



Victorian distilled spirits industry analysis

Department of Energy, Environment and Climate Action

November 2023

KEY FINDINGS FROM THE VICTORIAN DISTILLED SPIRITS INDUSTRY ANALYSIS

The Victorian spirits industry supports economic activity both directly through its operations and through purchases from suppliers.

In 2022-23, this economic activity was worth nearly **\$3 billion** in total value add and supported 23,150 Full-Time Equivalent (FTE) jobs across Victoria, of which approximately **9,600** FTE jobs are direct.

The Victorian spirits industry supply chain includes four distinct stages, starting with **188** local distilleries that produce over 2,650,000 litres of pure alcohol annually and attracted over 230,000 visitors (not including local residents) to their distillery door in 2022.

The Victorian spirits industry supply chain



Key industry findings



Spirits types

80% of distilleries produce more than one type of spirit, with gin, vodka and whisky being the most commonly produced



Visitation

During 2022, there were over **230,000** visits to distilleries in Victoria, a 50% increase on 2019



Supporting regions

46% of the Victorian distilleries are located outside of Greater Melbourne



Exports

Victorian spirits exports were worth **\$41 million** in 2022-23, an increase of 21% from 2021-22



A gender balanced workforce

Women made up **44%** of the Victorian distiller workforce in Victorian distilleries in 2021, compared to 20% in wineries and 10% in breweries

Industry outlook

Over the next **five years**, **strong growth is** expected for the spirits industry with:

Industry value add expected to increase by **3.1% per annum**

2,450 additional FTE jobs compared to 2022-23

There is strong optimism amongst Victorian distilleries with **72%** expecting revenue to increase in 2023-24.

Revenue is expected to increase by **12.5% on average** in 2023-24. For the average distillery, this would equate to an increase of a nearly **\$170,000** in revenue.

Opportunity areas for growth

Realising the anticipated strong growth in the industry will require support in the following areas:

- 1 Building tourism offerings
- 2 Increasing export activity
- 3 Developing skills in the distillery workforce
- 4 Ensuring growth in distributors to facilitate growing distillery operations

EXECUTIVE SUMMARY

A significant industry

The Victorian spirits industry has experienced rapid growth in recent years, with the number of visitors to distilleries increasing by 50% from 2019 to 2022 and Victorian spirit exports growing by 21% from 2021-22 to 2022-23. The distilled spirits industry in Victorian is also one of the largest compared to other Australian states and territories.

There are now 188 distilleries operating in Victoria as of 2023. These businesses generate significant economic activity and employment through production and sale of spirit products both on-premise and off-premise, with a substantial share of activity occurring in regional areas. The industry also supports activity through a broader spirits supply chain that includes liquor wholesalers, retailers and hospitality.

To better understand this important industry, the Department of Energy, Environment and Climate Action (DEECA) commissioned Deloitte Access Economics to undertake an in-depth analysis of the distilled spirits industry in Victoria and identify the industry's strengths and opportunities for growth. This analysis will be used to inform future policy development in relation to the industry and the broader supply chain, and to support future growth of the industry.

To inform the analysis, Deloitte Access Economics developed and fielded a survey of Victorian distilleries (the Victorian Distillers Survey). The survey was completed by 70 businesses, ranging in business size, location, years in operations and spirits distilled.

Three industry workshops were used to identify and discuss strengths and opportunities for the industry and test preliminary survey results. This primary research and validation was supplemented with publicly available information from a variety of sources including bespoke data from DEECA, ABS Census data,

liquor licensing data and other data sources.

Deloitte Access Economics estimates that the Victorian spirits supply chain contributed nearly \$3 billion in economic activity to the Victorian economy in 2022-23, and supported 23,150 full time equivalent (FTE) jobs within the state.

Of this contribution, Victorian based distilleries contributed \$142 million and supported over 1,300 FTEs through their direct operations. These estimates are conservative and do not reflect the operations of distilleries that have headquarters outside of Victoria, but have operations or sell products within Victoria.

Underlying this value is an estimated 2,650,000 litres of pure alcohol distilled in Victoria annually. Gin, vodka and whisky are the most commonly produced distilled products within Victoria and account for the largest share of revenue and volume production according to the Victorian Distiller Survey.

The survey revealed that the vast majority of Victorian distilleries (80%) produce multiple types of distilled products. In comparison, Deloitte's 2021 report on the national spirits industry found approximately 65% of nationally surveyed distilleries produced more than one type of distilled product.

Just under half (44%) of Victorian distilleries are located in regional areas of Victoria, supporting economic activity across the state. Almost all (94%) of distilleries across the state are small businesses employing less than 20 employees. More than half of distilleries surveyed (55%) earned less than \$500,000 in revenue, while 12% earned more than \$2 million in 2022-23.

The revenue generated by distilleries comes from a variety of channels. Liquor wholesaling was the largest revenue source accounting for an average of 37% of revenue for distilleries in 2022-23, followed by a distillery door (20% of revenue), and exports (16% of revenue).

KEY FIGURES FOR THE VICTORIAN SPIRITS INDUSTRY



188 Victorian distilleries



2,650,000 litres of pure alcohol annually, which supports a broader Victorian spirits industry supply chain – including distilleries, wholesale, retail and hospitality – which contributed:



\$2.97 billion in economic activity and



23,150 full time equivalent roles in the Victorian economy in 2022-23.

EXECUTIVE SUMMARY

Outlook for the industry

Despite a challenging macroeconomic environment at present where high inflation and rising interest rates have dampened consumer spending, the outlook for Victorian distilleries is relatively optimistic.

Nearly three quarters of distilleries expect their revenue to grow in 2023-24. On average, distilleries expect revenue to increase by 12.5% in 2023-24 with greater revenue expectations for both smaller distilleries (generating under \$100,000 in revenue annually) and larger distilleries (over \$10 million in revenue annually).

Strong revenue expectations by distilleries are also supported by trends in underlying drivers of demand such as population growth, spirit consumption trends and consumer willingness to pay for high quality or bespoke products (also known as premiumisation).

In fact, accounting for these underlying drivers, Deloitte Access Economics anticipates the broader supply chain of the spirits industry in Victoria will on average grow in real terms by 3.1% per annum over the next five years. Subsequently, the broader supply chain is anticipated to reach \$3.46 billion in value add (in 2023 dollars) value add and nearly 23,150 FTE roles by 2028.

The direct operation of distilleries is expected to account for \$165 million and almost 1,440 FTE roles by this period. More generally, growth in distilleries is expected to outpace broader growth in the state economy by 0.9 percentage points over the next five years. \$21 million of this direct value add will come from exports which are forecast to grow at 11% per year over the next five years.

Opportunities for growth

Realising the anticipated growth for distilleries and the broader spirits supply chain will require addressing some barriers facing the industry.

Victorian distilleries have identified these barriers as having the most severe impact on growth:

1. Excise tax burden (cited by 63% as having a severe impact)
2. Inflation and rising costs of inputs (55%)
3. Economic uncertainty (39%)
4. Inability to access capital (39%)
5. Difficulty securing domestic distribution (36%).

Another key barrier cited by 93% of distilleries was recruitment hiring difficulties. The most common issue was a lack of applicants with the required skills (impacting 54% of distilleries). The key areas distilleries are lacking are soft skills such as sales, marketing and business planning.

In addition to addressing the barriers, growing the distilled spirits industry in Victoria will require an expansion of existing areas of strengths, such as tourism and exports.

The top opportunities for supporting industry growth are listed to the right. Progress in these areas will increase the likelihood of continued growth in this important industry, and help deliver associated benefits from a more diversified and regionally distributed economy.

OPPORTUNITY AREAS

1 Supporting distilleries in building tourism offerings

Victoria has the highest share of distillery visits of any Australian jurisdiction (27% in 2022). While more than half (54%) of the industry has a distillery door, a further significant share are looking to open a distillery door (34%). Consultation with industry suggests that distilleries may require support in navigating local council regulation or connecting with external events to access these opportunities.

2 Increasing access to export markets

Only 14% of distilleries currently export their product. The Victorian Distillers Survey suggests most distilleries would like more information selecting potential export markets (49%), exporting rules and regulations (46%), and marketing (43%).

3 Developing skills of the distillery workforce

The key skills gaps are concentrated in soft and commercial skills. Developing industry tailored training could be valuable to help support distilleries and their staff and assist owners in building awareness and the ability to access other sources of finance.

4 Ensuring growth in distributors to facilitate growing distillery operations

Less than 70% of distilleries use a distributor, with industry consultations revealing difficulties with finding distributors. This issue is exacerbated by the recent growth in distilleries with over half of surveyed distilleries only beginning operations in the past five years.



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This research seeks to develop a greater understanding of the distilled spirits industry in Victoria.

The most comprehensive analysis of Victorian spirits industry to date.

The Department of Energy, Environment and Climate Action (DEECA) commissioned Deloitte Access Economics to undertake in-depth analysis of the distilled spirits industry in Victoria and to identify the strengths and opportunities for improvement in the industry. The analysis will be used to inform future policy development relating to the industry and the broader supply chain. This research will also support future growth of this important industry.

The research recognises the broader supply chain that makes up the distilled spirits industry, inclusive of input industries, international suppliers, exports and domestic consumption. The local production and distribution of spirits includes distilleries, wholesale, retail and hospitality (see Figure 1).

Data sources used for this analysis.

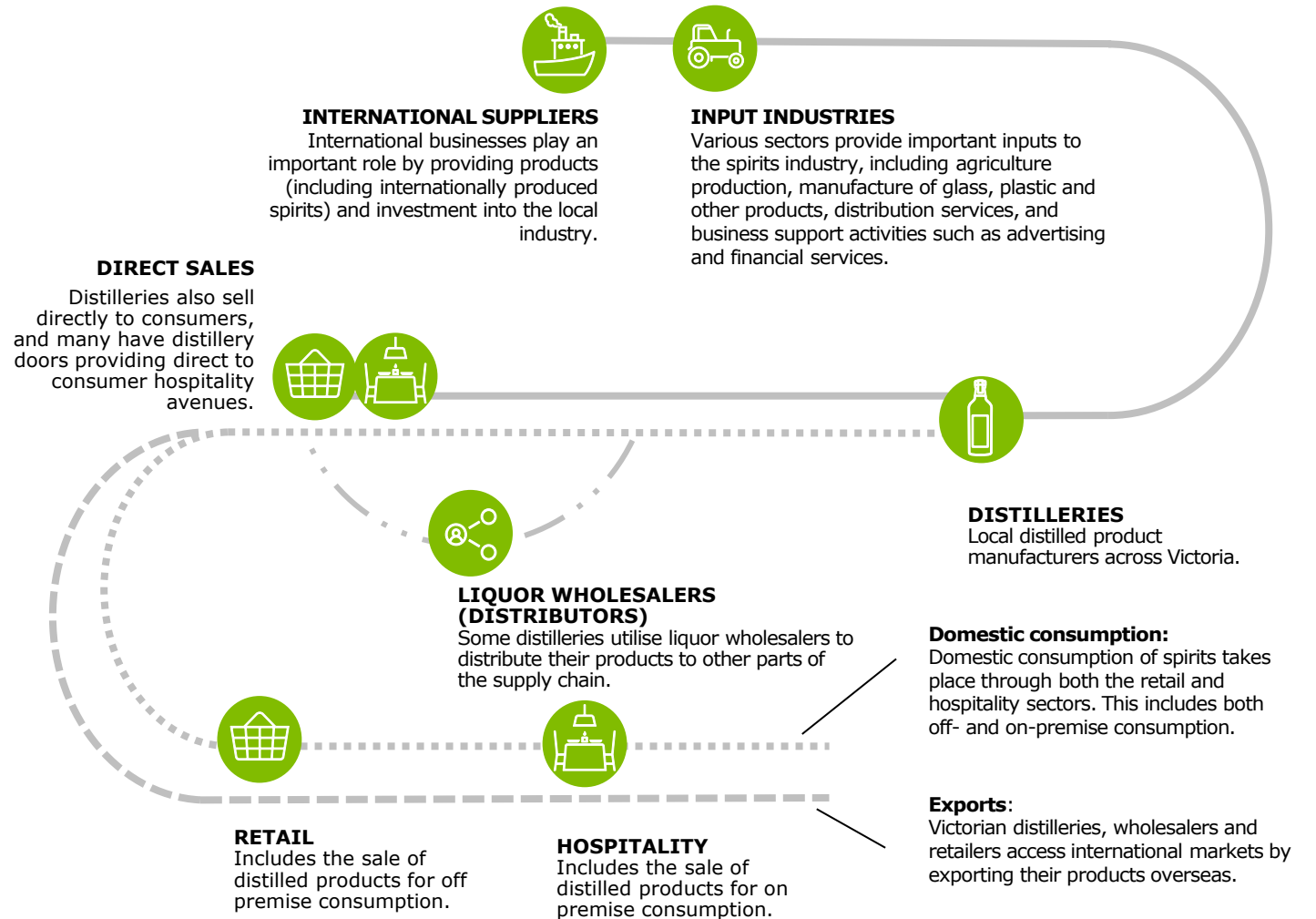
To produce this analysis, Deloitte Access Economics developed and fielded an online survey of Victorian distilleries (the Victorian Distillers Survey). This survey was completed by 70 distilleries (noting a distribution list of 188) and conducted from the 1st of August to the 25th of August 2023.[^] Further details about the survey can be found in Appendix A.

This analysis was also informed by three industry workshops used to identify and discuss strengths and opportunities in the industry and to discuss preliminary survey results. Feedback obtained by industry has subsequently been incorporated at various points during this research.

This primary research and validation was supplemented with publicly available information from a variety of sources including bespoke data provided by DEECA and the Australian Distillers Association (ADA), Australian Bureau of Statistics (ABS) census data, liquor licensing data and other data sources.

[^]The survey requested operational information from 2020-21, 2021-22 and 2022-23. Unless otherwise specified survey data presented in this report is as at August 2023.

Figure 1: Overview of distilled spirits supply chain



Source: Deloitte Access Economics.

INDUSTRY OVERVIEW | BUSINESS SIZE AND LOCATION

More than 57% of surveyed distilleries have been operating for less than 5 years, suggesting a fast-growing industry.

Over the past 15 years the number of distilleries in Victoria has grown considerably.¹ In 2023 it is estimated there are 188 distilleries currently operating in Victoria based on databases from DEECA and the ADA.²

The Victorian Distiller Survey found that most distilleries (53%) had been in operation between one and five years, with a further 26% in operation between six and 10 years, with relatively few distilleries in operation for more than 10 years (see Chart 1).

According to ADA data, Victoria has the largest number of distilleries (26% of the national total) – a substantially higher share than New South Wales (21%) and Queensland (17%).

Just under half (44%) of Victorian distilleries operate in a regional area (see Figure 2), lower than overall alcohol production in the state with 58% of producer liquor licences located in regional Victoria as at 30 June 2023.³

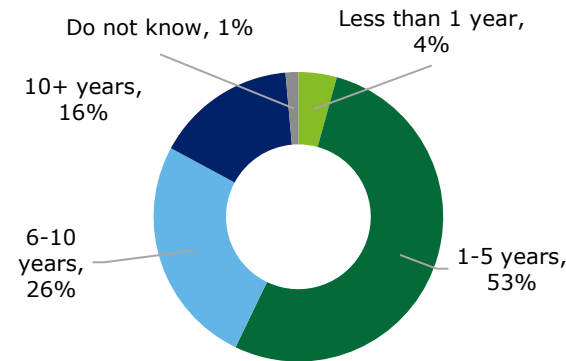
Almost all distilleries surveyed (94%) are small businesses, employing less than 20 full-time equivalent (FTE) staff.

