



# Cherry Hill Orchards Pty Ltd

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## Submission to WINE EQUALISATION TAX REBATE: TIGHTENED ELIGIBILITY CRITERIA

### Executive Summary

Cherryhill Orchards, one of Australia's largest and long running cherry producers, has recently embarked on a planned entry into various value added lines, notably a craft beverage offering, which to date include 2 versions of cherry beer, a 5% alc vol. cherry cider and a non-alcoholic cherry spritzer.

Consumer and retailer feedback has been very encouraging regarding product acceptance, in particular there is a lot of interest in the cherry cider, the cider market of course being a rapidly growing segment.

Currently we face a huge cost impediment to being able to expand sales of the cherry cider as it falls into the excisable beverage category which attracts approximately \$1.34 per 330ml bottle; contrasted to a 100% craft apple cider which attracts a significantly smaller tax, some of which can also be claimed as a WET rebate whereas currently excise tax cannot.

An obvious way to avoid the higher tax rate is to increase alcohol level to 8%, which would qualify the product as a fruit wine, incurring WET tax instead of excise tax, however for reasons outlined below we think this is less than ideal for quality, flavour and social responsibility reasons.

We strongly believe there are grounds for taxation review, to include a 100% pure craft cider made from fruit other than apple or pear to be included under the lower taxed WET.

### Business Background

Cherryhill Orchards is a long established cherry growing, packing and marketing business primarily involved in the fresh cherry business. In the peak harvest period, Cherryhill employs both directly and through labour hire contractors up to 700 staff.

A new rapidly growing segment of our business has been the introduction of consumer direct activities.

The foray into Pick your Own agri-tourism last season attracted 40,000 visitors to the Wandin East orchard. We add to the visitor "cherry and farm experience" by offering a selection of craft products and most recently, cherry beverages to be enjoyed on or off premises. The beverage lines are

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currently being introduced to the broader market and at this time are now stocked in a small selection of boutique cafés, produce stores and grocers in Melbourne only. The plan is to further develop our capabilities in this field and steadily introduce the beverage products to the broader Australian and export markets.

Another current major strategy to further significantly expand our core business capacity and capitalise on the demand for a genuine agri-tourism experience is underway with a \$10M investment at Coldstream in the Yarra Valley.

This property along with a full scale commercial cherry orchard, will also house the country's most state of the art cherry packing facility; but importantly, on offer to visitors, will be a produce sales outlet, a tasting experience bar and cherry café. This development is expected to be a major Yarra Valley tourist attraction and will employ an additional 200 staff in peak periods. The suite of beverages that will be on offer for tastings and sales at the new Cherryhill Coldstream attraction will significantly broaden and enriches our offering and tourism experience. Products such as our cherry cider will be one of our "hero" products through which, we believe, will help draw a large number of visitors to the attraction throughout the year.

## **Fruit Discrimination in Taxation**

We agree to the viewpoint that excisable alcohol beverages which are made with a base from an ethanol or are made from concentrates, bulk wines or other distilled products should be subject to excise tax. In essence these products are generally not of a "craft", "all natural" or "100% fruit", indeed many of these types of beverages are contrived creations.

In contrast, we stand that there is complete similarity between a 100% natural craft apple or pear cider to a 100% craft cherry cider or other 100% non-mixed and non-adulterated natural craft fruit cider beverage that is under the 8% ABV Fruit Wine WET threshold.

While the concept of a craft cherry cider is new to the Australian market, there are many examples of this product being available overseas, notably in the USA market.

## **Cost Impediments**

Because of rules in taxation, if a cider is not 100% apple or pear, the cider will be treated the same as an RTD beverage which then incurs excise.

For example for every 330ml bottle of our 5% cherry cider, we have to pay approximately \$1.34 in excise, making our product far too expensive to ever compete with similar ciders made with apples or pears.

Since the cherry cider launched in April, it has been shown at a number of beer and cider events and trade shows. There has been a huge amount of interest in the products and all feedback has been positive.

Retailers have told us the cherry cider is a great addition to their current beverage range and will create a new exciting offering to their customers. We are wanting to get the cider stocked throughout premium bottle shops etc. throughout Melbourne, throughout Australia and also internationally as we have already had export enquiries. However, again due to the excise cost per

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bottle, our product is simply far too expensive and does not allow those in the supply chain to reach their margins. Like for like, a slab of our cherry cider, works out to be approximately double the retail price compared to an apple cider, if retailers are wanting to reach their margins.

To export the cider successfully overseas we are in need of a strong domestic base here in Australia, similar to businesses such as Bundaberg Brewed Drinks, Blossom Hill and Somersby Cider, all of which are well known here in Australia and internationally. For this to happen we need to be able to have our cider stocked in retail stores throughout Melbourne and the rest of Australia to create a large following, however, as mentioned above, our cherry cider's retail price makes it difficult for retailers to reach their margins, therefore not many are able to stock the product.

Currently, the only way we can overcome the tax cost issue, is by raising the cherry cider ABV to 8%, so that the product is classed as a Fruit Wine. In our opinion an 8% cherry cider then becomes a totally different beverage offering and one that presents differently in terms of taste, it's intended use and many social responsibility issues that arise from offering a "cheaper yet stronger" 8% cherry cider to the market.

It is such a shame that the excise tax on the 5% ABV cherry cider is hampering the development of what could be a very successful and enjoyable new beverage to enter the Australian and global market.

## **Closing Summary**

We hope this submission has drawn your attention to the taxation issues fruit growers like ourselves, face when looking to develop value added, hand-crafted, 100% fruit based alcoholic products.

From reasons highlighted throughout this submission we strongly believe there are grounds for review to include a 100% pure craft cider made from fruit other than apple or pear to be included under the lower taxed WET.

We hope that our reasoning's are duly considered in the Government's review. We would be very pleased to provide further comment or supporting information should it be required.

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