SUBMISSION TO

THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON PRIMARY INDUSTRIES AND REGIONAL SERVICES

INQUIRY INTO

INFRASTRUCTURE AND THE DEVELOPMENT OF AUSTRALIA'S REGIONAL AREAS

BY

THE CITY OF ONKAPARINGA,

ALEXANDRINA COUNCIL

and

ADELAIDE HILLS COUNCIL

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CONTENTS

1. THE ISSUES

The Alexandrina and Adelaide Hills Councils and the City of Onkaparinga wish to invite the Standing Committee's attention to a range of infrastructure issues which have been brought into sharp focus by the rapid development of the wine grape growing and wine making industries in their region.

Substantial evaluation work has been undertaken by each organisation and there has been consultation with the industry as well as considerable public discussion of the issues.

Some of the public discussion has assumed the tone of controversy: ratepayers are becoming increasingly agitated about infrastructure bottlenecks and environmental concerns occasioned by the accelerated development of the industry.

The industry itself has aired concerns that infrastructure and service bottlenecks will either choke off some of the autonomous development underway in the industry or, at the very least, add significantly to costs. In an intensely competitive marketplace, where the capacity to increase prices is rapidly eroding, this will reduce margins. This, in turn, will impact on likely investment returns and, thereby, act as a brake on further development.

For their part, the Councils are acutely aware that the wine industry is virtually the sole source of new development momentum in the region:

- The traditional rural industries are under both cost and price pressure, with large segments in either structural or cyclically-induced decline:
  - Dairy farming is no longer economically feasible on a small scale and much of it has disappeared - the only processing factory in the region has been closed;
  - Orchard industry is also in decline, with even the almond industry, once a mainstay of the rural sector in the region, progressively disappearing (and, in most cases, being replaced by vineyard);
  - Potato growing, once a major horticultural activity in the Adelaide Hills, has shrunk considerably;
  - Wheat and other grain crops are a relatively small segment of the regional economy, other than in Langhorne Creek;
  - Sheep grazing, for both wool and meat – a significant part of the Langhorne Creek economy – is suffering depressed returns;
  - Beef cattle returns are also depressed and market growth prospects limited.

- Apart from significant pockets of Onkaparinga there is very little manufacturing industry and this, in any case, suffers from:
  - A small local market base in South Australia and remoteness from larger east coast markets;
  - Depressed export markets (mostly in Asia); and
  - Intensifying import competition (eg in automotives and components).

- Service industry is focussed essentially on the requirements of the local population and local industry and growth potential is, therefore limited:
  - The rural towns in the region are suffering the same pressures experienced by other rural locations in Australia in terms of rationalisation of service delivery by large service providers, such as banks, Australia Post and many government services.

- The significant exception is tourism, an expanding industry:
  - Tourism *does* have autonomous growth momentum but much of the growth is related to the expansion of the wine industry;
  - Tourism, too, is hampered by infrastructure constraints which, in turn, are exaggerated by the pace of development of the wine industry.

In the circumstances, the Councils believe it is of fundamental importance for the on-going prosperity of the region that its main engine of growth, grape growing and winemaking, is not burdened by any *avoidable* obstacles to its further development.

2. THE WINE ECONOMY

Until relatively recently, grape growing was a minor farming pursuit, and winemaking was essentially an on-farm value-adding practice – on a small scale. That began to change in the 1970s. Momentum gathered throughout the decade and through the 1980s. But large-scale export successes in the 1990s – backed by major new capital (eg Southcorp, Fosters and new publicly listed companies) and the entry of major foreign beverage giants (eg Pernod Ricard) – saw the transition from minor rural value-adding to large scale, integrated industry.

The wine industry is now not only a significant industry in its own right but, in the bigger wine producing regions, it has become the core function of a 'wine economy'. It is also a major generator of secondary and tertiary growth momentum.

The secondary momentum is in the provision of services to the industry, the supply of equipment and the provision of industry inputs:

- Contracting (vineyard development, pruning, vine training, harvesting, wine making, bottling);
- Industry supplies (posts, wire, clips, nursery materials, fertilizer, horticultural and winemaking chemicals, barrels, chips, bottles, capsules, labels, cartons);
- Equipment (tractors, harvesters, pruners, implements, earthmoving gear);
- Services (laboratory, viticultural, architectural, construction);
- Transport (of equipment, viticultural supplies, grapes and bulk and bottled wine); and
- Storage (bottle storage, barrel storage, tank storage, equipment storage).