In fact, nearly two thirds (64%) of distilleries employ between 1-4 FTE employees (see Chart 2) while 30% employed between 5-19 FTE employees. On average, distilleries surveyed employ 6.5 FTE employees which aligns with the number of employees per business across spirit manufacturing industry in Australia more broadly at 10 employees per business in 2023.⁴

In 2022-23, the average revenue among respondents was about \$1.4 million per annum.

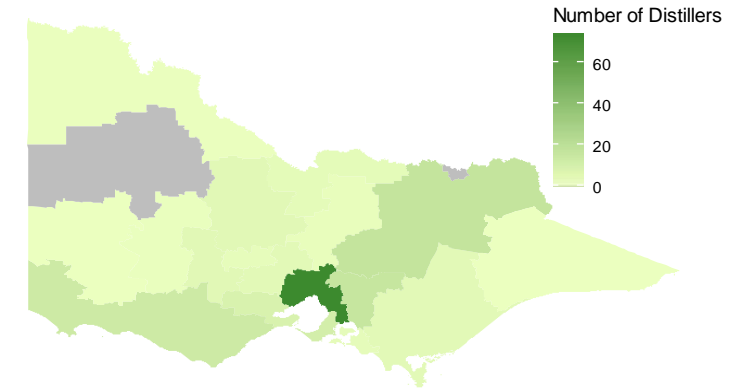
When looking at the distribution of revenue, the majority of distilleries surveyed (55%) earned less than \$500,000, with few (12%) distilleries earning more than \$2 million in 2022-23 (see Chart 3). In general, smaller distilleries (FTE employee terms) had lower revenue than those with more staff. Survey results show that in most cases more established distilleries tend to have higher revenue.

Chart 1: Years of operations



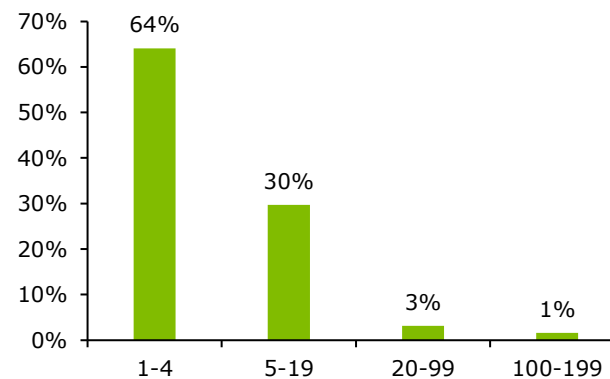
Source: Victorian Distillers Survey, Deloitte Access Economics (n=70)
Note: Years of operations as at 2023. Question: How many years has your business been in operation?

Figure 2: Number of distilleries by region



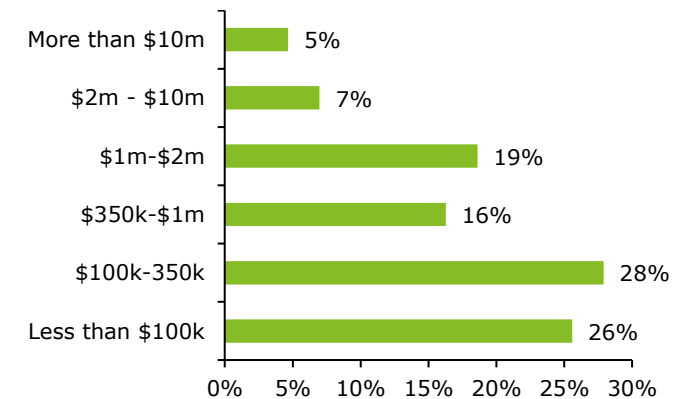
Source: Agriculture Victoria and ADA.

Chart 2: FTE employee headcount across distilleries



Source: Victorian Distillers Survey, Deloitte Access Economics (n=64) Question: How many staff does your business employ? How many full-time equivalent staff does this represent?

Chart 3: Distribution of distillery revenue



Source: Victorian Distillers Survey, Deloitte Access Economics (n=43) Question: What was your business revenue from sales related to spirits and other distilled products for 2022-23?

INDUSTRY OVERVIEW | PRODUCTION

Most distilleries diversify their production with gin, vodka and whisky the most commonly produced spirits in Victoria.

The majority of Victorian distilleries (80%) produce multiple types of distilled products.

In comparison, Deloitte Access Economics' 2021 report on the national spirits industry found that approximately 65% of distilleries surveyed produced more than one type of distilled product.⁵ Almost a quarter of Victorian distilleries (22%) – typically the larger distilleries – produce five to seven types of spirit (see Chart 4).

Distilleries may seek to diversify their product range given increasing propensity for consumers to shift between beverage options, to grow their consumer base, to generate new revenue streams and to experiment with crafting different spirits.⁴

Gin, vodka and whisky are the most commonly produced distilled products in Victoria and account for the largest share of revenue and volume production.

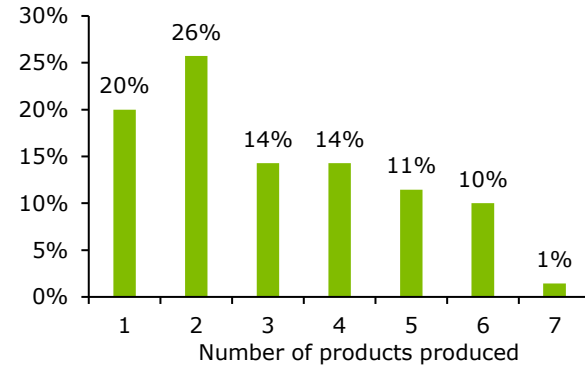
More than 2,650,000 litres of pure alcohol is estimated to be distilled in Victoria annually. Gin is the most commonly produced distilled product – produced by 87% of surveyed distilleries (see Chart 5). Accordingly, gin makes up the largest share of industry revenue, accounting for 60% of revenue of surveyed businesses in 2022-23 (see Chart 6).

The significant production of gin reflects increasing consumption among Australians, with International Wines and Spirits Record (IWSR) data showing that the volume of local gin consumed in Australia increased more than 40% between 2019 and 2020.⁶ In addition to the growing popularity of gin among local consumers, the high proportion of distilleries producing this spirit also likely reflects relatively low barriers to entry, and gin's quick production time compared to other spirits such as whisky which requires maturation. Gin also provides distilleries the chance to experiment with a wide range of flavour combinations.

Vodka is the second most commonly produced spirit, produced by almost half of distilleries surveyed. Yet the volume and revenue share of vodka is low relative to gin, making up 14% of volume share and 8% of revenue share of surveyed distilleries over 2022-23 (seen in Chart 6).

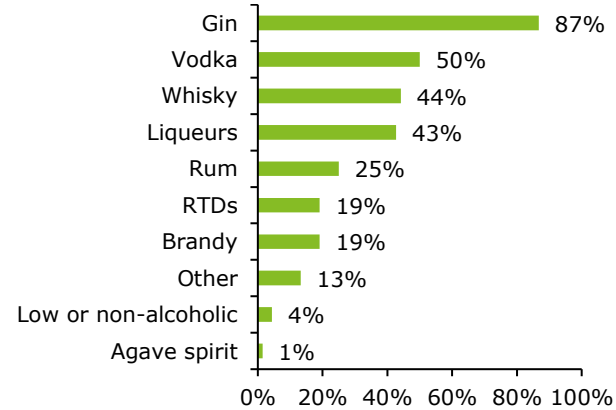
Whisky rounds out the top three spirits produced in Victoria, produced by 44% of surveyed distilleries. Whisky revenue outpaces its volume and is the second largest source of revenue reflecting the higher average price point of most whiskies. The disparity between the revenue and volume share reflects the maturation process in whisky production.

Chart 4: Number of distilled products produced



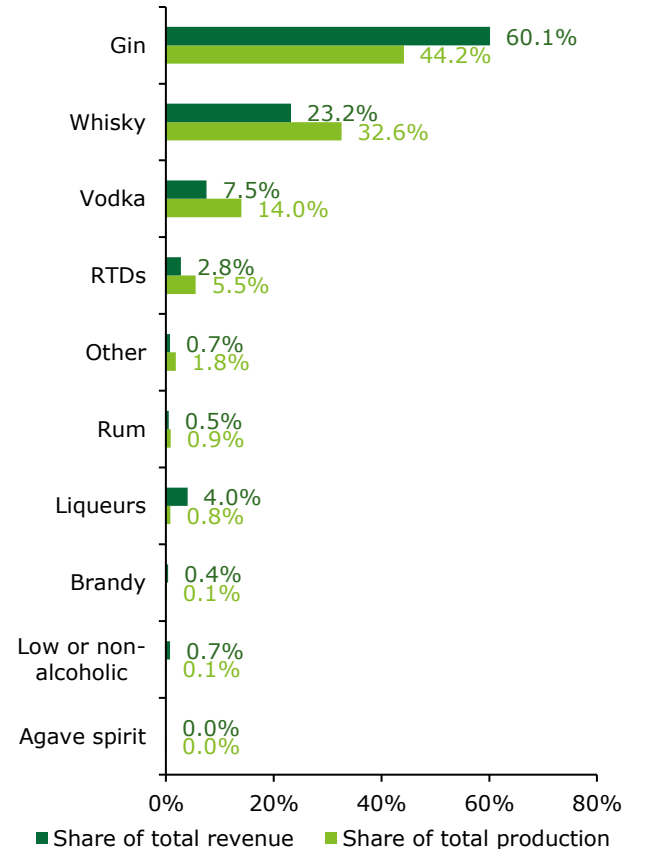
Source: Victorian Distillers Survey, Deloitte Access Economics (n=70) Question: Which of the following spirits and other distilled products does your business produce?

Chart 5: Share of distilleries making each spirit



Source: Victorian Distillers Survey, Deloitte Access Economics (n=69) Question: Which of the following spirits and other distilled products does your business produce?

Chart 6: Types of spirits under production, by volume and share of industry revenue



Source: Victorian Distillers Survey, Deloitte Access Economics (n=66) Question: Please enter the annual volume (in terms of number of litres of alcohol (LALs)) of each spirit and other distilled product that is under production by your business.

INDUSTRY OVERVIEW | REVENUE

Victorian distilleries have diverse revenue channels with marketing focused on online channels and word of mouth.

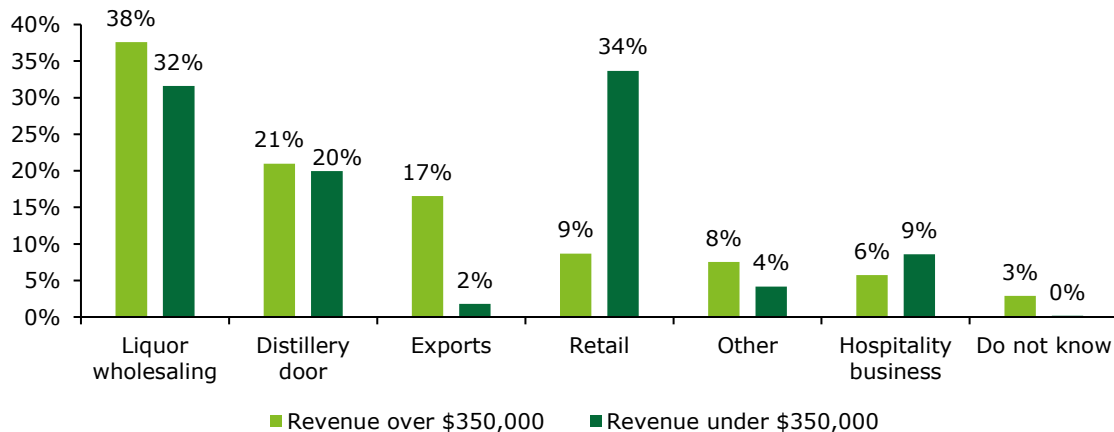
While most distilleries primarily focus their business on manufacturing distilled products, some distilleries accrue revenue from other sources.

In general, larger distilleries are primarily focused on manufacturing distilled products. Distilleries earning above the excise remission threshold[^] (\$350,000) on average derive 85% of their revenue from manufacturing distilled products. While distilleries earning below the remission threshold on average derive only 27% of their revenue from distilling.

Distilleries utilise numerous revenue channels. Across all distilleries, liquor wholesaling was the largest revenue source accounting for an average of 37% of revenue in 2022-23 (see Chart 7). Liquor wholesaling is expected to grow over the next few years, spurred by consumers seeking premium products that are hard for retailers to acquire without partnering with specialised wholesalers. However, this growth may be offset by major retailers Coles and Woolworths expanding their influence within liquor retailing.⁷

An important step in growing as a distillery is partnering with a distributor and subsequently being less reliant on direct client sales. Nearly 70% of those surveyed reported having a partnership with a distributor, which industry consultations suggest is an important avenue to

Chart 7: Average share of distillery revenue by channel



Source: Victorian Distillers Survey, Deloitte Access Economics (n=56) Questions: What was your business revenue from sales related to spirits and other distilled products for 2020-21, 2021-22 and (if available) 2022-23? What share (%) of annual revenue was from the following sources? Note: Liquor wholesaling is the revenue derived from wholesalers, while retail indicates revenue from retail directly (i.e. not going through a wholesaler).

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achieve a broader market. Victoria has significantly more distributors than any other Australian state,⁸ however industry consultations suggest that the recent growth in the industry has outpaced the growth in distributors that may prevent future industry growth.

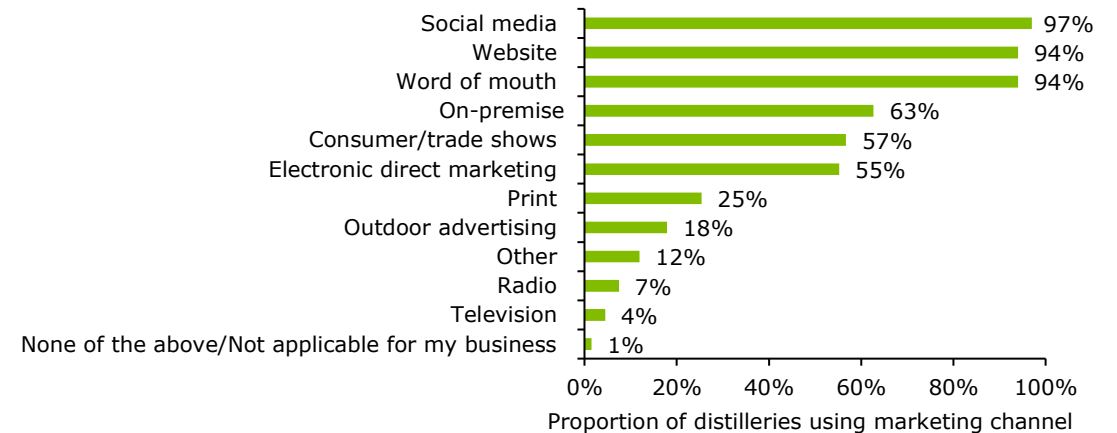
Having diversified revenue channels was highlighted in industry consultation as an important opportunity for Victorian distilleries to expand. For example, diversifying the types of retail or hospitality venues receiving their product of supplying in-person events to help support sales directly to consumers who might otherwise buy from a major retailer.

Most distilleries were using multiple marketing channels to advertise domestically.

