



MEDIA RELEASE

Vineyard investors warned to be wary of 'last minute' MIS

Wine Grape Growers Australia (WGGA), has warned potential investors in 'last minute' Managed Investment Scheme (MIS) vineyards to do their homework on the wine grape sector before making any investment in wine grapes. WGGA's call follows the announcement by the ATO of an extension by 12 months to June 30, 2008 of up-front taxation deductions for non-forestry agricultural MIS.

WGGA Executive Director, Mark McKenzie, said investors needed to be aware that Australia already has sufficient vineyard capacity to meet its domestic and export market requirements for wine in the medium to long term, and additional vineyards are not needed – particularly in the premium cooler climate vineyard regions where a longer term structural oversupply of wine grapes remains.

"Wine grape growers are experiencing a severe financial crisis, with a large percentage of growers not making their costs of production in the last 2 or 3 years. Even when we recover from the drought, the outlook is for oversupply of all major varieties in cool and temperate producing regions by 2011 – just as new vineyards will come into bearing. The industry already has 20,000 to 30,000 hectares too much vineyard targeted at supplying the premium and super-premium markets, and while the industry is stepping up promotion of these wines, we face a very significant challenge to absorb the current production, without adding more plantings."

Despite the current unfavourable climate for vineyard investment, WGGA predicts the extension of the tax deduction deadline will see a number of large new MIS vineyard projects launched by the end of 2007 – and has warned investors to be wary of 'dud' investments. WGGA has advised investors that the cost of developing and managing a new vineyard over the first three years should be no more than \$80,000 per hectare, but because many MIS investment offerings have a cost structure far in excess of industry norms investors should seek advice from their State Department of Agriculture on vineyard establishment costs and an independent assessment on the wine industry outlook prior to making a decision to invest.

WGGA has produced a checklist for potential investors to assess the viability of any new vineyard investment:

- Is there a secure supply of water?
- Are the vineyard managers experienced, and what has their track record been with similar projects?
- Are the establishment and management costs significantly higher than the costs for other vineyards in the region? Are the costs of investing, establishing and managing the vineyard over the industry upper limit of \$80,000 per hectare in the first three years?
- Is there an identified market for the wine grapes in a steeply more competitive domestic and international wine market?
- Does the vineyard have confirmed long-term (5 years or longer) supply contracts with established and reputable wine companies?
- Are projected returns more than \$1200 per tonne for cool climate, \$900 per tonne for temperate climate and \$600 per tonne for warm inland regions – and if, so how are these returns justified?
- Is the vineyard in a cool or temperate growing region, and will the varieties to be planted be in oversupply within 5 years?

For More Information:

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