



BackVintage Wines Australia Pty Ltd
Suite 2, 177 Sailors Bay Road
Northbridge NSW 2063

7th October 2016

Senator the Hon. Anne Ruston,
Assistant Minister for Agriculture and Water Resources,
P.O Box 6100,
Senate Parliament House,
Canberra ACT 2600

**Re. Wine Equalisation Tax Rebate : Tightened Eligibility Criteria
Request for Submissions**

Dear Anne,

I welcomed the opportunity to participate in the Sydney Winemakers Industry Consultation process and wish to thank you and your department for so actively participating in the current round of industry consultation. And, most importantly, Mike Farnilo sends his very best regards !

The challenge we face :- innovation in the wine industry should be encouraged and supported throughout the entire value chain. In Sydney, you may remember you made the comment to both myself and Ralph Dunning (Byron and Harold Estate – approx 40,000 cases pa), “we have to ensure innovative businesses like yours survive”. Hopefully our response and comments below will help in this process.

Now to the matter at hand – some background information about BackVintage Wines Australia Pty Ltd.

BackVintage Wines Australia Pty Ltd

BackVintage Wines Australia Pty Ltd was established in May 2003 by myself and two other former Southcorp colleagues.

BackVintage has successfully competed, head to head on a daily basis, with retail giants such as Woolworths. A non-trivial and innovative, business success story.

We source grapes and bulk wine, oversee wine maturation, we blend and bottle all our wines under the trademarked BackVintage™ logo, and sell our wine, Australia-wide direct to consumers. A small portion of our business includes on-premise wholesale customers. We sell the equivalent of 80-100 tonnes of grapes a year or approximately 7,000-10,000 cases pa.

In essence, we do everything a conventional winery does except grow the grapes.

BackVintage™ - Hand Selected Regional Wines Delivered Direct
Suite 2, 177 Sailors Bay Rd, Northbridge NSW 2063
www.backvintage.com.au 1300 789 640

Our business model from the outset has always been innovative.

The primary objective of the business is to sell good quality wine at a good value prices. We have effectively taken the “service-provider” business model from the Telecommunications Industry and applied it to the wine industry.

Acknowledging the different skills in the value chain, we outsource almost every facet of the production.

- The growers do what they do best – manage the vineyard;
- Mike Farmilo oversees the fermentation and maturation of our wines – and
- BackVintage Wines Australia, by being located in Northbridge near Sydney’s CBD, is located physically close to the consumer – and we facilitate the sales and marketing required.

Do we have “skin in the game”?..Absolutely !

- We importantly improve asset utilisation for existing equipment owners throughout the value chain.
- By buying a combination of grapes and bulk wine, we help alleviate the problematic sales forecasting every vineyard and winery faces.
- BackVintage holds significant bulk wine and finished goods inventory and always carries at least one year’s worth of labelled Finished Goods in storage.
- We employ, both directly and indirectly, the equivalent number of staff that would otherwise BE employed in a mid-sized winery.

We produce good quality wines for the consumer that represent value for money.

- Our focus has always been to promote the varietals for which the regions are best renown.
- Nick Bulleid MW independently reviews and selects all our wines.
- Complementing Nick’s skills, Mike Farmilo, the former Senior Group Red winemaker for Penfolds / Southcorp, is the BackVintage winemaker. He has won 2 Jimmy Watson trophies during his career. He was a founding shareholder in Boars Rock & Project Wines in Langhorne Creek, and now consults to the industry. His skills are very highly regarded.

With this information in mind, our specific responses to the Implementation paper are as follows:

- 1. For rebatable wine, is the proposed definition of packaged and branded wine appropriate?**
Yes, the definition of packaged and branded wine is appropriate.

If a trademark approach is used, what types of trademarks should be permitted (e.g. exclusively licensed trademarks) and what would be the impact?

Common law and registered trademarks should be permitted alongside licensed trademarks permitted with the proviso that associated businesses cannot access multiple rebates.

- 2. For eligible producers, how should a winery ownership and leasing test be applied? What should be the nature and extent of investment in the wine industry required to access the rebate, and how can this be implemented?**

Consistent with my comments at the Sydney meeting, a **no assets test**, ‘significant interest’ or ‘skin in the game’ tests should be required.

Eligibility criteria based on various assets will no doubt be difficult to implement and administer, will be easily circumvented and will exclude some legitimate producers – BackVintage Wines Australia and Byron & Harold Estate – being two very relevant examples.

Lets not forget, grapes and winemaking facilities are located in rural Australia. The BackVintage innovative business model, notwithstanding we operate from a Sydney based office, is directly assisting the growth and financial viability of rural and regional Australia.

3. What is the impact from a 1 July 2019 start date of the tightened eligibility criteria? How might this change from an earlier transition period?

Given the long lead times from production decisions to commercial sale, we would prefer that any changes be implemented on 1 July 2019 and even beyond. However, if an earlier transition becomes a must, then we propose a start date of 1 July 2018 at the absolute earliest.

Additional Comment

Purchasing grapes alone to enable eligibility for a WET Rebate is a flawed concept.

In addition to the above, we suggest that reliance on purchasing grapes, and purchasing grapes alone to enable eligibility for a WET Rebate is a flawed concept.

The majority of wineries, even the most small, blend wine to alter and improve the quality of the finished product. Having a viable bulk market is essential for wineries to offset the financial and business risk throughout the production phase (for red wine – a three year period) before bottling may commence. Indeed, if one limits WET Rebate eligibility to just grapes, for pricing parity, it is likely that the bulk market price without a WET Rebate will have to be 29% lower than equivalent product sourced from grapes.

Having a viable bulk market which does not undermine growers and winemakers is essential.

We agree with the Federal Government's decision to restructure the WET rebate to avoid payments to overseas entities, reduce double dipping and rorting, and to support regional produce and employment. We nevertheless hope that the Government now better understands the complicated and inter-related structure of the industry and will draft legislation taking the needs of all the players into account.

Yours sincerely,

Julian Todd
Managing Director
BackVintage Wines Australia Pty Ltd