In fact, more than half of distilleries used six marketing channels (see Chart 8). The internet and personal connections provided the foundations for domestic marketing. Social media was the key domestic marketing channel for distilleries surveyed and was utilised by almost all distilleries (97%). Websites and word of mouth were also pivotal advertising mediums for the domestic market for distilleries, used by 94% of distilleries.

[^] From 1 July 2021 the *Excise remission scheme for manufacturers of alcoholic beverages* provides eligible alcohol manufacturers with a full automatic remission of excise duty, up to a maximum of \$350,000 per financial year, on alcoholic beverages they manufacture and enter into the Australian domestic market for home consumption.

Chart 8: Domestic marketing channels



Source: Victorian Distillers Survey, Deloitte Access Economics (n=67) Question: What are the key marketing channels for your business?

Premiumisation and a focus on supporting local distilleries are driving trends within the spirits industry.

Distilleries have benefited from the ongoing popularity of spirits and consumers seeking premium products.

While Australians are drinking less frequently and consuming less alcohol overall, this is mostly reflective of declining consumption of beer which decreased from 4.69 litres of pure alcohol per capita in 2007-08 to 3.71 in 2017-18.⁹ The consumption of spirits has remained relatively consistent over the same time period, with the most recent ABS data showing that spirits and Ready To Drink (RTD) products make up 20% of all pure alcohol available for consumption in 2017-18, compared to beer and wine which both make up 39% of pure alcohol consumption.^{10,11}

Premiumisation – the trend of offering higher quality products – has remained a key driver of growth in the spirits industry for many years.¹² The trend has even persisted over the previous year despite Australian consumers facing cost of living pressures.¹³ Ongoing premiumisation is expected to continue to support revenue growth in coming years, as consumers continue to display a penchant for premium and niche spirits and RTDs.¹⁴

Distilleries are also subject to changes in more general consumer behaviours.

Changes in the broader economy have resulted in shifting consumer priorities. In particular, post COVID-19 spending has shifted to experiences at the expense of goods, and increasing concerns about climate change has led consumers to be more conscious about sustainability.

While the concept of the 'experience economy' had gained traction prior to COVID-19, it has increased since restrictions have been lifted.^{15,16} The growth of visitors to distillery doors provides one example of increasing consumer spending on experiences, and this is explored in more detail later in this report.

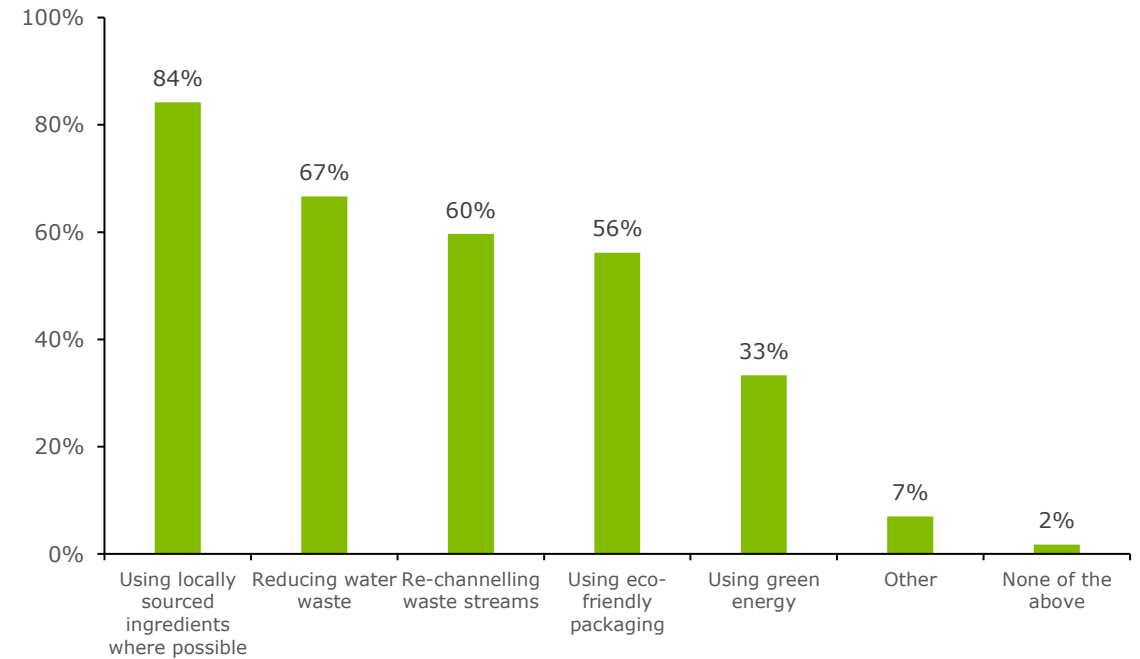
Sustainability has been another important and growing factor influencing consumer purchases. Heightened awareness and understanding around sustainability are influencing the purchasing decisions of consumers, as has been found by Monash University Business School's 'Retail Sustainability Spotlight'. A focus on sustainability has led to greater interest in locally sourced projects, with reduced emissions from transport and logistics. Nearly two thirds (64%) of consumers rate a product being 'locally produced' as an important purchasing factor.¹⁷ This research found that consumers are willing to pay a premium for sustainable products, with over half of consumers (52%) reporting they are willing to pay more to purchase locally produced products and 47% willing to pay more for ethically produced products.

Nearly all distilleries (98%) are implementing sustainability measures.

Most distilleries are using locally sourced ingredients (84%), reducing wastewater (67%), re-channelling waste systems (60%) and using eco-friendly packaging (56%) (see Chart 9).

The importance of sustainability was noted in industry consultations, yet it was recognised that some sustainability measures were harder to implement for distilleries with fewer staff or newly established distilleries. In part this reflects the capital outlay required for some sustainability measures for smaller businesses.

Chart 9: Current sustainability measures of surveyed distilleries



Source: Victorian Distillers Survey, Deloitte Access Economics (n=57)
Question: What sustainability measures do you currently have in place?



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KEY FINDINGS - ECONOMIC CONTRIBUTION STATISTICS

\$2.98 BILLION
contributed to the Victorian economy in 2022-23

\$989 million in value add

9,600+ jobs

in direct contribution



Distilleries	Liquor wholesalers	Retail	Hospitality
over 1,300 FTE jobs	over 550 FTE jobs	over 1,800 FTE jobs	over 5,900 FTE jobs

\$1.9 billion in indirect value add



in indirect contribution

The Victorian spirits industry indirectly contributes to industries such as agriculture, manufacturing and professional services

Every \$1 of direct value add from the Victorian spirits industry supports another \$2 throughout the wider economy

Every person employed in the Australian spirits industry supports another 1.4 people elsewhere in the economy.

The spirits industry contributed \$2.98 billion in total value add in 2022-23, and supported a variety of Australian industries.

The Victorian spirits industry is a significant driver of activity in the Victorian economy.

In 2022-23, the total economic contribution of the Victorian spirits industry to the Victorian economy was approximately \$2.98 billion, measured through value add. In addition, the industry supported 23,150 FTE roles across the state (see Table 1).

This estimate of economic activity includes both direct and indirect economic contributions from the industry. Direct value add captures the main four components of the spirits industry supply chain: distilleries, wholesaling, retailing and hospitality. The direct operations of the spirits industry contributed \$989 million in value add, and over 9,600 FTEs jobs in the Victorian economy.

The catalyst of this economic activity is the operation of Victorian distilleries, who directly contribute approximately \$142 million in value add (14% of the value add of the broader supply chain) and more than 1,300 jobs (13% of direct employment).

The economic benefits of the spirits industry extend to other industries in the economy.

The spirits industry also contributes to the broader Victorian economy through purchases of inputs and other intermediate goods and services. For example, this encompasses anything from the agricultural inputs that feed into spirits distilling to the professional services (such as marketing) utilised by the industry. The value of these purchases is measured through the indirect economic contribution.

The spirits industry connects into more than 100 different subsectors across the economy, with the top sectors predominantly being professional and commercial services which are utilised by distilleries, wholesalers, retailers and hospitality providers alike.

The indirect value add by distilleries totalled \$131 million in 2022-23 (see Table 2). Purchases of glass and packaging and agricultural inputs made up 21% and 13% respectively of indirect value add.

The economic contribution estimates were based on the Victorian Distiller Survey for distilleries while the estimates of the broader spirits supply chain are based on national estimates of the liquor wholesaling, liquor retailing and hospitality sectors that have been adjusted to account for spirits share and the relative share of Victoria. Further details on the methodology used to estimate the economic contribution of the industry are in Appendix B of this report.

Table 1: Economic contribution of the Victorian spirits industry, 2022-23

	Direct contribution	Indirect contribution	Total contribution
Value add (\$ million)	989	1,990	2,979
Employment (FTE)	9,600	13,500	23,150

Source: Victorian Distillers Survey, Deloitte Access Economics n=55, Deloitte Access Economics Regional Input Output Model

Table 2: Economic contribution of Victorian distilleries, 2022-23

	Direct contribution	Indirect contribution	Total contribution
Value add (\$ million)	142	113	256
Employment (FTE)	1,300	850	2,150

Source: Victorian Distillers Survey, Deloitte Access Economics n=55, Deloitte Access Economics Regional Input Output Model

Comparison to other measures of the Victorian distilleries sector

Based on the Victorian Distiller Survey, there are over 1,300 FTE roles supported by Victorian distilleries in 2023. This estimate aligns with other recent estimates published by DEECA which suggest there are over 1,000 workers in Victorian distilleries.¹

The ABS census estimated that the number of people employed in spirits manufacturing was 174 in 2021.² This figure is substantially lower than estimates for this research. The difference is likely due to the Australian and New Zealand Standard Industrial Classification (ANZSIC) classifications that categorises workers into a single industry. In practice many workers may be reflected in broader agricultural roles as the employing business may produce a variety of non-spirit goods.

Similarly, the ABS estimates that there are 36 spirit manufacturers in Victoria,³ while DEECA and ADA distribution research and databases suggests there are 188 distilleries which is likely to reflect the various non-spirit products that businesses produce.



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WORKFORCE | OVERVIEW

Distilleries have a more gender balanced workforce compared to breweries and wineries, while distillery owners' experience in the industry varies substantially.

Distilleries have more equal gender distribution than breweries and wineries.

In terms of workforce composition, distilleries have a much more gender balanced workforce compared to both wineries and breweries (see Chart 10), with women representing 44% of the workforce in distilleries compared to 20% of the workforce in wineries and 10% in breweries.

The Victorian Distillers Survey found 31% of employees within distilleries are casual employees, with only 42% of employees working full time (see Chart 11). Casual employment within distilleries is much higher than the Australian labour market more broadly, with current ABS Working Arrangements data showing that 23% of employees are on casual contracts.¹

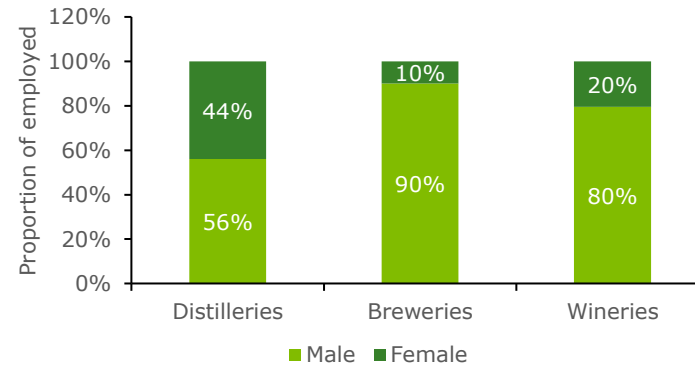
Most distillery owners are aged between 35 and 54 years and vary in terms of their years of experience in the industry.

The majority (58%) of surveyed distillery owners were aged between 35 and 54 years, with almost one-third (31%) of distillery owners surveyed aged between 45-54 years (Chart 12).

While more than half (54%) had five years or less of industry experience, a significant proportion (35%) had also been in the spirits industry for six to nine years and a further 11% having ten or more years of industry experience (Chart 13).

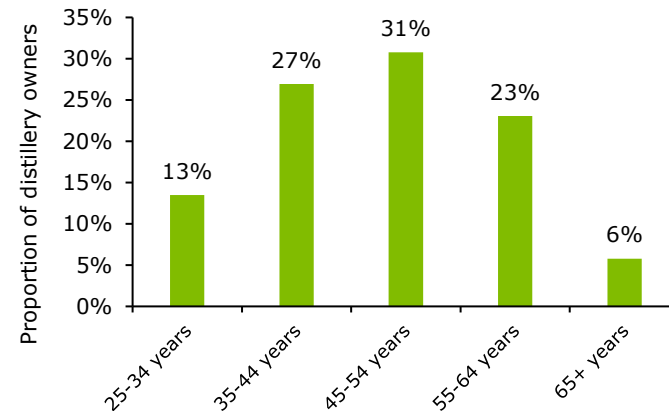
Having a sizeable number of more experienced owners (47% with six or more years of industry experience) may explain in part the relatively high proportion of distilleries producing three or more distilled products compared to the previous national study. This assumes that more experienced distilleries are more likely to diversify their product range over time as they seek to expand the reach and range of their products.

Chart 10: Gender distribution



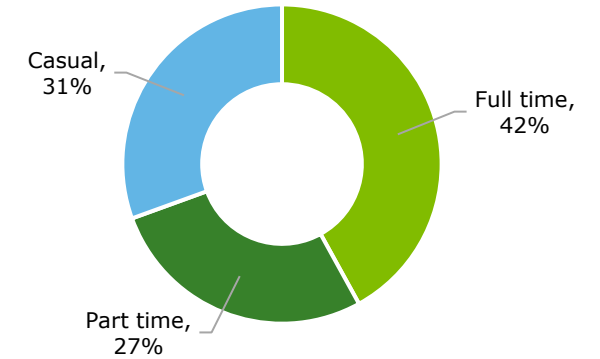
Source: Australian Bureau of Statistics, Census of Population and Housing 2021. Distillery workers are defined by workers which identified themselves as being employed in ANZSIC 1213 Spirit Manufacturing. Brewery workers are those employed as OCCP 831112 Brewery worker, and wineries are those employed as OCCP 234213 Wine maker and 831118 Wine cellar hand.

Chart 12: Age distribution of distillery owners



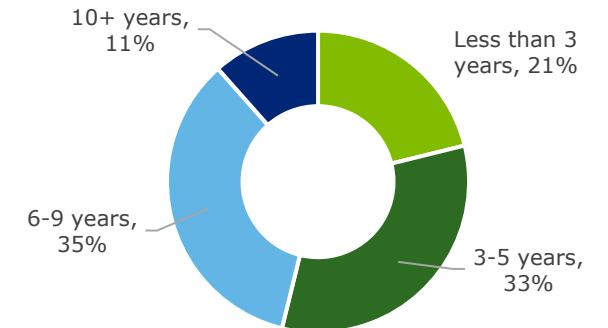
Source: Victorian Distillers Survey, Deloitte Access Economics (n=52) Questions: What is your position in the business? What is your age?

Chart 11: Workforce by employment type



Source: Victorian Distillers Survey, Deloitte Access Economics (n=43) Question: How many staff does your business employ? (Full time, part time and casual)

Chart 13: Distillery owners' years of experience in industry



Source: Victorian Distillers Survey, Deloitte Access Economics (n=52) Question: What is your position in the business? How many years of experience have you had in the distillery industry?

WORKFORCE | CHALLENGES

Nearly all distilleries reported recruitment and hiring difficulties, with sales and marketing key skills gaps.

