Submission to the Australian Federal Government consultative process on reform to the WET rebate eligibility criteria.

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As a wine producer concerned with the future of our industry, I feel it important to participate in the consultation process regarding proposed changes to the Wine Equalisation Tax rebate, and in particular the definitions of 'eligible producer' under the act. My response to the Government's discussion questions 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, licenced trademarks permitted unless they entitle one business or associated businesses access to 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?**

   No asset tests, 'significant interest' or 'skin in the game' tests should be required. See below for further explanation. Any eligibility criteria based on asset levels introduces unnecessary complexity and regulation, will be difficult to implement and administer, will be easily circumvented, and will exclude some legitimate producers.

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?**

   If eligibility criteria must be tightened, the transition period should allow time for businesses to effectively restructure their operations to minimise disruption and to reflect the long lead times from production decision to commercial sale.

While questions 1 and 3 are important issues, for my business and livelihood question 2 in particular is critical. I offer the following supporting information:

As the government's discussion paper has noted, there are many successful non-traditional business models operating in the Australian wine Industry today. The government's discussion paper goes some way to acknowledging this, but under any of these proposed alternative definitions my particular business model would still be ineligible.

I have worked in the wine industry for more 20 years and have been a part of 14 vintages/harvests in the Yarra Valley, Victoria. A long desire to produce my own wines, under my own label was realised in 2012. Small batch, single vineyard wines, that reflect the geographical diversity of the region. From humble beginnings, my Precipice wine brand has grown and is now featured on such wine lists as Rockpool (Sydney and Melbourne), Mo Vida Aqui, Supernormal, Aubergine and Quay.

Over the past five years I have worked collaboratively with grape growers, wineries, winemaking equipment suppliers, label printers, graphic designers, artists, bottle manufacturers, closure manufacturers, cardboard carton manufacturers, storage and logistic operators, restaurants, retail fine wine merchants, industry wine shows, insurance providers, financial institutions and leasing providers.

The removal or any changes to the WET rebate would have enormous financial ramifications on my business model. I am very much in the "brand establishment" phase of my business and consequently need to be competitive on pricing in order to get listings at establishments like the ones mentioned above. Increasing my wholesale pricing to counteract changes to the WET rebate, would quite simply price me out of that market and ultimately see my brand fade out of existence.

As a genuinely passionate contributor to the Australian Wine Industry, it deeply saddens me that these unjust WET rebate reforms are even being considered. Myself and my industry colleagues, with small independent brands, are no less committed or passionate than the large wine companies. Much of the innovative wine making and wine styles being produced by ourselves, are in fact growing the diversity of the Australian Wine Industry, both domestically and internationally.

The Government is ignoring state regional and national industry bodies, all of whom agree that there is no need for asset based eligibility criteria for the WET rebate.

Independent financial modelling undertaken by PWC for the Winemakers Federation of Australia has clearly demonstrated that almost all of the so called 'rorting' of the rebate and recuperation of lost taxation revenue can be remedied by simply eliminating the rebate for bulk and unbranded wine, and by tightening the rules regarding 'associated entities' claiming multiple rebates.[i] I, my regional association, state association and national industry body are all supportive of these measures.

I do not, however, support the recommendation of the Government's Consultative group (Oct 2015) that

"The business owns or leases one out of three of a vineyard, winery (production facilities or fermentation facilities) or cellar door outlet" [ii]

Any imposition of 'skin in the game' or asset based eligibility criteria unfairly penalises younger and new entrants to the industry, who do not have the financial capacity to secure major leases and asset purchases.

The WET rebate has enabled many quality brands to emerge and contribute positively to the Australian wine landscape. These are the innovators, the ones who have been able to take risks with new styles, new varieties and new packaging. They have helped create a fertile and vibrant wine market that is necessary to capture the imagination of the next generation of educated wine consumers. Many of these producers could never have survived beyond the first few vintages given the 'perfect storm' of adverse market conditions seen in the wine industry over the past five years. Several of these young producers are now among Australia's brightest stars, championed by domestic and international wine journalists and the world's hottest restaurants and bars. They are the future of our wine industry, and if nurtured they will invest back in the industry, in vineyards, wineries, and other links in the supply chain.

Innovation in the wine industry should be encouraged and supported, particularly at a time when the industry desperately needs to shed its 'commodity' image and instead be known for quality, uniqueness, and driving new wine trends. Other agricultural industries are being actively encouraged to develop low-asset business models, and to utilise existing infrastructure. This is fundamentally efficient. The government however appears to be encouraging the wine industry to do the opposite.

As a long-term, committed wine producer, I implore you to remove the 'lease or own a winery' provisions and any associated physical asset-based criteria for eligibility for the WET rebate. Such changes will likely cause significant collateral damage to my business and to the future of our industry.

Sincerely,

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[i] PWC report to WFA, Appendix F: *Returning WET Rebate to Fairness and Original Policy Intent - Supporting Advice on the Impact to Government Revenue*, 2015, pp iii-vi

[ii] *Wine Equalisation Tax Rebate Consultative Group report* October 2015, p 5.