SUBMISSION TO THE FEDERAL TREASURY ISSUES PAPER ON NON-FORESTRY MANAGED INVESTMENT SCHEMES

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Background

The Barossa Grape & Wine Association (BGWA) is the newly established peak industry body representing the interests of Barossa grape growers and Barossa winemakers.

The BGWA represents over 800 growers, winemakers and wineries located in the Barossa and advocates policies and programs that will impact positively on the profitability and sustainability of the wine grape sector.

The Barossa Vision
To be recognised at home and abroad as *Australia's Most Famous Wine Region*, valued for its long heritage, unique diversity of fine wines and sustainable viticultural practices and having a special place amongst the great wine regions of the world.

The Barossa Mission
Winemakers and wine grape growers working collaboratively to achieve a more vibrant and highly valued wine industry based upon the production and marketing of wines of excellence that are recognised for exceeding consumer expectations and are derived through practices that are both environmentally and economically sustainable.

The Barossa Gi Zone Grape Production[1]

NB: The Barossa is defined as that area of land defined as the Barossa Zone in the table of Australian Geographical Indications (refer AWBC) comprising the Barossa Valley and Eden Valley Regions.

In 2006 the Barossa produced 92,351 tonnes with a farm gate value of $89.8M.

In the 10 year period 1997-2006, Barossa grape production grew 60% from 57,983 to 92,351 tonnes in 2006. This level of production accounted for 11% of total South Australian production and around 4% of total Australian production.

First settled in the 1840's, today 57% of the Barossa vineyards are smaller than 10 hectares. Many are still owned by fifth and sixth generation vignerons who are proud custodians of their old dry grown vineyards and give the Barossa a unique viticultural heritage. Having never experienced Phylloxera, the Barossa today is home to some of the oldest Shiraz vines in the world that date back to the mid 1850's.

The Barossa history, heritage, vignerons and winemakers have established the Barossa as Australia's most famous wine region within Australian and international wine markets. The challenge for the Barossa is to position itself so as to further build on its reputation and renown.

The growth and development of managed investment schemes in viticulture is having a significant and potentially detrimental impact on the ongoing sustainability of existing growers. It may also result in damage to the premium image and reputation of the Barossa in regard to wine sales and wine tourism.

[1] (Source: Phylloxera Board of South Australia, Grape Utilization Surveys)

Key issues to be considered

We note that the review will consider the costs and benefits of MIS from an economic, environmental and social perspective. We will limit our responses to those that our members have direct qualitative or qualitative information to contribute to the review.

Response to issues paper paragraph 30

> Some believe MIS participants have a tax advantage that traditional farmers do not have. Promotional literature produced by MIS operators, financial advisers and rating agencies highlights the tax deductibility of contributions made to a MIS, as a benefit associated with a MIS.

Australia's tax structure should not advantage MIS vineyards compared to traditional grape growing. It is essential that all financial benefits to all parties involved in the selling and marketing of MISs including the beneficiaries are fully disclosed.

We believe that promotional literature produced by MIS operators and associated financial advisers that stress the tax advantages of the scheme can encourage investment at times and for reasons that are not in the best interests of the industry as a whole. There is evidence of this currently occurring in the Barossa where extensive conversion of broadacre property at a time when the industry is projecting immediate oversupply, and then significant oversupply from 2010.

In 2005, 78% of Barossa plantings were in the ground before 2000. Large plantings of MIS vineyards occurred in the region between 2001-2004 with the establishment of the Barossa Infrastructure Limited water company.