The majority (93%) of distilleries reported facing workforce challenges.[^]

The most common workforce challenge reported by distilleries surveyed was a lack of applicants with required skills. The majority of distilleries reporting moderate impacts from this challenge, and another 30% of distilleries noting that the impact was severe (see Chart 14). High employee turnover was reported as having the least impact on distilleries, with almost two-thirds (63%) reporting that they were not impacted by this issue.

In general, regional distilleries were less impacted by workforce and recruitment challenges than their metropolitan counterparts (see Chart 15). The current economic conditions mean recruitment remains a challenge for many industries and is not isolated to distilleries. However, consultation with industry has confirmed that hiring has become easier than it was last year for some distilleries.

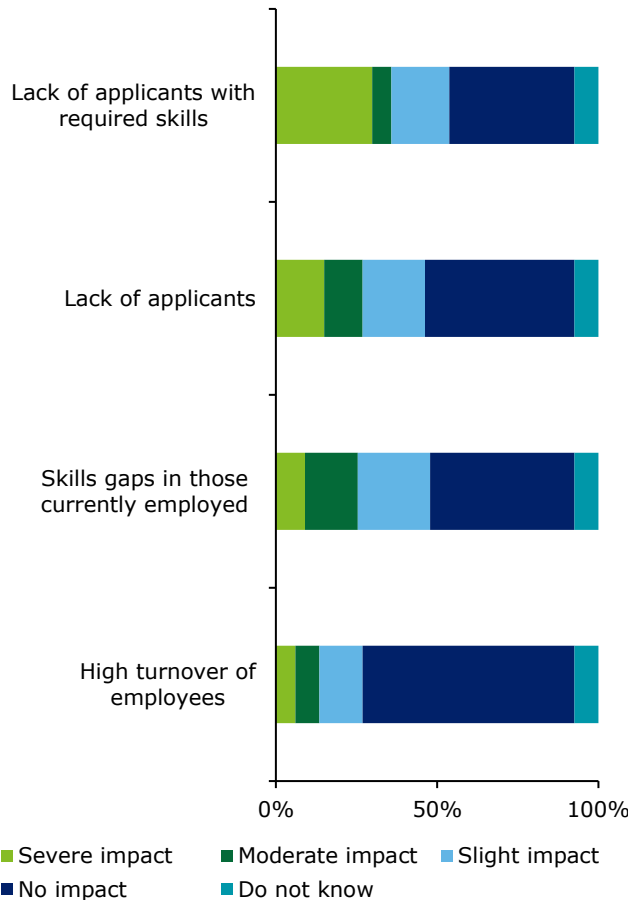
Consultation with distillery owners also revealed it was challenging to provide casual employees with sufficient working hours whilst also maintaining adequate casual employees to support when other employees are on leave.

Sales and marketing are key skills gaps impacting business growth.

The most common skills lacking among distilleries are sales (69%) and marketing and social media (61%) (see Chart 16). Other skill gaps identified by distilleries include business planning, documentation and reporting, distilling, product research and development, and other technical skills.

These gaps are consistent across both metropolitan and regional distilleries as well as businesses with different employment sizes. Skills gaps are most acute among smaller distillers, while sales and marketing are consistently the most salient challenges for distillers regardless of size.

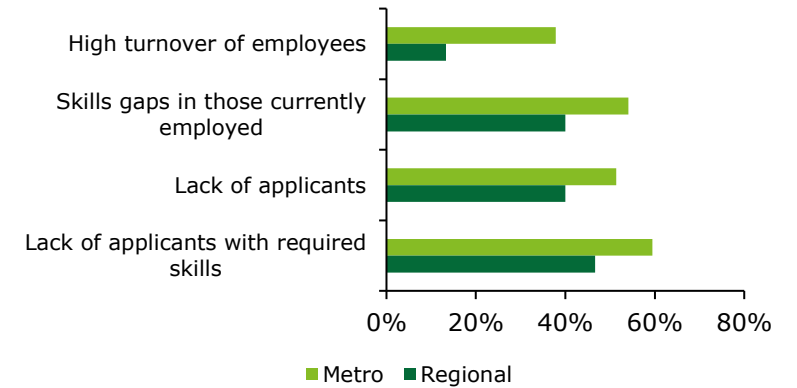
Chart 14: Recruitment and workforce difficulties by severity



Source: Victorian Distillers Survey, Deloitte Access Economics (n= 57)
Question: To what extent are the following recruitment and workforce difficulties having an impact on your business?

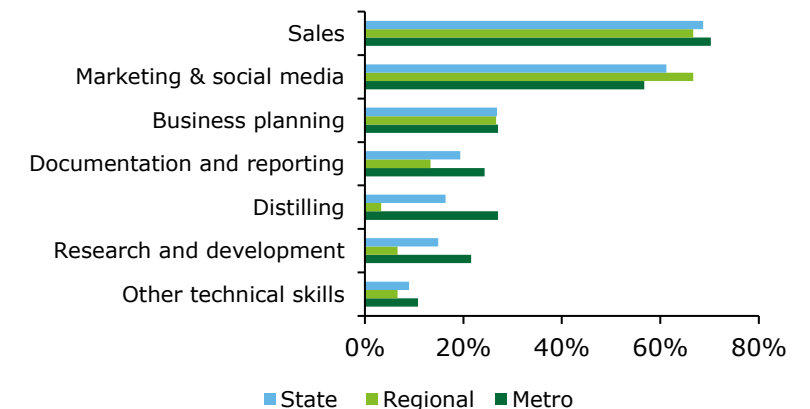
[^]Defined as a distiller reporting that at least one workforce issue has a severe, moderate or slight impact on their business.

Chart 15: Proportion of distilleries indicating recruitment and workforce difficulties



Source: Victorian Distillers Survey, Deloitte Access Economics (n=43) Questions: To what extent are the following recruitment and workforce difficulties having an impact on your business? Where are your Victorian headquarters or operations located?

Chart 16: Skill areas businesses are lacking that are impacting growth



Source: Victorian Distillers Survey, Deloitte Access Economics (n= 67) Questions: What skill areas is your business currently lacking that impact growth? Where are your Victorian headquarters or operations located?



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CURRENT STATE OF THE INDUSTRY | TOURISM

Food and beverage offerings are a key driver of destination choice for visitors, with related spending comprising a significant portion of visitor expenditure which supports economic activity and jobs across Victoria.

Tourism is a key contributor to the Victorian economy with food and beverage offerings a key activity for visitors and expenditure item.

The tourism industry's contribution to the Victorian economy in terms of gross value added (GVA) experienced a substantial increase over the last financial year, increasing by \$5.1 billion to reach \$14.1 billion (equivalent to 2.9% of the Victorian economy) in 2021-22.

Domestic visitors spent \$6.1 billion in 2021-22, including \$3.2 billion from intrastate overnight visitors, \$1.5 billion from interstate overnight visitors and \$1.4 billion from daytrips.¹

More recent data shows that domestic tourism has continued to recover following COVID-19 with spending by domestic tourists in Victoria growing by 76% over the 12 months to June 2023.

The number of international visitors to Victoria is still below pre-pandemic levels, with international visitors still 47% lower in the year to June 2023 compared with year to June 2019.²

The tourism industry is an important employer for Victoria. In 2021-22, total tourism filled jobs increased to 171,100, up 61,700 compared to the previous financial year. This is equivalent to 4.7% of overall filled jobs in Victoria. However, it still remains lower than pre-pandemic levels, when the industry accounted for 8.0% of overall filled jobs in Victoria.

Tourism is also a significant driver of economic activity and employment in regional Victoria.

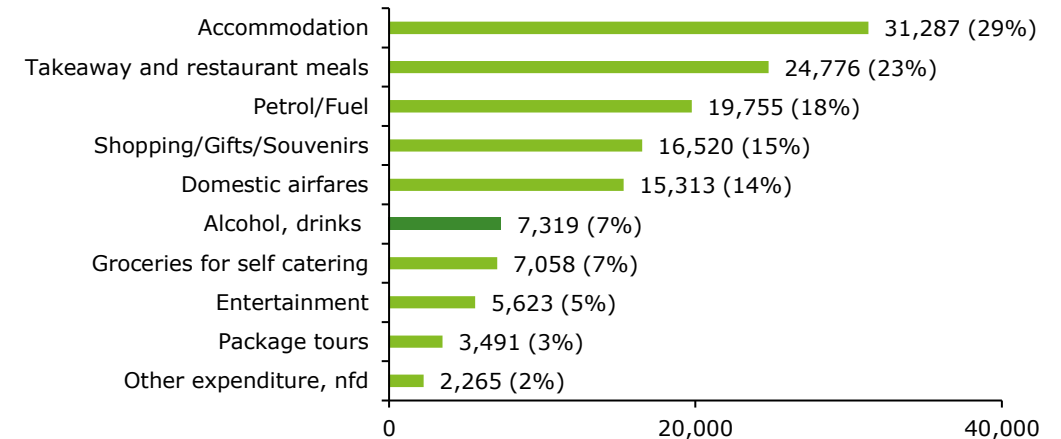
In 2021-22, the tourism industry supported 9.3% of filled jobs outside of Melbourne and accounted for 5.4% of regional Victoria's GVA.³

Food and drink was the largest spending category for domestic tourists in the year to June 2023, with \$39.2 billion spent by Australian domestic tourists, significantly above the \$31.3 billion spent on accommodation in the same period.⁴

While tourists spend much more on takeaway and restaurant meals than on drinks, beverages still represent a significant portion of the total spending of tourists. In the 12 months to June 2023 domestic tourists spent more than \$7.3 billion on drinks, representing 7% of total domestic tourist spending (see Chart 17).

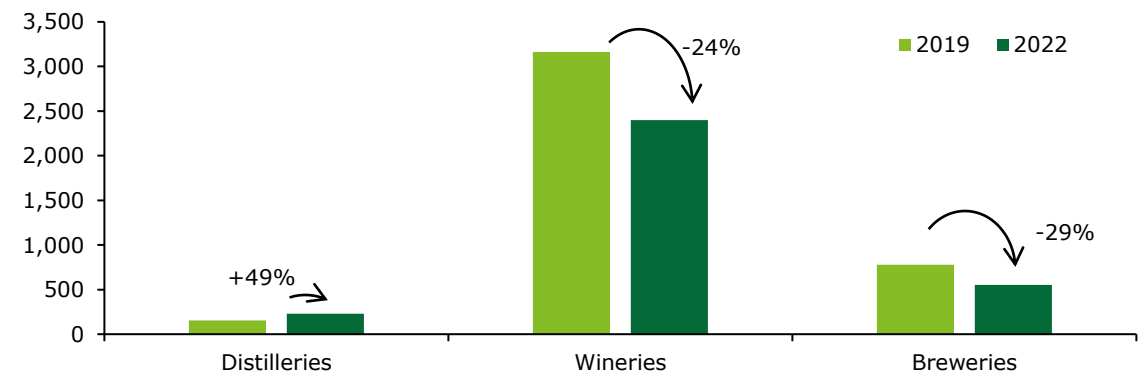
While historically wineries have attracted more visitors than breweries and distilleries, the interest in distilleries has grown significantly in recent years among all visitor types (intrastate, interstate and international) – increasing from 150,000 to 230,000 visitors or 49% from 2019 to 2022 in Victoria (see Chart 18). In part this reflects a broader trend of tourists undertaking unique and locally-based experiences.

Chart 17: Domestic tourist total spend by top 10 expenditure items, Australia (\$ million), share in parenthesis



Source: Tourism Research Australia, National Visitor Survey, Year ending June 2023. Note: 'nfd' indicates not further defined.

Chart 18: Total tourist visits to Victoria (000s), 2019 and 2022



Source: Tourism Research Australia, National Visitor Survey, Year ending March 2023

Strong growth in recent years has seen Victoria lead the nation in distillery visits by tourists in 2021 and 2022.

There were 230,000 visits[^] to Victorian distilleries in 2022, the largest of any state or territory.

Strong visitor interest in recent years has seen Victoria – accounting for 27% of national distillery visits in 2022 – recently surpassing New South Wales in the number of visits to distilleries (see Chart 19). Recent growth reflects a substantial recovery from COVID-19, with the state’s lockdowns resulting in Victoria experiencing the most substantial fall (-47%) in distillery visits of any state.

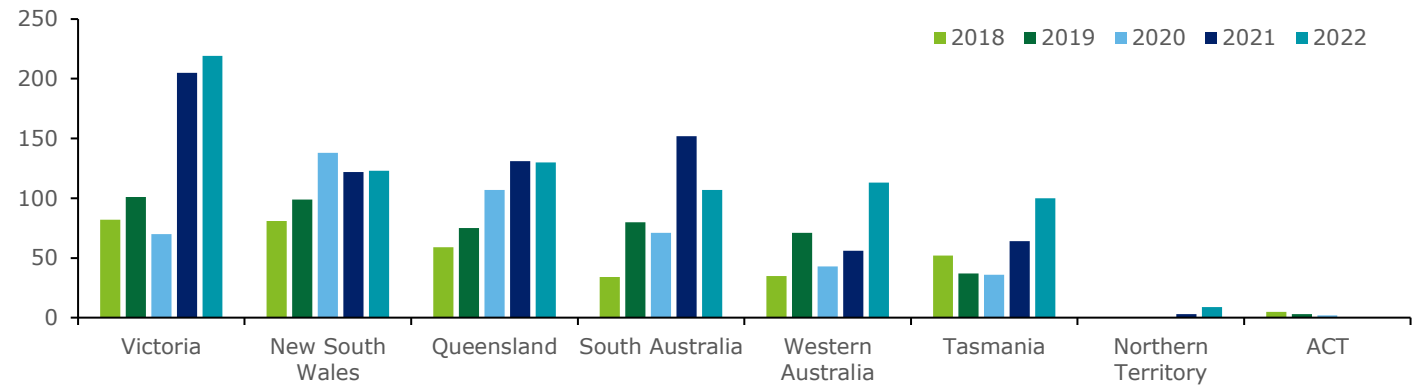
Metropolitan distilleries attract a greater share of international visitors, while distilleries in regional destinations attract mainly domestic visitors.

For distilleries based in the Greater Melbourne region, the majority of visitors between 2018 and 2022 were from overseas. Conversely, domestic tourists comprise the majority of visitors to regional distilleries.

Importantly these visitors have different spending profiles – in 2022 the average international tourists visiting Victorian distilleries spent 33% more per night than domestic tourists.^{5,6}

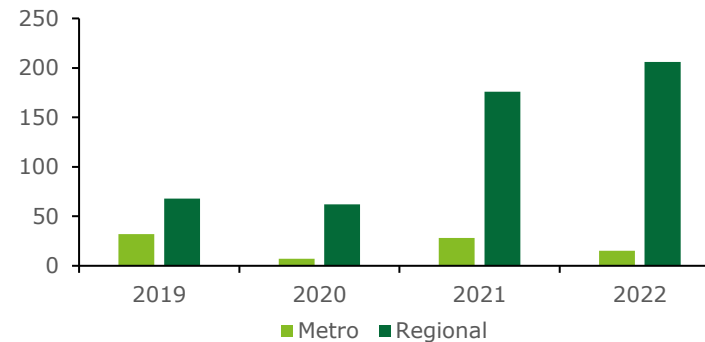
Tourism Research Australia’s domestic visitor profiles estimate that around 5% of domestic overnight visitors visited a winery, brewery, distillery or farmgate on their trip. This was higher among those aged 30 to 34 years old (6% of trips), friends or relatives travelling together without children (8%) and adult couples (6%), and those who lived in capital cities (6%).

