Submission to the Australian Federal Government - Wine Equalisation Tax Rebate: Tightened Eligibility Criteria

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Rouleur Wine Co.

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1. Purpose

This submission seeks to highlight the potential impact of WET reform on small and emerging wine makers.

2. Response to Governments Discussion Questions

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?**

   A winery ownership and leasing test should **not** be applied when assessing eligibility for WET rebate.

   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 many legitimate businesses would be ineligible.

   The wine industry is in my blood. My Dad, a retired TAA airline pilot turned farmer, planted a vineyard to Pinot Noir on the Coldstream family property in1984 and set me on a course toward a career in the wine industry. As a kid I worked vintages in local wineries and tinkered with my own wine in the shed using an old crusher-destemmer, basket press and pick bins as open top fermenters. For the last 20 years I focussed on the sales and marketing side of the wine industry working for some iconic/larger Australian brands. In 2015 after many years consideration I launched my own wine brand, Rouleur Wine Co.

My business model is relatively simple. Through years in the wine industry I forged relationships with growers, and now source premium fruit from 7 different growers in McLaren Vale and the Yarra Valley, paying on average $2500 per tonne. This coming vintage we plan to crush approximately 25 tonne of fruit. Vintage 2017 forward, I will formally lease space in a winery (annual arrangement), making half of the wine there - the other half of total production is made with the support of a fellow wine maker at a winery he leases. Currently I am responsible for the sales and marketing of all Rouleur branded wine. My first vintage sold out within 8 months of release and we are now listed in some of Australia's finest restaurants and retail outlets. In addition to sales/marketing/production and viticultural activities, I am also responsible for the back end of my business with the support of my wife.

We are small but we are growing. This year our production will double. Small batch wine making is expensive and so we must start small and reinvest in subsequent vintages in order to create a sustainable brand for the future.

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]. My regional association, state association and national industry body are all supportive of these measures.

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.

I, like many other emerging wine makers would love to own a vineyard, winery and cellar door. In order to do this though, I must first establish my brand both domestically and in export markets.

Small and emerging winemakers are already at a disadvantage - per case our wines are significantly more expensive to produce than those made by larger brands. This means that we have to do two things, run a lean operation and convince consumers to pay a little extra for our wine. We accept that challenge. However if the Government was to deem us ineligible from WET rebate we would then need to increase our price by an additional 30%, larger wineries with the required assets would not share this burden thus small producers would effectively be priced out of the market. Consumers simply wont pay the additional 30% and businesses like ours will cease to exist.

We do not seek special assistance, simply a level playing field in the formative years to enable us to grow strong, sustainable brands. Small innovative wine brands may well become large asset rich regional companies, able to re-invest in the broader region and industry through employment and establishment of bricks and mortar wineries and infrastructure.

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 inclusion of an asset test in WET rebate eligibility would be encouraging the exact opposite in the wine industry.

As a long-term, committed wine producer, I implore you to remove any asset-based criteria for eligibility around the WET rebate. By reading the above detail on my business, you can clearly see that my 'skin in the game' is obvious and evident.

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.

Recommendations

1. Maintain the proposed definition of packaged and branded wine.
2. Remove any asset-based criteria from eligibility for the WET rebate.

References

[1] 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