The rapid growth of plantings in the Barossa from all sources is shown by the figures below:

Barossa plantings
- 1996 - 6466 hectares
- 2006 – 10261 hectares (an increase of 59% since 1996)
- 2008 – 12682 hectares

Grape production
- 1997 – 57,983 tonnes produced
- 2006 – 92,351 tonnes produced
- $89.8 million farm gate value of 92,351 tonnes.
- 60% increase in total production in the 10 year period
- 138% increase in red production

Uncontracted fruit predictions – Source Wine Grape Pricing & Utilisation Pricing Survey.
- 2008 – (6086 tonnes)
- 2010 – 35,130 tonnes
- 2012 – 39,682 tonnes

In addition, we believe there is inadequate disclosure of the industry projections in product disclosure statements. Industry volume growth statistics without corresponding value trends in total dollars and on a per litre basis, market analysis and industry projections do not give a true picture. Investors in MIS are often at arm's length from the industry and rely on product disclosure statements to assess the longer term viability of their investment.

Response to issues paper paragraph 71.

> Some consider that, due to their access to financial resources, MIS operators are able to acquire large tracts of land and water resources at prices in excess of those that a traditional farmer would pay. Consequently, they believe that resources are misallocated from efficient agricultural operators to MIS operators.

If the industry goes into oversupply as predicted, the large tracts of land recently, and currently, being planted by MIS will impact on the sustainable allocation of scarce natural resources such as water within the region.

This is viewed negatively by the broader community and reflects poorly on the Barossa region as a whole. As well as further exacerbating issues in regard to the available quantity and quality of water, the focus of consumers on environmental responsibility could also slow the purchase of Barossa wines as consumers support visibly sustainable wine regions and producers.

BGWA highlights the negative social and amenity impacts of large-scale mono-culture plantings in localised, small scale, traditional landscapes like the Barossa region where 82.5% of the regions growers have less than 24 hectares planted.

Growers

- 724 Barossa grape growers registered with the Phylloxera & Grape Industry Board of South Australia
- 414 have less than 10 hectares planted (57%)
- 184 have between 10 – 24 hectares planted (25%)
- 82.5% of Barossa growers have less than 24ha planted

Hectares

In 2006 there were 12682 hectares under vine in the Barossa with 70% planted to red varieties and 30% white. Shiraz is by far the dominant variety accounting for 43% of total plantings.

Low yielding

Compared to wine regions in the heavily irrigated areas of the River Murray and Griffith NSW, the Barossa is a low yielding region with relatively high production costs but the quality of Barossa grapes is generally higher.

There is a considerable differential for prices paid for grapes in the Barossa ranging in 2006 from $10,000 a tonne to $100 a tonne (Source Phylloxera & Grape Industry Board SA). The price a winery pays for Barossa grapes is fundamentally determined by the end use of those grapes in the wineries range, i.e. the higher the retail price the higher the grape price paid to the growers.

Uncontracted fruit

As the Barossa emerges from the low production years of 2007 and 2008 the volume of uncontracted fruit is projected to increase significantly.

The Phylloxera Board of SA in its Winegrape Utilisation and Pricing Survey 2007 projects the following volumes of uncontracted fruit:

	2008	2010	2012
BAROSSA VALLEY			
RED	-5058	18750	21375
WHITES	718	10774	12392
TOTAL TONNES	-4340	29524	33767

EDEN VALLEY	2008	2010	2012
RED	240	4304	4469
WHITE	-1986	1302	1446
TOTAL	-1746	5606	5915

Uncontracted fruit are grapes for which no contract of sale exists for the grower to sell at the time of the survey.

The nature of production in the Barossa has lead to it being considered one of Australia's premium tourism destinations. Broadacre monoculture is not in keeping with the region's image and desirability as a tourism destination. A downturn in tourism will affect the many local bed & breakfast operators, tour operators, local shops, and restaurants.

A downturn in the wine industry will affect a large percentage of our local population due to the high number of small growers and families involved in grape production and winemaking and our towns' reliance on the wine industry's health as a whole.

Response to issues paper paragraph 68.

Document the type and level of research and development MIS operators undertake and compare that to industry norms

The Barossa wine industry is a collaborative one; winemakers do joint promotions in Australia and overseas growers work together on research projects and the entire community has an active interest in the industry. The region depends on this level of collaboration for its ongoing health and welfare.