Chart 19: Total domestic visits to distilleries by state (000s)



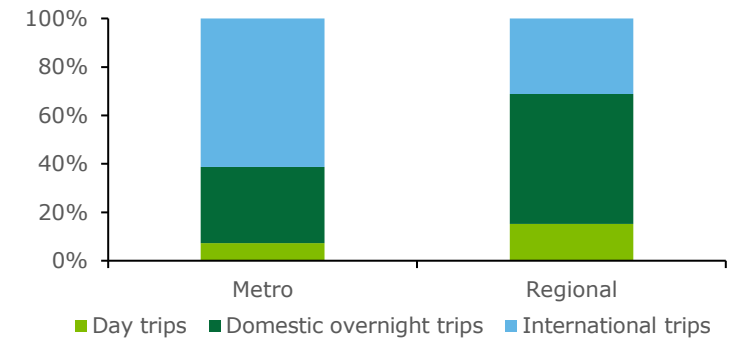
Source: Tourism Research Australia, National Visitor Survey

Chart 20: Total domestic visits to Victorian distilleries by location (000s)



Source: Tourism Research Australia, National Visitor Survey

Chart 21: Proportion of visitors by visitor type and location (000s), 2019



Source: Tourism Research Australia, National Visitor Survey

Note: Relatively small sample sizes for the International Visitor Survey and National Visitor Survey may lead to larger sampling errors in COVID-19 impacted years.

[^]For visitor to be considered a tourist they must travel more than 50 kilometres in a round trip, meaning many trips by Melbournians to local distilleries will not be covered in this data.

Distillery doors provide a substantial opportunity for regional and more recently established distilleries.

The majority of distilleries have or plan to open a distillery door.

Over half (54%) of distilleries have a distillery door (see Chart 20). Of those that did not have a distillery door, 37% intend to open a distillery door within the next year and a further 37% indicated they planned on opening a distillery door but were unsure as to the timing.

The prevalence of distillery doors is below the 90% of Australian wineries that operate a cellar door. Both industries lag behind breweries, with direct-to-consumer sales being the major revenue source for most craft breweries, which make up more than 95% of breweries nationally.^{7,8}

Industry consultation revealed the barriers to opening a distillery door include the capital outlay, staffing requirements and council restrictions. For more recently established distilleries, opening a distillery door may be a lower order priority. For some already established distilleries, their current location may not be suitable to facilitate a distillery door.

Distillery doors provide a significant revenue channel and opportunity particularly for less established distilleries

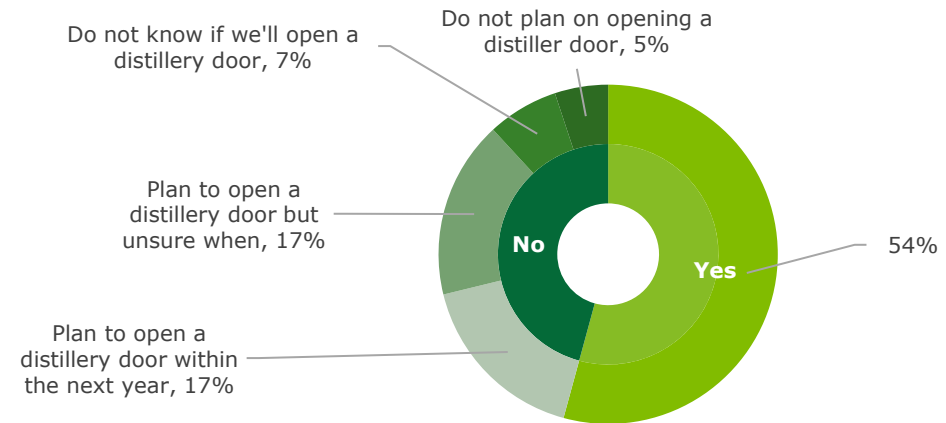
Among those distilleries with a distillery door, approximately a quarter (29%) of 2022-23 revenue was derived from the distillery door. Based on average revenue for Victorian distilleries (approximately \$1.36 million) it is estimated a distillery door generates nearly \$390,000 per year in sales. This value reflects trends towards the 'experience economy' and increased domestic tourism to Australia's regions.

Regional distilleries had a greater share of revenue from distillery doors. In fact, 57% of regional distilleries attributed between 40% and 60% of revenue to their distillery door (see Chart 21).

Distillery doors were also found to be a larger contributor of revenue for smaller distilleries. For 71% of distilleries with one to four FTE employees, distillery doors accounted for between 40% and 60% of revenue in 2022-23.

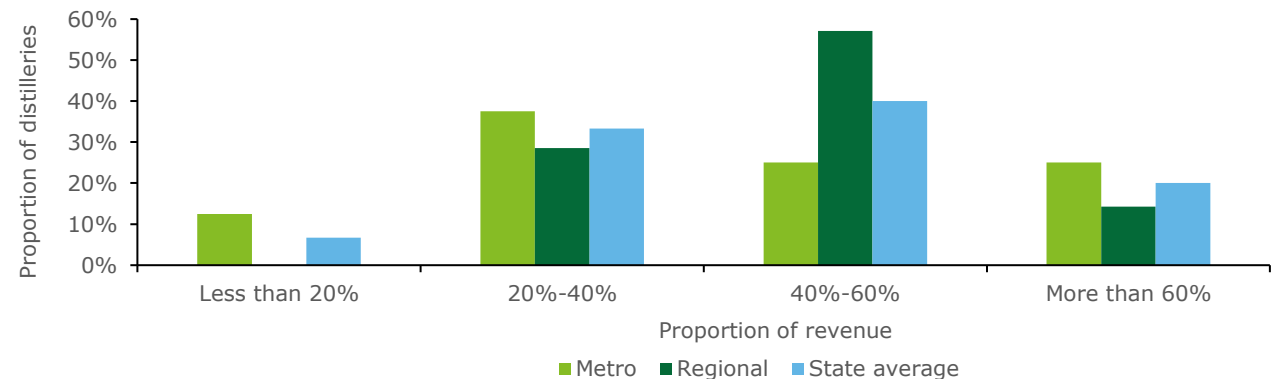
For smaller distilleries, distillery doors provide an opportunity to maintain higher margins compared to other revenue channels. Additionally, distilleries are able to elevate their brand through interactions with customers which may promote word-of-mouth advertisement and receive direct customer feedback on products.

Chart 22: Do you have a distillery door?



Source: Victorian Distillers Survey, Deloitte Access Economics (n=15) Questions: Do you have a distillery door? Do you plan to open a distillery door?

Chart 23: Distribution of distillery door sales as a proportion of revenue by location, 2022-23



Source: Victorian Distillers Survey, Deloitte Access Economics (n=15) Questions: Do you have a distillery door? Where are your Victorian headquarters or operations located?



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While few distilleries are currently exporting, there is strong interest in exploring export opportunities.

Exports of Victorian distilled spirits¹ reached \$41 million in 2022-23 – an increase of 21% compared to 2021-22.

The value of exports has grown 214% from 2016-17 to 2022-23, equivalent to a compound annual growth rate of 21%, despite the interruption to exports caused by COVID-19.¹ Victorian spirit exports account for 17.7% of national spirits exports in 2022-23, behind only NSW which accounts for over two thirds of the market share.²

Despite this significant overall value, only 14% of Victorian distilleries are exporting their products.

Overall, exports make up 16% of the average share of distiller revenue in 2022-23. These figures are relatively low compared to wineries – with almost 50% of Australian wineries exporting their products, with more than 60% of Australian produced wines exported each year.^{3,4}

Distilleries not currently exporting have a strong interest in pursuing export market opportunities, with 43% reporting they are exploring opportunities to export and a further 14% looking to expand overseas offerings (see Chart 22).

All distilleries – including those currently exporting and those investigating opportunities – desire more training to begin exporting or increase and diversify their exporting activities.

The training most frequently requested by distilleries is information to select potential export markets (49%).

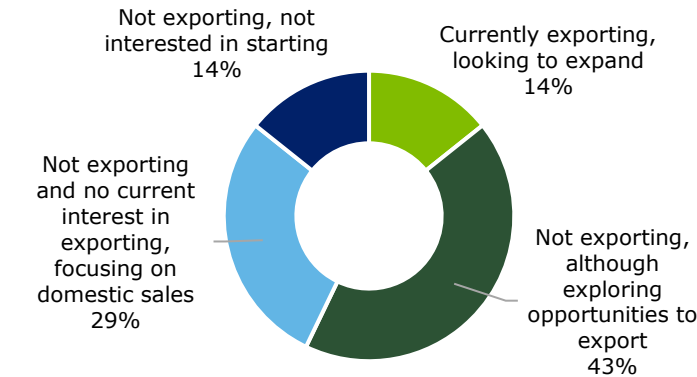
This is followed by information on rules and regulations (46%), and marketing and defining a unique selling proposition in selected export markets (43%) (see Table 3). This uncertainty amongst distilleries about how to approach international marketing was reflected in the survey with distilleries on average using five marketing channels to reach domestic consumers, as opposed to only one on average to reach international consumers.

Distilleries mostly used a website to advertise internationally, with 27% of distilleries opting for this channel, followed by social media (22%) and word-of-mouth (21%). These three international marketing channels align closely to the channels used for domestic marketing.

Most distilleries indicated they are interested in participating in other activities to further promote their products to overseas markets, while the share of distilleries currently undertaking these activities is significantly lower.

For example, while 22% of distilleries currently showcase their product to international buyers visiting Victoria, 78% are interested in doing so in the future (see Chart 23). Distilleries also indicated interest in participating in international marketing campaigns (80%) and attending international trade fairs (78%) in the future, despite 4% and 7% of distilleries currently participating, respectively.

Chart 24: Exporting status



Source: Victorian Distillers Survey, Deloitte Access Economics (n=56) Question: Which of the following best describes your business?

Table 3: What areas of exporting would you like more information on?

Selecting potential export market/s	49%
Rules and regulations	46%
Marketing and defining your unique selling proposition in selected export market/s	43%
Freight, logistics and customs	39%
Navigating free trade agreements	37%
Contract negotiation	34%
Business registration, tax and compliance	30%
Export financing	29%
Protecting intellectual property	29%
International business culture	27%

Source: Victorian Distillers Survey, Deloitte Access Economics (n=56) Question: In which of the following areas related to exports would you like to build skills and knowledge?

Chart 25: Current trade promotion activities



Source: Victorian Distillers Survey, Deloitte Access Economics (n=55) Question: Do you currently participate in the following? Would you be interested in participating in the future?

Three quarters of Victorian spirit exports revenue comes from New Zealand, China, the US and France.

Victorian spirits exports are diversified across a variety of markets.

Victorian spirits exports¹ are concentrated in four main markets, New Zealand, the United States, China and France (see Chart 24) – making up 75% of Victoria’s spirits exports in 2022-23. There is a distinct profile of spirits being exported to each of these major markets.

Victoria’s largest export market for spirits is New Zealand, where 70% of spirits by value are RTD spirits, or similar beverages. RTDs have a similar export profile to carbonated soft drinks, where 90% of exports also go to New Zealand. This likely reflects Victoria’s geographic proximity to New Zealand given the bulky nature of RTD exports and associated transport costs. Victorian vodka and gin exports also perform well in the New Zealand market, with 51% of Victorian vodka exports going to New Zealand.

The Chinese market has been an important growth market for Victorian distilleries, but the market has been volatile.

The second largest Victorian spirits export market is China – having increased almost tenfold over the last decade. While Australian wine exporters to China have suffered in recent years from the introduction of significant tariffs, Victorian distilleries have performed well in the Chinese market.

Brandy is the most imported spirit in China, with Victorian brandy exports to China (including Hong Kong and Macau) growing from approximately \$12,000 to more than \$2.4 million in the past three years. Chinese consumers purchased almost 99% of brandy exported

from Victoria during this period. Whisky exports to China make-up 54% of the value of Victorian exports of the spirit in 2022-23. Whisky exports to China have also increased more than fivefold between 2019-20 to 2022-23, from approximately \$815,000 to \$4.2 million.

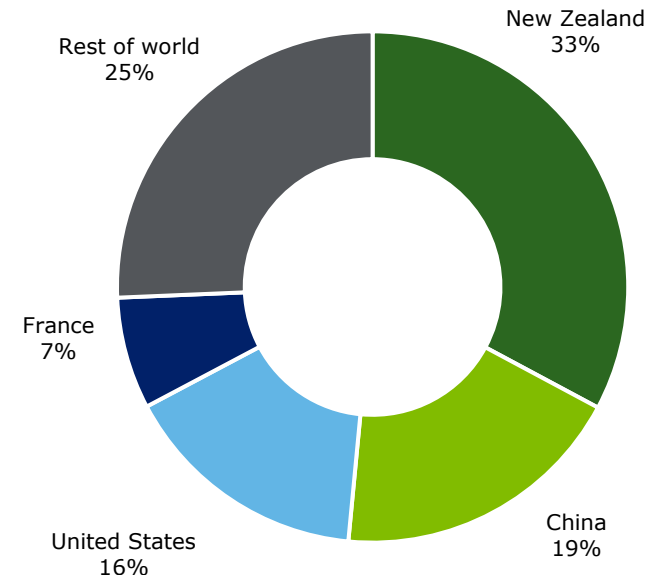
The third largest export market is the United States (US). Victoria exports a large amount of pure alcohol[^] to the United States, which can then be used in other alcoholic beverages or numerous other applications. As recently as 2017-18, Victoria exported no whisky to the United States. Whisky exports have now exceeded \$1 million in the last two financial years. Victorian gin also performs well in the US market, with the US the second largest importer of Victorian gin.

France, which has imported a total of \$15 million of pure alcohol from Victoria over the last decade, is currently the fourth largest importer of Victorian spirits. France is the largest importer of Victorian liqueurs and cordials, with 62% of exports in this category going to France since 2010. However, the export value of liqueurs and cordials is volatile year-to-year and has not been a consistent source of export revenue.

Other significant export markets include:

- Singapore: the largest market for Victorian gin account for 28% of Victorian exports of the spirit, and is an important destination for Victorian vodka, whisky and pure alcohol
- United Kingdom: closely follows other countries as a destination for Victorian gin and whisky
- Thailand: accounts for \$7 million of RTDs in aggregate over the last decade.

Chart 26: Victorian exports (by value) by country of final destination, 2022-23



Source: ABS, International merchandise exports, Australia

[^]Pure Alcohol refers to "Undenatured Ethyl Alcohol Of An Alcoholic Strength By Volume Of 80% Vol Or Higher", Tariff line: 22071000

EXPORTS | KEY PRODUCTS

RTDs comprise the largest category of Victorian spirits exports, but the value of whisky and brandy has increased substantially in recent years.

RTDs account for the largest share of exports but have displayed slow growth.

Victorian RTD exports generated \$15.3 million in 2022-23 (see Chart 25). RTDs have been the largest export earner for more than a decade compared with other types of spirits, however their share of Victorian export sales has dropped as other Victorian spirits products have grown in popularity in overseas markets.

In 2013-14, 93% of Victorian spirits exports were in the form of RTDs. Approximately one-third of these exports, worth nearly \$7 million, were exported to South Korea. Among other major buyers of RTDs at this time was South Africa which imported more than \$2 million worth of Victorian RTDs. From 2013-14 to 2016-17, combined RTD exports to these two countries fell by more than 80% and total exports of RTDs fell by 62%. More recently, RTD export destinations have shifted primarily to New Zealand. Interestingly, national RTD exports have more than doubled over the last decade, reflecting increasing production in other states

Victorian whisky has been extremely successful at breaking into new markets.

