
Australian Alpine Valleys Agribusiness Forum
November 2003

EXECUTIVE SUMMARY

The North East Zone of Victoria has a rich history in viticulture with each of the five regions, Alpine Valley, 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 420 hectares (70.6%) in white varieties and 257 hectares (7.7%) 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 25 percent being less than ten years old.

The 3,311 hectares of bearing vines produced 30,918 tonnes of grapes which represents a yield 9.12 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 leaving 22,326 tonnes for processing within the zone which ensures that the economic benefit of the winemaking process was not lost to the area. Approximately 11,000 tonnes of grapes was sold by its grower to a producer within the zone.

Therefore, of the 30,918 tonnes produced in the zone, including wine made outside the zone under contract, only 8,592 tonnes are leaked outside the zone, leaving 22,326 tonnes (72 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, 89.75 percent were sold under contract and only 10.25 percent on the spot market.

Within the North East there is currently winery capacity to process 29,209 tonnes of fruit and bulk wine storage capacity of 33,746,746 litres in tank and barrel.

In addition to grapes grown and processed in the zone, a further 4,500 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 can confidently suggest that 16,318,579 litres of wine is produced in the zone's 70 production facilities with 5,641,317 being white wine and 10,677,983 being red wine. Of the total wine produced, approximately 62 percent was packaged in the Super Premium Category – between $10 and $20 retail. The total retail revenue potential value of wine produced in the region is approximately $206,000,000 with 68 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 costs associated with such distribution. A breakdown of how the North East's wine is sold reveals that just under $26,000,000 goes through the cellar doors of the zone and a further $9,000,000 is sold via direct mail and internet sales. Almost $79,000,000 of retail value passes through the wholesale distribution channel and an impressive $92,500,000 of retail value goes to export.

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.

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.

As a part of the survey each respondent was asked to provide additional information on their tourism facilities, rate the importance or value of a number of issues and factors that affected their businesses and give general comments about how they see their future in the industry.

Of the 19 suggested business enhancers the wineries identified 'more tourism signage' as the most important factor and a 'farmers market' as the least. This in itself is surprising as many wine regions suggest that 'farmers markets' are a strong attractor for their key target markets. No strong evidence supporting the development of centrally located cooperative wine production, bottling or warehousing facilities was evident.

Twenty six percent of respondents operate a cellar door with six percent charging a tasting fee. A range of other facilities are provided including restaurants (with an average expenditure of $25 per head) and accommodation. Annual visitation at cellar door ranges between 100 and 110,000 people per year with January, April (Easter) and June being the busiest months. Twenty percent of the cellar operators sell 90 percent of their production through their cellar door. Ten percent of respondents sell merchandise other than wine, however this only accounts for two percent of revenue. Fifty percent accept large coaches whilst 80 percent will accept small bus groups.

When asked to comment on a range of factors affecting their outlook for the future the industry indicated that only 26 percent have planted all of the land available on their current land holding. The majority of comments surrounding the likelihood of further plantings were related to insufficient return on investment due to low prices for their fruit. The 43 percent who would contemplate growing more would do so to generate more revenue and achieve greater efficiency.

No person indicated that they would plant more for business growth and greater prosperity, in fact there was a strong suggestion of a lack of good financial reward for grape growing. The primary reasons cited as impediments to growth were the state government, federal government, (lack of) regional marketing, (lack of) distribution opportunities, individual and personal matters and availability of labour.

A SWOT has been undertaken based on information learned from the surveys and gathered via interviews with a range of regional stakeholders.

At this point in the report, emphasis shifts from the primary data gathered from vignerons within the zone and looks at a range of other information sources.

This sociodemographic and viticulture/winemaking profile of the North East Wine Zone is compared with a number of other regions within Australia. This analysis compares the regions in terms of land mass, population, education and employment profile and social capital. The viticultural and winemaking comparison looks at a number of factors including area under vine, varieties planted and growth over recent years in relation to the rest of Australia and each of the four host states. The wine growing region with the greatest similarity to North East Victoria is Western Australia's Margaret River. Each area is approximately three hours from their closest capital city and has a similar number of hectares under vine. Their crush was 30,918 tonnes and 26,892 tonnes respectively. The differences begin to appear when we look at the weighted average price per tonne for fruit which was $989 in the North East and $1,695 in Margaret River. The total value of the North East crop was in excess of $30,000,000 compared to over $45,000,000 for Margaret River. The North East is home to 54 cellar doors and ten winery restaurants whereby Margaret River hosts 65 cellar doors and 22 winery restaurants. The Margaret River has achieved outstanding success in building reputation and profile through aggressive cooperative marketing and brand building.

A comprehensive overview describes the methodology employed in the research project.

Finally, the report reviews a number of other investigative reports identified during the course of the project. The Annotated Bibliography draws from the Executive

Summary of these reports in order to provide an overview of other issues of current significance.

FAST FACTS

NORTH EAST VICTORIA ZONE PROFILE

Vineyards

3,681 hectares planted

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

25 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 9.12 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

89.75 percent of all grapes sold were sold under a contract

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

Wineries

29,209 tonnes of fruit can currently be processed in regional wineries

33,746,746 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)

16,319,300 litres of wine produced

- 5,641,317 litres of white wine
- 10,677,983 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 (value not sales)

$25.7 million in cellar door sales

$8.9 million in mail order or internet sales

$78.8 million through wholesale (retail value)

$92.6 million to export (retail value)

(The above figures are based on the retail value of the wine not actual 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