Australian and International Markets for Wine

The issues paper discusses the impact of MIS on commodity products. The Australian wine industry has recognised it cannot sustainably compete at the commodity end of the global wine market. The industry has put significant effort into its Wine Industry Directions to 2025 Strategy which seeks to clearly differentiate overall Wine Brand Australia and in particular the four market segmentation sub-categories of Brand Champions, Regional Heroes, Generation Next and Landmark Australia.

The Barossa has established a premium reputation in targeted markets and garnering corresponding retail prices within those markets. For small producers of premium product (both grapes and wine) this return is essential to maintain profitability.

This requirement is borne out by industry surveys such as the WFA/Deloitte's Annual Financial Benchmarking Survey. The 2007 vintage survey (published in July 2008) indicated that the profitability of wineries, particularly very small and small wineries, was significantly below sustainable benchmarking levels.

However the survey also pointed to a noticeable trend to higher price points surmising that this could be an early indicator of the renewed focus on regional and fines wines advocated by the industry's national strategy to better position the Australian wine industry for differentiation and sustainability.

Unnecessary intervention policies and schemes that result in over-investment in grape production will seriously impact on the industry's ability to sustain ongoing profitability and viability for the sector.

Oversupply will result in lower prices for grapes and for wine, place significant downward pressure on retail price points and enormous pressure on margins. This in turn affects the ongoing sustainability of the premium producers who are so essential to the fabric, strategy, reputation and quality of the Australian wine industry.

As well as causing financial hardship for growers and producers, oversupply reduces the significant financial contribution the region wine industry makes to the economy at local, state and federal levels. The domino effect of oversupply also impacts on regional service providers, banks, community facilities and services.

Exports

- 75% of Australia's exports by value are below $67.50FOB per case.
- 58% of Barossa exports by value are above $67.50 per case
- 32% of Barossa exports by value are above $90.00 per case.
- For the year to October 2007 the average Barossa export price was $96.50 per case - a 118% premium to the Australian average export price.
- The Barossa is Australia's most successful regional appellation after the big three generic appellations of SE Aust, South Australia and Australia.

Relevant Barossa Wine Industry Statistical Tables

A comparison of production red and white 1997 - 2006:

	Barossa	Eden Valley	Total Barossa Zone
1997			
Reds	23700	3281	26901
Whites	25237	5763	31000
Total	**48938**	**9045**	**57983**
2006			
Reds	58161	6081	64242 (+ 138%)
Whites	21488	6621	28109 (-9%)
Totals	79649	12702	92351
1997-2006 growth	+30711	+3657	+34368
%	+63%	+40%	+60%

Top Reds
In 2006 the top four red varieties accounted for 95% of production as follows;

	Tonnes	%	Growth 97/2006
Shiraz	38764	60	230%
Cabernet Sauvignon	12968	20	146%
Grenache	5480	9	-2%
Merlot	3635	6	440%

Top Whites
In 2006 top four white varieties accounted for 91% of production as follows;

	Tonnes	%	Growth 97/2006
Semillon	8449	30	-3%
Chardonnay	8772	31	76%
Riesling	7151	25	61%
Sauvignon Blanc	1452	5	65%

Growers
In 2007 there were 724 Barossa grape growers registered with the Phylloxera & Grape Industry Board of South Australia with the number of growers by property size:

Barossa Region	# of growers'	%	% hectares
Less than 10 hectares	330	56	14
10-24 Hectares	157	26	25
25-49 Hectares	78	13	25
50-99 Hectares	19	3	12
100+	9	2	15
Total	593		

Eden Valley Region	# of growers'	%	% hectares
Less than 10 hectares	84	64	16
10-24 Hectares	27	21	17
25-49 Hectares	11	8	16
50-99 Hectares	7	5	23
100+	2	2	28
Total	131		

More than 55% of growers' vineyards are less than 10 hectares planted.