The tertiary momentum is in the tourism industry (provision of accommodation, catering, restaurants, museums etc), and the industries which co-exist with wine and tourism (such as gourmet foods, handicrafts, artistic produce etc).

3. THE REGION

The area to the south and the immediate south east of Adelaide contains one of Australia's oldest wine producing regions, and some of its newest.

With the introduction of the formal Geographic Indicator (GI) system a broader regional identity, the **Fleurieu Peninsula**, now encompasses:

- The long established wineries around Reynella on the outskirts of Adelaide;
- McLaren Vale, the largest concentration of the industry in the region;
- The new producing areas to the south of McLaren Vale – around Willunga and Aldinga, but also extending all the way down the peninsula to Victor Harbor and Currency Creek;
- Kangaroo Island – the most recent branch of the region's industry; and
- Langhorne Creek, the fastest growing grape producing area in the nation.

Although Reynella is now a part of urban Adelaide the remainder of the Fleurieu Peninsula is rural – though generally closely settled.

The **Adelaide Hills** region encompasses the area directly to the east of Adelaide, in a fan shape extending north towards Gumeracha and south to Piccadilly. It is densely settled, with a significant commuter population and some large towns and peri-urban concentrations. Between a fifth and a quarter of the area is urban. The remainder is rural, but quite concentrated.

4. PATTERN OF DEVELOPMENT

WINE MAKING

There are, in total, 98 winemaking enterprises in the region. McLaren Vale/Fleurieu is the dominant sub-region, with 59 wineries and over 4,000 hectares under vine. The Adelaide Hills has 32 wine making entities but only three complete wineries in the region itself and just under 1000 hectares under vine. Langhorne Creek has a much larger area under vine (2500 hectares), has far fewer winemaking entities, but all five are complete wineries.

Each of the four industry giants (which, collectively, account for almost three quarters of the Australian industry's sales) has major operations in the region:

- Southcorp
- Orlando/Wyndham
- BRL Hardy (which, in fact, maintains its headquarters in the region, at Reynella)
- Mildara Blass.

Several of the handful of medium-sized firms which make up the bulk of the remaining one quarter of the Australian industry also maintain substantial operations in the region:

- Rosemount
- Tyrrells
- Normans (which has its headquarters in the region, at Clarendon).

Beneath this weighty layer of national players, there is another layer of *local* wine making entities – ranging in size from micro-operations producing just a couple of thousand cases per year - to large wineries crushing up to 5,000 tonnes of grapes each vintage.

Some straddle the spectrum of the industry:

- Growing grapes
- Making wine
- Marketing, selling and, in some cases, managing the distribution of their own product; and, increasingly

- Providing services to the industry, such as crushing, processing, bottling/packaging, vineyard development and management and storage.

Others may grow grapes but have crushing and much of the winemaking done off-premises, frequently on a contract basis, and simply finish wine on-premises and maintain a cellar door operation.

GRAPE GROWING

Expansion of output in this region over the past three years has been pronounced in McLaren Vale (41%), rapid in Langhorne Creek (89%) and spectacular in Adelaide Hills (127%) – though, in this case, from a smaller base. In both McLaren Vale and Langhorne Creek, the growth is being led by red wine (see Table 1) grape varieties – especially Cabernet Sauvignon and Shiraz. In the Adelaide Hills, it has been led by white wine grape varieties – especially Sauvignon Blanc.

This growth is projected to continue, at an expanding rate, over the next five years, with the most rapid growth being in Langhorne Creek (456%) and Adelaide Hills (368%). In fact, in Phylloxera and Grape Industry Board of South Australia (PGIBSA) projections, Langhorne Creek will be producing almost three quarters of the volume of the fruit produced in McLaren Vale by Year 2003. Even at its present level of production, it is close to the Clare Valley in grape production capacity. On some projections, it will have caught up to McLaren Vale by Year 2005.