In 2022-23, Victorian whisky was exported to 23 different countries, up from just four countries a decade earlier. While the majority of Victorian whisky was exported to New Zealand in the 2010s, as the awareness and reputation of Victorian brands have grown, so have exports to other markets. Whisky from Victoria is now sold across Europe, Asia, and North America. While the value of whisky exports from the rest of Australia fell by 27% in the decade to

2023, Victorian whisky exports grew 21 times larger in value from \$30,000 to \$7.3 million over the same period. In 2022-23, more than half of Australia's whisky exports were from Victoria, followed by South Australia.

Victorian gin has become a major player on the national landscape.

The Australian gin industry thrived throughout the 2010s, with exports from the sector tripling over the decade. Victorian distilleries were a significant driver of this growth, with exports from the state growing from approximately \$8,500 to more than \$4.75 million over the decade to 2023. Victoria's exports of gin are quickly approaching the value of New South Wales exports (the largest exporter of gin within Australia). Over the last decade the value of Victoria's gin exports have grown from 0.2% to 73.5% of the value of NSW's exports.

Exports of pure alcohol represent a significant opportunity for Victorian distilleries.

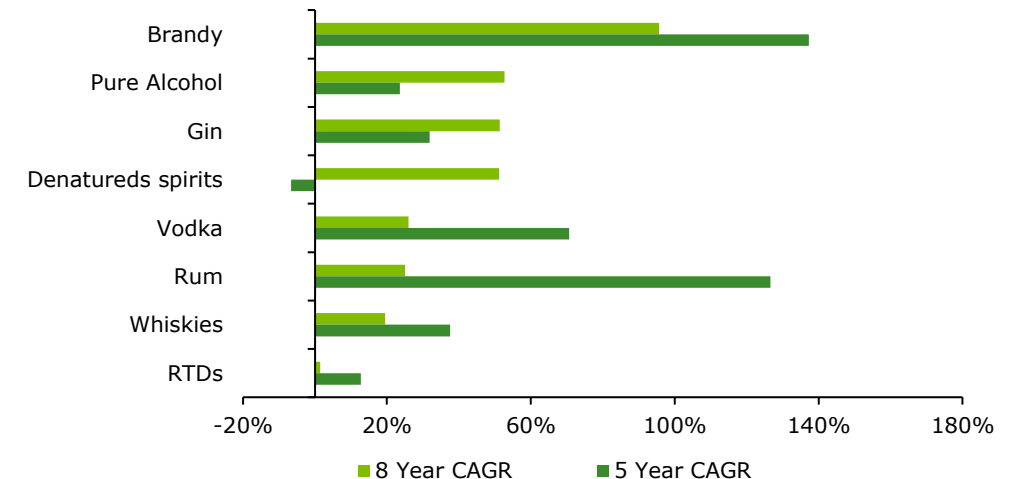
Exports of pure alcohol have grown from \$240,000 to \$4.9 million per year over the past decade, with the second highest 8-year compound annual growth rate (CAGR) of distilled products (see Chart 26), pure alcohol now represents 49% of spirits exports from Australia. However, Victoria supplies only approximately 5% of this current overseas demand, exporting \$5 million worth of pure ethanol in 2022-23. Comparatively New South Wales exported \$113 million, approximately 95% of the market and more than two and a half times the export revenue of the entire spirits sector in Victoria from just one type of distilled product.

Chart 27: Value of spirit exports from Victoria by type of distilled product, 2022-23 (\$ million)



Source: ABS, International merchandise exports, Australia

Chart 28: Growth in value of exports by type of distilled product, Victoria, to 2023



Source: ABS, International merchandise exports, Australia



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CURRENT STATE OF THE INDUSTRY | INVESTMENT

Capital expenditure is highest amongst the smaller and larger distilleries.

Victorian distilleries are more likely to own their own still than the rest of the country.

The vast majority (96%) of Victorian distilleries own their own still – above the estimated national share from 2021 of 87%.¹ More than two thirds (68%) of stills owned and operated by Victorian distilleries have a capacity less than 400 litres, with 38% of stills being operated smaller than 100 litres (see Chart 27). Of distilleries surveyed, almost half (45%) use both a pot and column still. Of those using one type of still, most are using a pot still (see Chart 28).

On average, capital expenditure is expected to decrease over the next financial year

Investment activity is an important measure of industry health. Owning and operating a distillery requires significant initial capital expenditure on specialised equipment.

The estimated total capital investment by distilleries in 2022-23 totalled around \$18.4 million. The 2022-23 financial year is estimated to have had the highest level of capital spending in recent years, likely reflecting improved businesses confidence following COVID-19 restrictions being lifted.

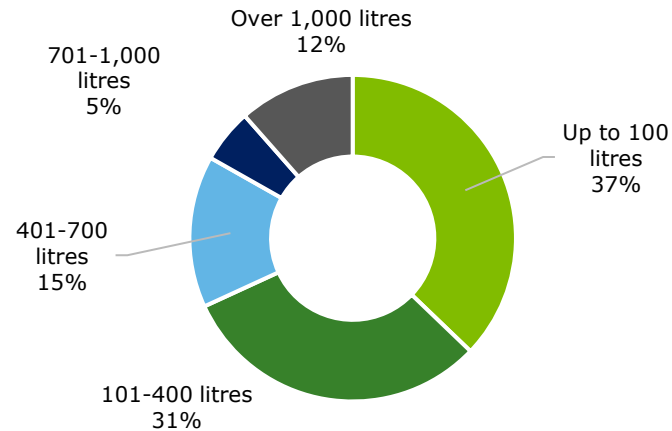
However, in comparison to other industries, investment is relatively low. The average distiller invested \$225,000 in capital expenditure in 2022-23 (see Chart 29), below the average \$800,000 spent by craft breweries in 2017-18.²

Smaller and larger distillers make up a significant share of industry capital expenditure. More than half (51%) of capital investment came from distilleries with over \$1 million in revenue, despite making up only 31% of survey respondents. While distilleries with revenue less than \$350,000, made up 44% of capital spending investment.

This may reflect the impact of the excise remission threshold at \$350,000. Businesses which are generating revenue below the remission threshold may be incentivised to invest in capital until they are close to that threshold, beyond which returns on investment at the margin becomes lower. Larger distilleries, with relatively easy access to capital are easily able to invest in capital to expand their operations. Mid-sized distilleries may have less incentive to invest in new capital, as they lack both tax advantages of smaller businesses and access to economies of scale of larger businesses.

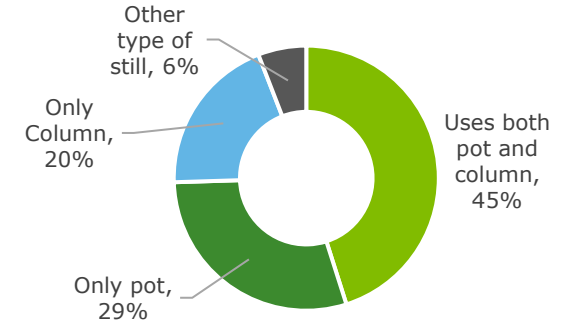
The distribution of investment is significantly different to national research on the spirits industry figures where the largest distilleries are estimated to be responsible for 95% of capital investment.³ This may reflect differences in sampling across research and the recent growth of smaller, independent distilleries.

Chart 29: Size of stills operated by Victorian distilleries (% of stills)



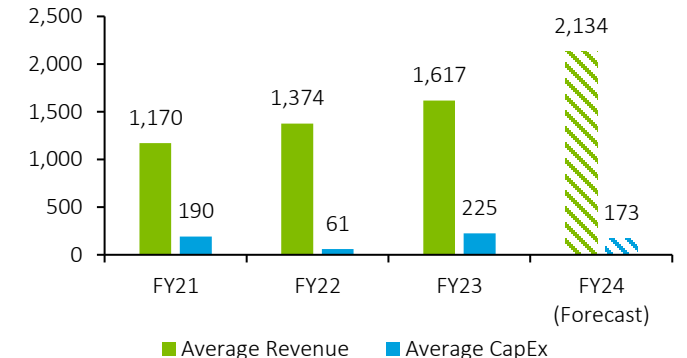
Source: Victorian Distillers Survey, Deloitte Access Economics (n=56) Question: How many stills do you operate, by type of still?

Chart 30: Type of stills operated by Victorian distilleries (% of stills)



Source: Victorian Distillers Survey, Deloitte Access Economics (n=56) Question: How many stills do you operate, by size of still?

Chart 31: Average distillery revenue and capital expenditure (\$000)



Source: Victorian Distillers Survey, Deloitte Access Economics (n=31) Questions: What is your annual capital investment (including investment in machinery, equipment and building)? What value of capital investment are you expecting to undertake in 2023-24? What was your business revenue from sales related to spirits and other distilled products for 2020-21, 2021-22 and (if available) 2022-23? How do you expect your revenue to change in 2023-24?

¹ This figure is based on scaling survey responses to represent the entire distilling industry in Victoria.



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While many distilleries report no health and safety concerns, this may point to a lack of awareness of potential risks or existing mitigation strategies that are effective.

More than half (52%) of distilleries surveyed had no concerns about health and safety in the workplace.

As discussed in consultation with industry stakeholders, this may be due in part to more newly established distilleries having less awareness or a greater commercial focus as they are looking to make their business financially sustainable.

Distilleries in operation from six to ten years were much more likely to be concerned with health and safety matters (see Chart 30), with 83% of these distilleries having at least one concern. Distilleries which have been in operation for less than five years, and those which have been in operation for more than ten years are both less likely to have health and safety concerns.

The most common concerns across the industry about safety were safety plans and procedures (38% of respondents) and fire or explosions (36%).

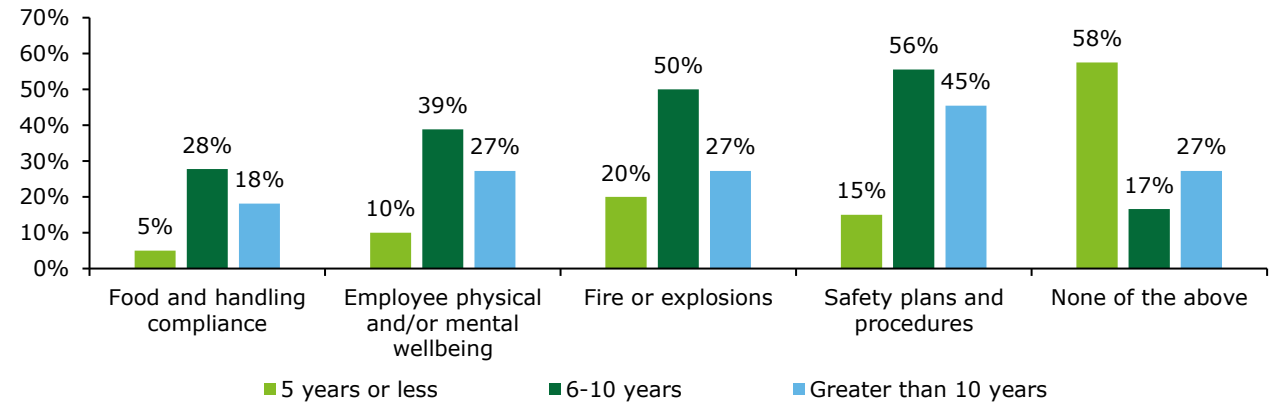
Most distilleries (57%) want support or information from the government on work safe compliance.

Two other areas distilleries wanted more information and support on were occupational health and safety and dangerous goods handling, with 46% and 45% of distilleries respectively wanting support on these topics.

Distilleries which have been in operation from six to ten years are more likely to want support from the Victorian government in improving their health and safety compliance (Chart 31). Industry stakeholders suggested that more recently established distilleries experience challenges obtaining clear and concise information about safety. This information includes safety requirements, key risks and how to mitigate against key risks in a cost-effective way. Agriculture Victoria is currently designing further support for the industry on safety and compliance based on the support that distilleries feel is needed.

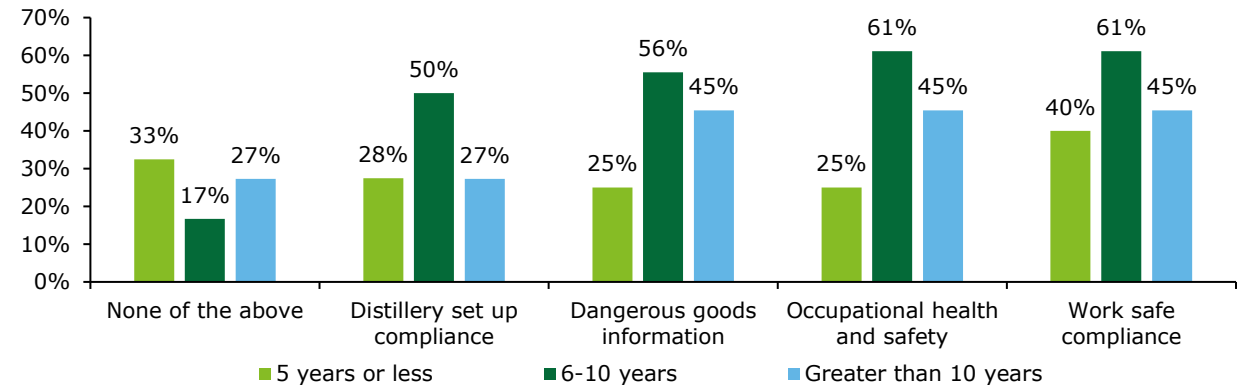
Industry consultation indicated that while there is a lot of work to be undertaken on the topic of safety for distilleries, they noted industry is working together with authorities to produce clear and unique industry guidance. The intended outcome of this work will be that distilleries will have an authority-based resource available. Industry noted their optimism that the issue of safety in distilleries will be addressed effectively over the next 18 months, owing to the success of current campaigns.

Chart 32: Safety concerns of distilleries, by years of operation



Source: Victorian Distillers Survey, Deloitte Access Economics (n=43) Questions: Do you have any concerns about the following safety issues at your business? How many years has your business been in operation?

Chart 33: Desire for greater support on particular topics, by years of operation



Source: Victorian Distillers Survey, Deloitte Access Economics (n=43) Questions: What information and support do you need for your safety program to ensure compliance and practical approach? How many years has your business been in operation?



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Despite recent consumer challenges, the outlook for the spirits industry remains strong

Challenges remain for the outlook for the Victorian and national economies.

The outlook for the Australian economy has softened throughout 2023 as the impact of inflation and rising interest rates have dampened consumer demand. Since May 2022 the Reserve Bank of Australia has significantly raised interest rates in a short period of time. As a result, the national economy is only expected to grow 1.4% in 2023 (real GDP), well below the 2.4% average annual rate seen in the decade to 2022.

Victoria's is poised to perform better than Australia as a whole, largely driven by strong population growth. Historically the Victorian population has been well supported by internal migration from other states, and it is expected to once again be a source of growth in over the coming years. At present, international migration is a dominant driver of population growth.

Per capita consumer spending has seen very little growth in the past year in both Victoria and nationally, with many households reducing discretionary spending. When households do cut back on spending it is more likely that they will start with non-essential spending, including spending on alcohol.

Nationally, the real level of spending on alcohol has fallen in six of the last seven quarters and is now 5.3% lower than its level in September 2021. Spending is slightly stronger in Victoria where that figure only fell by 3.4% in the same time period.