Independent Growers

In 2005 Barossa independent grape growers accounted for 80% of grapes processed with winery grown grapes accounting for 20%. In Eden Valley region independent growers accounted for 55% of grapes processed with winery-owned grapes 45%.

Major processing wineries

The processing operations of several major wine companies are located in the Barossa, making it a major processing hub for the Australian wine industry. Grapes are delivered to these processing centres from other wine regions (in addition to Barossa grown grapes) for processing, packaging and distribution. Barossa grown grapes account for approximately 16% of total grapes processed in the Barossa. (Source Barossa and Light Development Board, Wine Industry Impact Review).

EXPORTS OF AUSTRALIAN AND BAROSSA WINE

(Source- Australian Wine Brandy Corporation Export Statistics. All figures are MAT (moving annual total) October 2007)

Australian Bottle Wine Exports

A record 64 million litres and growing after 4 years of decline. $2.8B value with an average FOB price per case $44.22.

Segmentation of exports by FOB price: Australia & Barossa

FOB case price	Australia % Volume	Australia % Value	Barossa % Value
$22.50- 45	69%	50%	15%
$45-67.50	22%	25%	27%
$67.50-90	5%	9%	26%
$90+	4%	13%	32%

75% of Australia's exports are below $67.50FOB per case. This contrast with the Barossa where 58% of $ exports are above $67.50 and most importantly 32% of Barossa $ exports are above $90 per case. For the year to October 2007 the average Barossa export price was $96.50…a 118% premium to the Australian average export price.

Australian Bottle Exports by Variety

Variety	Volume	$ value
Shiraz	21%	26%
Chardonnay	19%	17%
Shiraz/Cabernet	11%	10%
Cabernet Sauvignon	9%	10%
Merlot	8%	7%
	69%	69%

Export variety suits the Barossa production mix of predominately reds.

Australia's Leading Bottle Wine Appellations

Regional label claim	9 LITRE cases	+-%	$Volume	+-%
South East Aust	44.4M	10	1.618B	10
South Aust	6.1M	31	318M	37
Australia	6M	7	250M	1
Barossa	1.46M	30	141M	23
McLaren Vale	895K	28	85M	19
Coonawarra	338K	15	20M	23
Margaret River	276K	-7%	27M	2%

The Barossa is Australia's most successful regional appellation after the big three generic appellations of SE Aust, South Australia and Australia. Since 2001 exports of Barossa wine have grown 2.64 times from 402cases to 1.46M cases and in dollar terms from 2.62 times from $ 39.1M to $141.4M

Top 5 Barossa Export Markets

Market	Cases	+-%	$Value	+-%	Av. $ value/case
USA	658k	35	54M	15	94.55
UK	333k	26	24M	25	73.04
CANADA	128k	19	16M	26	125.69
NZ	60K	32	4.7M	33	78.19
SWITZ	52k	47	5.3M	38	103.09
SUBTOTAL	1.141M		104.1M		96.50M
% TOTAL	78%		74%		

The top 5 export markets for Barossa wine account for 78% of total export volume and 74% by value.

BAROSSA GRAPE PRODUCTION						
Red Tonnes						
Year	Barossa Valley	Eden Valley	Total Barossa & Eden Valley	$M BV	$M EV	$M Total
2004	49953	8140	58093	66.7	10.1	76.8
2005	58898	7415	66313	70.1	8.6	78.7
2006	58161	6081	64242	60.5	6.7	67.2
2007	26473	3462	29935	35	4.7	39.7
White tonnes						
2004	20620	8179	28799	19.4	12.1	31.5
2005	26008	8197	34205	22.1	11.1	33.2
2006	21488	6621	28109	15.2	7.4	22.6
2007	13258	5145	18403	10.1	6.1	16.2
Total tonnes						
2004	70573	16319	86892	86.3	22.2	108.5
2005	84906	15612	100518	92.2	19.7	111.9
2006	79649	12702	92351	75.7	14.1	89.8
2007	39731	8607	48338	45.1	10.9	56