TABLE 1: COMPARISON OF VINTAGES BY REGION

		ActualTonnes Utilised				**Rate of Growth 1996 - 1998 %**	**Rate of Growth 1996 – 2003 %**
		1996	1997	1998	2003 (i)		
State	*White*	238709	205950	240712	284683	1	19
	Red	167678	165583	230601	498706	37	197
	Total	406387	371533	471313	783389	16	93
McLaren Vale	*White*	14725	14610	17864	17349	21	18
	Red	21153	24551	32888	50642	55	139
	Total	35878	39162	50752	67991	41	89
Langhorne Creek	*White*	1829	1821	2746	5955	50	225
	Red	6859	8360	13709	42357	100	517
	Total	8688	10181	16455	48312	89	456
Adelaide Hills	*White*	1868	3057	5055	8767	170	369
	Red	2113	2901	3967	9884	88	368
	Total	3981	5957	9022	18651	127	368

Source: PGIBSA

Note: (i) - Projected

This growth at the base of the industry has induced new capacity in processing and in the provision of other essential services to the industry – not always an exact fit to some of the more precise requirements, and it has arrived with a lag in some cases. This has put pressure on some winemakers and raised anxieties among many growers.

Although there have been the inevitable lags and some miscued responses, resource gaps have not significantly slowed the rate of expansion although, undeniably, they have added to costs and, in the 1998 vintage, impacted on returns to some growers.

It does appear that private capital is providing the solution to the issue of greatest recent concern: ie, physical processing capacity. Much of this is already in the pipeline and further expansions are in the planning stages.

Concerns do remain in relation to capacity to match the massive increase in grape production already in the pipeline at Langhorne Creek. There are plans for new capacity in the region to process some of the new grape tonnage, but this will fall well short of requirements and increasing volumes of grapes will be transported out of the region for processing. McLaren Vale is one obvious destination, and McLaren Vale winemakers are already factoring Langhorne

Creek tonnages into their capacity expansion plans. Significant volumes will go to the Barossa Valley, primarily reflecting the planning priorities of the big corporates in the industry and the interests of Barossa winemakers who source Langhorne Creek fruit for blending purposes.

5. INFRASTRUCTURE AND DEVELOPMENT

Growth of this order of magnitude, and at this pace, could have been expected to strain public infrastructure – and indeed, it has.

There has been ample warning. While not perfect, statistical compilation of grape growing and wine making activity is comprehensive and reasonably timely. There are public sources (the Australian Bureau of Statistics and the PGIBSA), as well as industry sources - both nationally and locally. There are statistics on grape planting intentions and forecasts of likely available tonnages for processing. There is also a long-term indusy plan – *Strategy 2025*, prepared (and recently updated) by the Winemakers Federation of Australia.

But there are two major explanations for a lag. First, it is easier to expand grape plantings, even to expand winemaking capacity, than it is to expand public infrastructure – especially if the former is being driven by strong demand for final product. Secondly, while strong market conditions will always deliver the necessary capital for private sector capacity expansions, the availability of public sector capital for infrastructure expansion is a function of different imperatives – factors which are considerably less forthcoming.

Accordingly, there is now, in the view of the Councils, a significant infrastructure capacity (and a corresponding funding) gap. Their concern is that, if not urgently addressed, it has the potential to slow the growth of their core growth industry – with serious consequences for the whole regional economy. At the very least it will affect returns to the industry. And, if not attended to, will exacerbate community anxieties about the 'value' of the industry to the community.

These issues were the subject of a recently completed *Audit of the Development Needs of the Wine Industry in McLaren Vale/Fleurieu, Langhorne Creek and Adelaide Hills*. It was commissioned by the City of Onkaparinga and The Southern Partnerhip[1] with funding support from the State Department of Industry and Trade and the Commonwealth Department of Education, Training and Employment. The Audit was carried out by independent strategic analysts, INSTATE Pty Ltd.

[1] The Southern Partnership comprises state and federal members of parliament with local electorates, plus the Minister for Local Government and Employment, the leader of the Australian Democrats in South Australia, the Mayor of the City of Onkaparinga and the Chief Executive. It is chaired by Sir Dennis Paterson. Its charter is to contribute to community and economic development in the region by examining opportunities for, and obstacles to, development.

The main infrastructure constraints to emerge from the Audit relate to:

- The availability (and the sustainability) of water resources for vineyard development;
- The systems in place for the management of winery effluent;
- The availability of mains water and power;
- The soft and hard infrastructure necessary to capture full benefit for the community from the concommitant growth in tourism made possible by wine industry development; and
- The suitability of the transport infrastructure in the region for the industry at its current and projected size.

Each of these issues warrants further detailed examination and corrective responses.

The Councils have the issues under active consideration and, where budgets permit, corrective action is either being taken or is planned in most areas which fall within their jurisdictions. However, the expenditure involved to upgrade infrastructure to current and anticipated requirements is well beyond the capacity of Councils to fund through their own budgets. The issue has been taken up with the State Government, but funding is also a constraint at that level.