Despite short term challenges, the outlook for the spirits industry remains strong with 34% growth in size and 4,000 additional FTE roles expected to be created over the next decade.

Modelling by Deloitte Access Economics suggests that the Victorian spirits sector may grow at 3.1% average in real terms for the next 5 years to reach \$3.46 billion in value add by 2028 (Chart 32). There would also be an additional 4,000 FTE roles created over the next decade in Victoria (Chart 33). The majority of these new jobs coming from retail and hospitality. By 2030, the spirits sector will reach \$3.7 billion in value add.

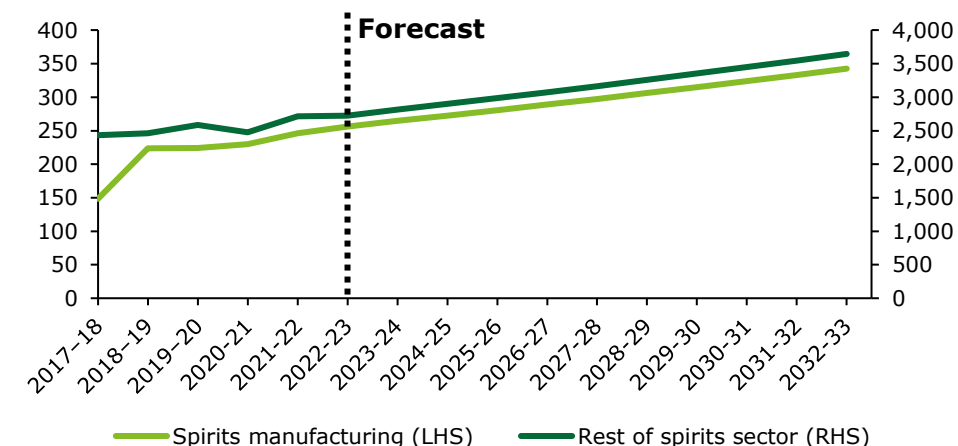
These strong results are due to consumer spending in alcohol being expected to recover in the short term, driven largely by an anticipated increase in real household income from early 2024, along with strong population growth. Specifically for the spirits industry, the growing trend towards premiumisation is expected to continue to bolster demand.

While the long run trend of younger and more health-conscious consumers consuming less alcohol by volume will moderate growth, it is expected to be outweighed by the rate of population growth and premiumisation.

Key assumptions utilised in the outlook modelling

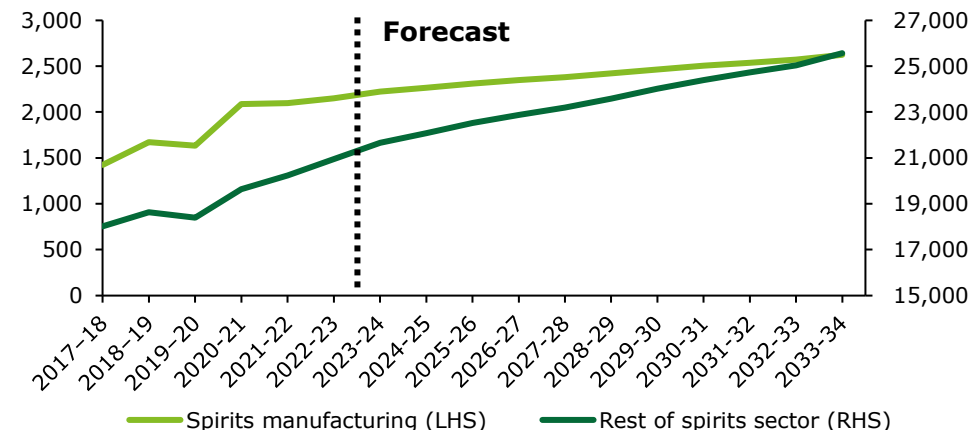
- Population growth 1.8% per year
- Growth in Premiumisation 1.4% per year
- Per capita alcohol domestic consumption falls in line with the trend from 2009-19 in terms of pure alcohol per year
- Export growth is forecast to grow by 11% per year

Chart 34: Forecast real value add of spirits sector (\$ millions)



Source: Deloitte Access Economics modeling, IBISworld, ABS Apparent consumption of Alcohol, ABS Retail Trade

Chart 35: Forecast employment (FTE) in spirits sector



Source: Deloitte Access Economics modeling, IBISworld, ABS Apparent consumption of Alcohol, ABS Retail Trade

Distillers are expecting a very strong 12.5% increase in revenue on average in 2023-24.

Three quarters of distilleries are expecting revenue growth in the next financial year.

Of distilleries surveyed 72% expect their revenue to increase in 2023-24, while 18% are not anticipating any change in revenue and 10% are expecting revenue to decrease. On average revenue is expected to increase by a very strong 12.5% in 2023-24. For the average distillery, with a median revenue of \$1.36 million in 2022-23, this would equate to an increase of \$170,000 in revenue.

Small businesses earning less than \$100,000 generally have higher revenue expectations than those earning between \$100,000 and \$2 million (Chart 34). The optimism of these small distilleries is also shared by distilleries with revenue of more than \$10 million, who also expect revenue growth of 20%.

Distilleries located in metropolitan areas are also anticipating higher revenue growth (15%) compared to those in regional areas (10%) in 2023-24 (Chart 35).

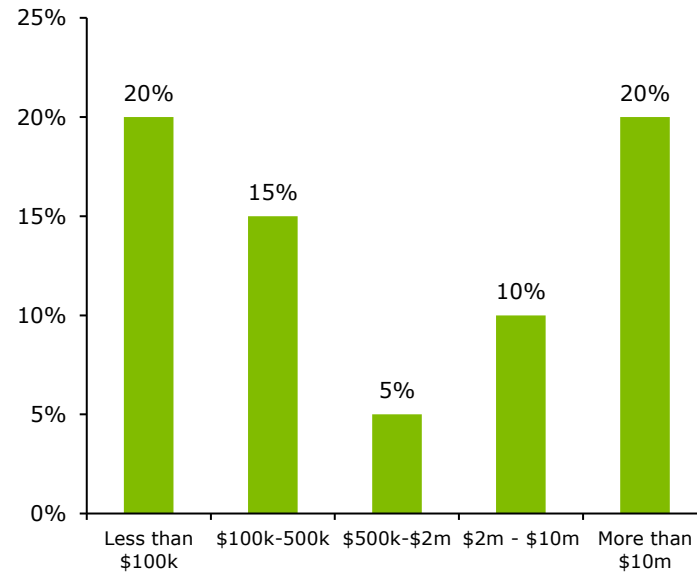
Interestingly, more recently established distilleries (operating for 1-5 years) and more established distilleries (operating for 6-10 years) have similar anticipated growth over the next financial year (15%).

Distillers expect moderating capital investment.

Positively, capital investment grew significantly from 2021-22 to 2022-23, increasing from an average of approximately \$61,000 to about \$225,000.

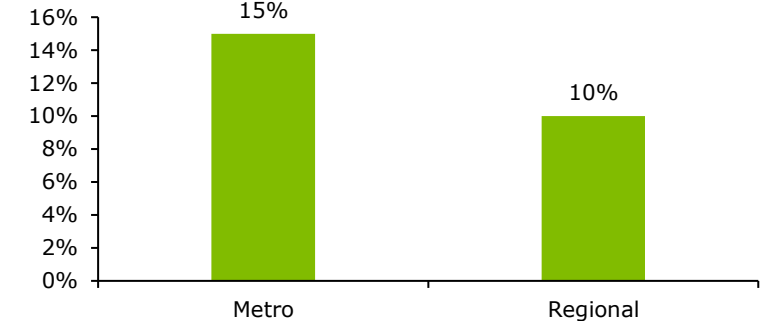
However, capital expenditure is expected to moderate over the next year to an average of just over \$173,000. Industry consultations referred to the impact of the current economic climate on decisions to invest in new capital equipment.

Chart 36: Median expected growth in revenue in 2023-24 by current revenue



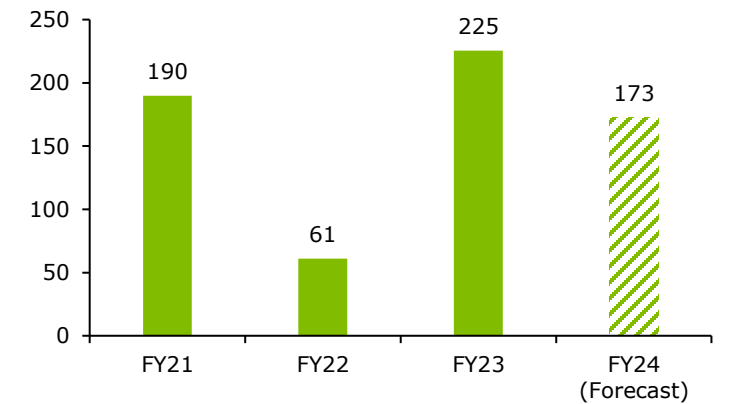
Source: Victorian Distillers Survey, Deloitte Access Economics, n=60. Question: How do you expect your revenue to change in 2023-24? Please answer to the nearest whole percentage point

Chart 37: Median expected growth in revenue in 2023-24 by location



Source: Victorian Distillers Survey, Deloitte Access Economics, n=60. Questions: How do you expect your revenue to change in 2023-24? Please answer to the nearest whole percentage point and Where are your Victorian headquarters or operations located (postcode)?

Chart 38: Average distillery capital investment (\$000)



Source: Victorian Distillers Survey, Deloitte Access Economics, n=31. Question: What is your annual capital investment (including investment in machinery, equipment and building)? Please answer this question based on 2022-23 or the latest year you have available information.

INDUSTRY OUTLOOK | BARRIERS TO GROWTH

Addressing barriers like excise burden, inflation and economic uncertainty would support growth in the industry.

Excise tax burden, inflation and economic uncertainty are most significant barriers to growth reported by distilleries.

Realising the anticipated growth for distilleries and the broader spirits supply chain will require addressing some barriers facing the industry.

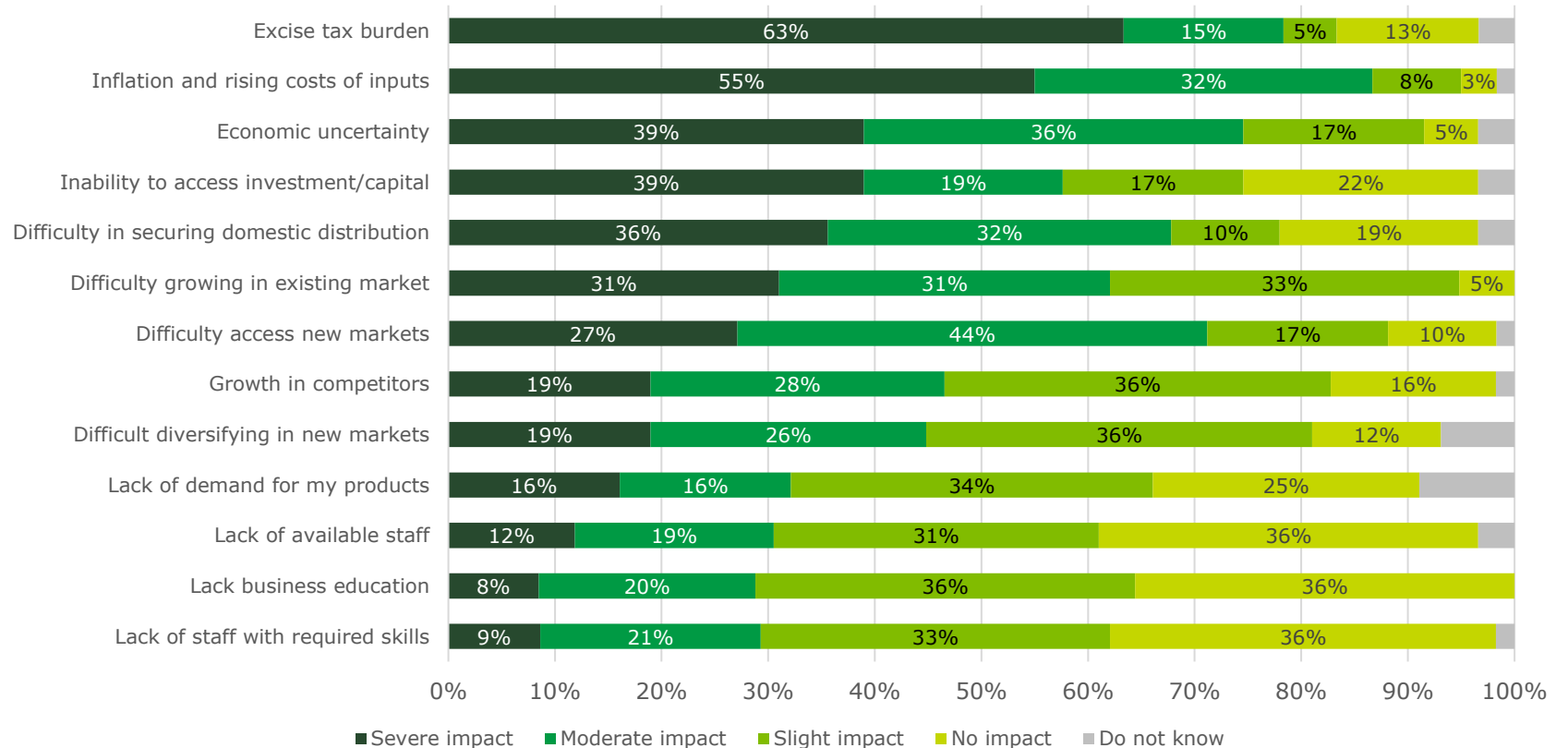
The survey revealed that 83% of distilleries expect excise tax to have an impact on their business growth and expansion, with 63% of these distilleries expecting the impact to be severe.

Those currently above the remission threshold (\$350,000) were more likely to be impacted by the excise tax (95% of respondents) compared to those below the threshold (83%). While many distilleries may not currently be paying the excise tax, during industry consultations participants revealed exceeding the excise tax was only viewed as beneficial if rapid expansion can be achieved and maintained.

While excise tax is expected to have the most severe impact on distilleries, inflation and rising costs of inputs are expected to have the broadest impact, with 95% of distilleries expecting it to impact their business growth and development in some form.

This is closely followed by difficulties growing in existing markets (95%, but less severe impact overall) and economic uncertainty (92%). Other key barriers to business growth and development include the inability to access investment/capital and difficulties securing domestic distribution of product (Chart 37).

Chart 39: Key barriers to business growth and development



Source: Victorian Distillers Survey, Deloitte Access Economics (n= 60) Question: What are the key barriers to your business' growth and expansion?

INDUSTRY OUTLOOK | OPPORTUNITY AREAS

Four key opportunity areas to support growth in the spirits industry relate to tourism, exporting, developing skills and distribution.

In addition to addressing the barriers for distilleries, growing the distilled spirits industry in Victoria will require an expansion of existing areas of strengths such as tourism and exports.

The top opportunities for supporting industry growth are shown below. Progress in these four areas will increase the likelihood of continued growth in this important industry and the associated benefits from a more diversified and regionally distributed economy.



Supporting distilleries in building tourism offerings

Victoria has the highest share of distillery visits of any Australian jurisdiction (27% in 2022). While more than half (54%) of the industry has a distillery door, a further third (34%) are looking to open a distillery door. Consultation with industry suggest that distilleries may require support in terms of navigating local council regulation or connecting with external events to access these opportunities. There may also be opportunities to jointly market an offering like the Southern Whisky Trail.