WATER AND WASTE MANAGEMENT

In the case of water, the piping of treated effluent from Christies Beach water treatment plant to McLaren Vale has provided considerable scope for expanded vineyard area. Similarly, the piping of water from Lake Alexandrina has permitted a great deal of the expansion at Langhorne Creek. The availability of water is still a constraint to further expansion, however, one specific initiative which would ameliorate this constraint in Mclaren Vale would be a water storage facility which would enable usage of the Christies Beach waste more effectively.

Effluent and waste management is not so much a regional issue as an *industry* issue. Further work is being undertaken at the industry level in regard to treatment of winery waste and effluent disposal. This would be an important priority for further research by publicly funded industry organisations such as the Grape Industry Research and Development Corporation.

Mains water and power infrastructure is generally adequate for most regional requirements but is occassionally deficient for large users and, for winemaking, at peak requirement. This will be raised with the providers – United Water and Electricity Trust of South Australia.

The Adelaide Hills Council area straddles the Onkaparinga River, a very important catchment area for Adelaide's water supply: around 60% of water used in Adelaide comes from catchments within the Mt Lofty Ranges.

The Adelaide Hills catchment is unique in that it is a catchment in which there is urban living and agriculture being pursued at intensive levels. This is a very important feature of the Mt Lofty Ranges and requires particular attention to infrastructure to ensure low contamination from silt and road runoffs from stormwater drains and it is also an imperative that practices such as chemical use for protection of vines and other crops from insects, bacteria and fungi are monitored and usage controlled.

The development of appropriate roads, bridges, culverts and stormwater management associated with these infrastructures is critical to ensure that the water qualities of the Adelaide Hills catchments are maintained for the 1,000,000 people who draw on this water supply in Adelaide.

The issues of catchment water management, including stormwater control and management, would need an additional $0.5 million to help address the implications of the expanding wine industry in the Adelaide Hills district.

TOURISM

The tourism sector is a particularly important component of the wine industry. By feeding visitors through a region, it provides an opportunity to develop new markets – from the relative comfort of the cellar door or at the local restaurant. The challenge for the region, therefore, is to keep tourists in the area for as long as possible. In order to successfully achieve this, the correct balance between hard and soft infrastructure must be found.

The Adelaide Hills Council area alone, the most complete component of the region in terms of tourism infrastructure, is responsilble for the bulk of the estimated $200 million of identified tourism revenues in the central Mt Lofty Ranges.

There are approximately 2,000 people directly employed and another 2,000 indirectly employed in the tourist industry in the Adelaide Hills and visitor numbers are about 1.2 million per annum. Of these, the bulk of the visitors emanate from Victoria 39 per cent, New South Wales 32 per cent and at least two thirds of each State's visitors drive into the region. The growth over the 1997-98 period was about 4.1 per cent. International visitors are growing at a rate of 9.2 per cent, mostly from Europe, USA, NZ and Asia.

ROAD INFRASTRUCTURE

The infrastructure issue of greatest immediate concern to Councils is in regard to roads.

Adelaide Hills

The Council area has approximately 1,000km of roads with 600km being sealed roads and 400km unsealed. The hilly nature of the area and the low demand for roads that can accommodate larger vehicles has led to a road network that consists of windy narrow roads. A failure to match the needs of the industry could lead to economic loss for the industry, with the subsequent flow on effect to the whole community.

There are three categories of roads that need to be considered: Transport SA Arterial roads; Council Arterial roads; and Secondary roads.

- **Transport SA Roads:** It has been estimated that 40,000 tonnes of grapes per annum will be transported via Transport SA roads to the Barossa Valley for processing. This will put increased pressure on these roads and highlight the inadequacies in the system. The Onkaparinga Valley Road will be the main route although there will be increased traffic on other Transport SA roads in the Council area. There are a number of bridges and culverts along these roads that require widening to give a consistent and satisfactory road width. It is estimated that a minimum of $7 million will be required to carry out these works.

- **Council Arterial Roads:** The Council arterial roads collect traffic from the secondary roads and connect with the Transport SA roads. The roads are narrow and were constructed for light traffic, a significant increase in grape production will lead to pavement failures and problems for all road users as larger vehicles will be using the roads on a more frequent basis leading to traffic conflicts.

  Newman Road and Mappinga Road in the Woodside area are examples of roads that were not constructed for heavy traffic and will suffer pavement failures. Swamp Road, which connects Lenswood and Balhannah, will have pavement and alignment problems when heavy transport uses the road on a more regular basis. Montacute Road, which connects the Ashton area with Campbelltown is narrow and has a lot of sharp, corners; it will require changes to its width and vertical and horizontal alignment.