Developing skills of the distillery workforce

The key skills gaps are concentrated in soft and commercial skill sets such as sales (69%) and marketing (61%) as well as business planning, documentation and reporting and distilling. Developing industry tailored training could be valuable to help supporting distilleries and their staff build their capabilities. This training could assist owners in building awareness and ability to access other sources of finance to grow their business.



Increasing access to export markets

While Victorian spirit exports have increased on average by 21% per year for the past five financial years, only 14% of distilleries currently export their product. Yet there is strong interest from distillers in beginning to export or expanding their overseas offering. The Victorian Distillers Survey suggests most distilleries would like more information selecting potential export markets (49%), exporting rules and regulations (46%), and marketing (43%). Providing information from relevant government departments like Austrade and industry associations could assist businesses with these international opportunities.



Growing distributors to facilitate growing distillery operations

Nearly 70% of distilleries use a distributor, with industry consultations revealing difficulties with finding distributors. The use of a distributor can be a key connection point to accessing larger retail or hospitality markets. This issue is exacerbated by the recent growth in distilleries with over half of surveyed distilleries only beginning operations in the past five years. Developing a greater understanding of available distributors through a relevant industry directory could assist some distilleries currently experiencing difficulties.



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APPENDIX A | SURVEY METHODOLOGY

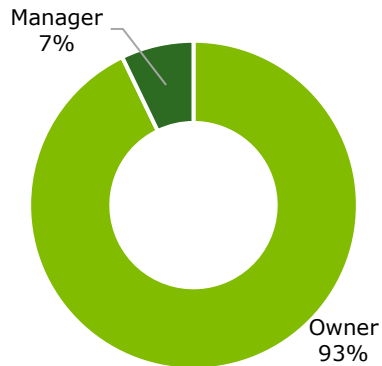
Deloitte Access Economics was commissioned by the Department of Energy, Environment and Climate Action to undertake an in-depth analysis of the distilled spirits industry in Victoria and identify the industry's strengths and opportunities for growth.

This report is informed by a survey – the Victorian Distillers Survey which was fielded by Deloitte Access Economics from 1 to 25 August 2023. The survey was distributed to 188 distilleries in Victoria, from which 70 responses were recorded. The distribution list was provided by DECCA and the ADA.

Almost all respondents were owners, representing 93% of responders (see Chart A.1). Respondents were most commonly aged 45-54 years of age (see Chart A.2) and had 3 to 6 year of experience in the industry (see Chart A.3).

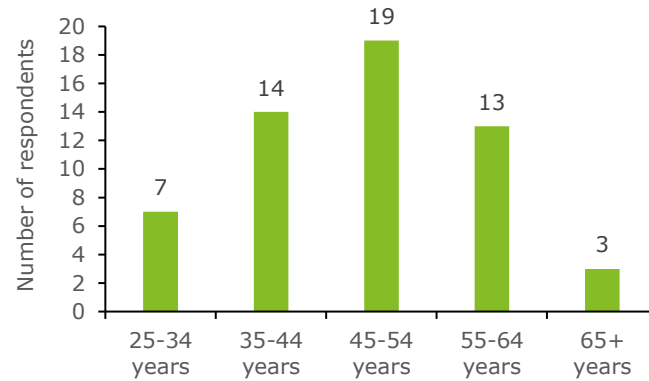
The majority (56%) of distilleries were based in metropolitan Victoria (see Chart A.4), with most having been in operation for 1-5 years (see Chart A.5).

Chart A.1: Respondent role in business



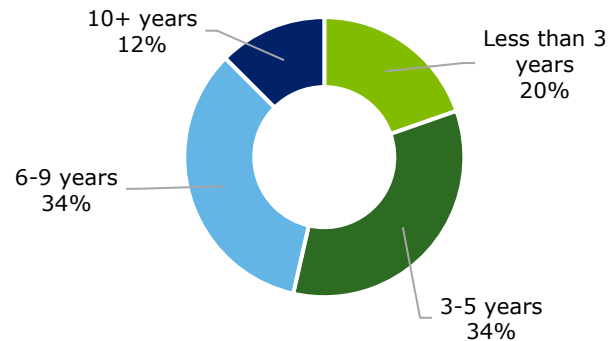
Source: Victorian Distillers Survey, Deloitte Access Economics (n=56)
Question: What is your position in the business?

Chart A.2: Respondent age



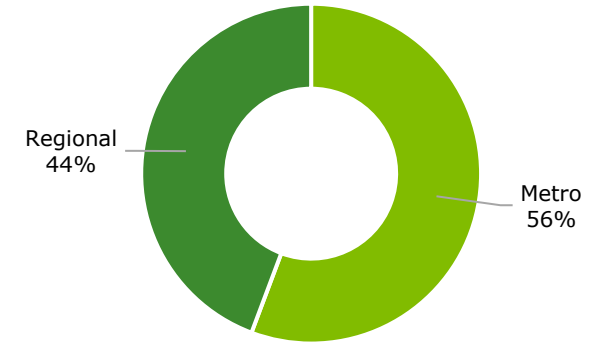
Source: Victorian Distillers Survey, Deloitte Access Economics (n=56)
Question: What is your age?

Chart A.3: Respondent years of experience in industry



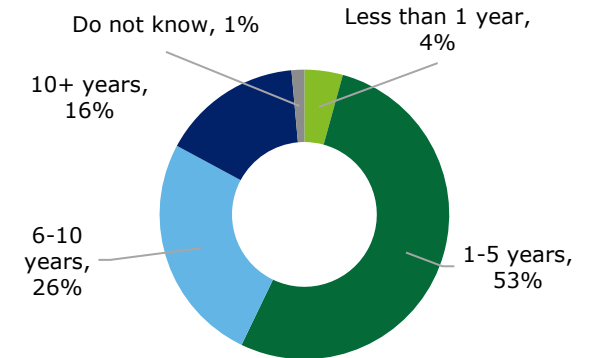
Source: Victorian Distillers Survey, Deloitte Access Economics (n= 56)
Question: How many years of experience have you had in the distillery industry?

Chart A.4: Distillery location



Source: Victorian Distillers Survey, Deloitte Access Economics (n= 70)
Question: Where are your Victorian headquarters or operations located (postcode)?

Chart A.5: Distillery's years of operations



Source: Victorian Distillers Survey, Deloitte Access Economics (n=70)
Note: Years of operations as at 2023. Question: How many years has your business been in operation?

APPENDIX B | ECONOMIC CONTRIBUTION METHODOLOGY

Economic contribution studies are intended to quantify measures such as value added, exports, imports and employment associated with a given industry or firm, in a historical reference year. The economic contribution is a measure of the value of production by a firm or industry.

B.1. Value added

Value added is the most appropriate measure of an industry's economic contribution to gross domestic product (GDP) at the national level, or gross state product (GSP) at the state level. Other measures, such as total revenue or total exports, may be easier to estimate than value added, but they 'double count'. That is, they overstate the contribution of a company to economic activity because they include, for example, the value added by external firms supplying inputs or the value added by other industries.

Value added is the sum of:

- **Gross operating surplus (GOS)**, which represents the value of income generated by the entity's direct capital inputs, generally measured as earnings before interest, tax, depreciation and amortisation (EBITDA).
- **Labour income**, which represents the value of output generated by the entity's direct labour inputs, as measured by the income to labour.
- **Tax on production less subsidy provided for production**, which generally includes company taxes and taxes on employment (given the returns to capital before tax (EBITDA) are calculated, company tax is not included or this would double count that tax). Gross output measures the total value of the goods and services supplied by the entity. This is a broader measure than value added because it is an addition to the value added generated by the entity. It also includes the value of intermediate inputs used by the entity that flow from value added generated by other entities.
- **Employment** is a fundamentally different measure of activity to those above. It measures the number of workers that are employed by the entity, rather than the value of the workers' output.

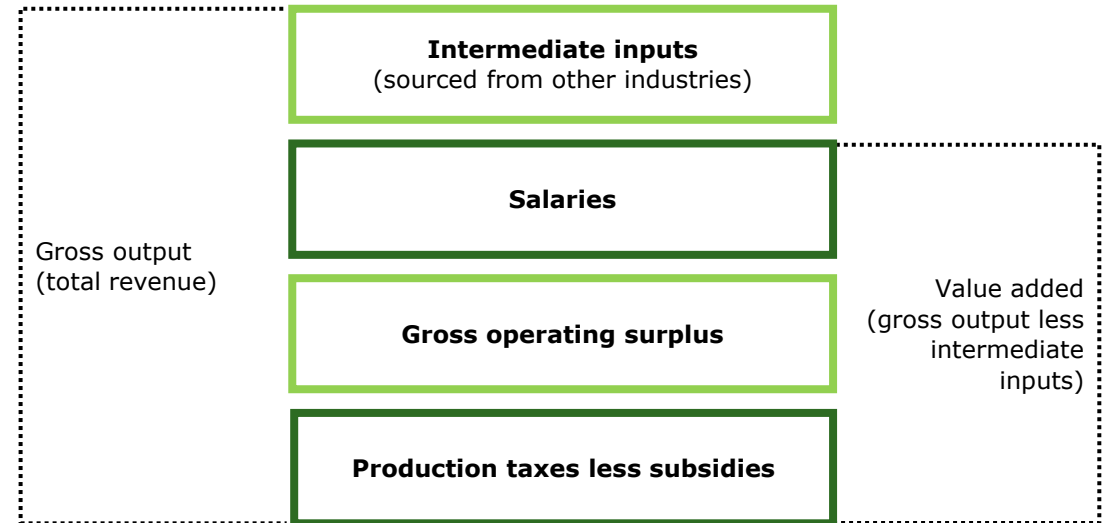
B.2. Measuring the economic contribution

There are several commonly used measures of economic activity, each of which describes a different aspect of an industry's economic contribution.

Value added measures the value of output (i.e. goods and services) generated by the entity's factors of production (i.e. labour and capital) as measured in the income to those factors of production. The sum of value added across all entities in the economy equals GDP. Given the relationship to GDP, the value added measure can be thought of as the increased contribution to welfare.

Figure B.1 shows the accounting framework used to evaluate economic activity, along with the components that make up gross output. Gross output is the sum of value added and the value of intermediate inputs. Value added can be calculated directly by summing the payments to the primary factors of production, labour (i.e. salaries) and capital (i.e. gross operating surplus), as well as production taxes less subsidies. The value of intermediate inputs can also be calculated directly by summing up expenses related to non-primary factor inputs.

Figure B.1: Economic activity accounting framework



Source: Deloitte Access Economics.

APPENDIX B | ECONOMIC CONTRIBUTION METHODOLOGY

B.3. Direct and indirect contributions

Direct economic contribution is a representation of the flow from labour and capital within the sector of the economy in question. Indirect contribution is a measure of the demand for goods and services produced in other sectors as a result of demand generated by the sector in question.

Estimation of the indirect economic contribution is undertaken in an input-output (IO) framework using Australian Bureau of Statistics input-output tables, which report the inputs and outputs of specific sectors of the economy. The total economic contribution to the economy is the sum of the direct and indirect economic contributions.

B.4. Estimating economic contribution for the spirits industry

An economic contribution for the spirits beverages industry can be generated using either a 'top-down' (using publicly available data at the sector level) or bottom up (survey of industry members) approach. A mixed approach is used here.

For this analysis, we have conducted a survey of Victorian distillers. This provides a realistic and informed understanding of the spirits manufacturing segment with collected financial information flowing directly into our modelling. We have used publicly available data sourced from IBISWorld (supplemented by ABS data where possible) to model the direct economic contribution of spirits wholesaling, retailing and hospitality.

We have utilised evidence-based assumptions for the spirits share of operations for downstream sectors. We have drawn on ABS data, state liquor wholesaling data, and industry reports to inform these assumptions (Table B.1). The Victorian share of the activity was based on relevant business count shares for these components.

To estimate the indirect flow-on contribution of the industry we have findings from the survey of Victorian distiller and utilised the expenditure patterns identified in the Victorian I-O tables for each of the sectors as identified by the ABS relating to the spirits industry. These expenditure profiles have been adjusted for imports so that only domestic contribution is considered.

For the indirect economic contribution, backward linkages throughout the supply chain have been quantified. As this study seeks to quantify the total economic contribution of an entire supply chain, the estimation of backward linkages for each sector is challenging. For example, the direct and indirect contribution of spirits wholesalers already includes purchases from manufacturers. Similarly, the direct and indirect effects of the spirits retailing sector includes purchases from wholesalers.

To add up the direct and indirect effects for each actor in the supply would result in double counting and an overestimation of total economic contribution.

To account for double counting we have excluded backward interactions between supply chain actors in the economic contribution modelling. For example, expenditure from 'wholesaling' associated with spirits manufacturing, has been excluded for the indirect calculations in the I-O modelling.

Table B.1: Sectors considered in this analysis

Spirits sector	I-O table sector	Spirits share
Spirits manufacturing	Wine, spirits and tobacco	100%
Liquor wholesaling	Wholesale Trade	25%
Liquor retailing	Retail Trade	35%
Café and coffee shops	Food and Beverage Services	1.6%
Restaurants	Food and Beverage Services	4.0%
Pubs, Bars and Nightclubs	Food and Beverage Services	20.4%
Social clubs	Food and Beverage Services	12.0%
Catering Services	Food and Beverage Services	1.0%
Hotels and resorts	Accommodation	0.8%
Motels	Accommodation	0.2%
Casinos	Gambling	0.8%

Source: Deloitte Access Economics.

APPENDIX B | ECONOMIC CONTRIBUTION METHODOLOGY

B.5. Limitations of economic contribution studies

While describing the geographic origin of production inputs may be a guide to a firm's linkages with the local economy, it should be recognised that these are the type of normal industry linkages that characterise all economic activities.

Unless there is significant unused capacity in the economy (such as unemployed labour) there is only a weak relationship between a firm's economic contribution as measured by value added (or other static aggregates) and the welfare or living standard of the community.

Indeed, the use of labour and capital by demand created from the industry comes at an opportunity cost as it may reduce the amount of resources available to spend on other economic activities. This is not to say that the economic contribution, including employment, is not important.

As stated by the Productivity Commission in the context of Australia's gambling industries:

"Value added, trade and job creation arguments need to be considered in the context of the economy as a whole ... income from trade uses real resources, which could have been employed to generate benefits elsewhere. These arguments do not mean that jobs, trade and activity are unimportant in an economy. To the contrary they are critical to people's well-being. However, any particular industry's contribution to these benefits is much smaller than might at first be thought, because substitute industries could produce similar, though not equal gains."

In a fundamental sense, economic contribution studies are simply historical accounting exercises. No 'what-if', or counterfactual inferences — such as 'what would happen to living standards if the firm disappeared?' — should be drawn from them.

The analysis — relies on a national input-output table modelling framework and there are some limitations to this modelling framework. The analysis assumes that goods and services provided to the sector are produced by factors of production that are located completely within the state or region defined and that income flows do not leak to other states.

The IO framework and the derivation of the multipliers also assume that the relevant economic activity takes place within an unconstrained environment. That is, an increase in economic activity in one area of the economy does not increase prices and subsequently crowd out economic activity in another area of the economy. As a result, the modelled total and indirect contribution can be regarded as an upper-bound estimate of the contribution made by the supply of intermediate inputs.

Similarly, the IO framework does not account for further flow-on benefits as captured in a more dynamic modelling environment like a Computable General Equilibrium model.



APPENDIX C | REFERENCES

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