  It is estimated that the cost of upgrading these roads to a satisfactory standard is approximately $3.5 million.

- **Council Secondary Roads:** Vineyards have been established in areas where the experts in the industry believe that the soil and climatic conditions are most conducive to producing quality grapes. These locations are areas where there was previously very little economic activity and consequently there has been little road infrastructure put in place. An example of this is Crofts Road, Lenswood which was a minor gravel road with only 26 vehicle movements per day, it now has significant vineyards along its length and will require major upgrading to accommodate increased traffic.

  It is estimated that upgrading these roads will cost approximately $1.5 million.

Alexandrina

The road system in Alexandrina was, with the exception of one major arterial road, constructed to support traditional, broad-acre farming.

The exceptionally rapid pace of development of the grape growing industry in the region, however, has altered the pattern, as well as the volume of, road usage. This is exacerbated by the fact that vineyard activity in Langhorne Creek is very large scale, most of the fruit is transported out of the region for processing and, hence, there is a reliance on heavy transport – with the attendant impact on the condition of the road and costs of maintenance and repair.

The stock of rural road in the Council area is 960km, of which 237km is sealed and 723km is rubbled. The current value is $27 million and the estimated replacement cost is $46.5 million. In 1997-98, expenditure on reconstruction of sealed roads totaled $668,000 (5km of surface). Expenditure on maintenance of rural roads (pavements only) is expected to total $1,389,000 in 1998-99.

Onkaparinga

An audit of road surfaces and current and projected usage in Onkaparinga has identified a total of 103km of road where wine industry usage dictates either new construction or reconstruction. This is estimated to cost $25.5 million.

In Onkaparinga’s case, a considerable proportion of the rubbled surface road is no longer servicable for either heavy wine industry usage or else to permit satisfactory access to wineries for tourists: new wineries, with cellar door facilities, are growing at a considerable pace, many ‘well off the beaten tracks’.

There has been a failure of three bridges directly as a consequence of wine-related traffic, which they were not designed to carry. This has required major remedial construction at a considerable (and unanticipated) expense to Council.

CONCLUSION

The ‘wine economy’ is virtually the sole engine of growth for the Fleurieu Peninsular/Adelaide Hills region. It has put life back into a region that was flagging under the general economic pressure bearing down on traditional rural industries and the structural pressures facing regional areas in an open global economy.

The Councils are concerned that obstacles to the further growth and development of the industry are minimised. This has become an urgent priority in view of rising competitive pressures on wine makers and looming price falls for grapes.

The Winemakers’ Federation of Australia warned last October that, by Year 2003, the availability of wine is expected to exceed industry sales by approximately 70 million litres. The Australian Bureau of Agricultural & Resource Economics (ABARE) warned, at the *Outlook 99* Conference, that increased production levels, combined with lower growth in demand for Australian wine, is expected to lead to real winegrape indicator price falls of 35 per cent for Chardonnay grapes and 42 per cent for Cabernet Sauvignon by 2003-04. This could severely affect the viability of some farms, ABARE warned, particularly those with high overhead costs and small bearing areas.

Whereas the industry could bear the costs of infrastructure bottlenecks and extraneous overheads in the ‘boom’ years, this will not be the case in the next five years. They will need all the cost reduction opportunities they can manage. They will become increasingly intolerant to externally imposed costs, and this sentiment is now palpable.

Their needs are clear, as a result of the industry Audit, and progress is now expected. Roads are a pressing priority.

The Councils have quantified the work which needs to be done: it will cost an estimated $50 million to bring ‘wine roads’ up to standard at the current and projected levels of usage.

This has to be paid for, of course. Put simply, ***the Councils do not have the funds***. Neither are they in a position to raise the additional funds required. Their capacity to raise revenue is constrained by carried debt, recent substantial rate hikes and limitations imposed by amalgamation agreements.

Unless there are external funding sources, the bottlenecks will remain – and get worse. The State Government is reviewing infrastructure requirements for food and beverage industry development, but there is no sign of increased State funding for Councils, even if some funds do eventually materialise for Transport SA arterial roads.

Councils, therefore, urge the Committee to consider a tranche of Commonwealth regional development funding being specifically earmarked for ‘wine roads’. Councils could immediately propose specific, worthy projects for funding.