THE

VINTNERS RIDGE

ESTATE

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Australian Government
Treasury

By email: wetrebate@treasury.gov.au

Dear Sirs and Mesdames

Vintners Ridge Estate

Wine Equalisation Tax Rebate: Tightened Eligibility Criteria
Implementation Paper: September 2016
Eligible Producers: Owning or Leasing a Winery

We would be extremely grateful for the opportunity of making a submission on the meaning of '*eligible producer*' for the purposes of the WET producer rebate.

In particular, we wish to comment on the proposed requirement that, in order to be eligible for the WET rebate, a producer must own or lease a winery.

As noted in the Implementation Paper (on page 3.7):

> The requirement [to own or lease a winery] could exclude some small wine producers that have a stake in the industry but contract out winemaking for sound economic purposes. A possible alternative approach could be to require a wine producer to retain ownership of the grapes throughout the winemaking process (whether it's made by the wine producer at its own premises or it contracts out the winemaking) and own or lease one of either a winery, vineyard or cellar door.

We strongly support the proposal that a producer should be granted the WET rebate, provided the producer:

- **retains ownership of the grapes throughout the winemaking process; and**
- **owns or leases one of either a winery, vineyard or cellar door.**

Vintners Ridge has a substantial stake in the winemaking industry but contracts out its winemaking for sound economic reasons.

Specifically, we have invested over $1.65m in our property; have over 5 acres under vine; produce approximately 10 to 15 tonnes of grapes per year; produce wine from 4 tonnes of those grapes; and sell that wine under our own label, "*Vintners Ridge Cabernet Sauvignon*".

We respectfully submit that to deny Vintners Ridge access to the WET rebate, solely because it does not own or lease a winery, would be inequitable and highly unfair; and make it impossible for us to compete and continue to sell our label.

The denial of the rebate to Vintners Ridge (and other small winemakers in a similar position) would lead to a lessening in competition between small and large producers—not to mention the vertically-integrated supermarkets—and a commensurate reduction in choice for consumers and fine wine enthusiasts.

In more detail:

Background

1. We purchased our vineyard via our Family Trust in Quindalup (Margaret River GI) in April 2006 for **$1.43 million**. The property is 10 acres in total, of which 5 acres is under vine.

2. In addition to the $1.43m price tag for the vineyard, we have spent an additional **$207,000** on capital equipment and improvements since acquiring the business.

3. After satisfying quite onerous local planning and liquor licensing requirements, we commenced sales of our wine to the general public in 2009.

4. Part of our financial decision to purchase the vineyard was based on the fact that, as a small producer, we would be eligible for the WET rebate on all of our bottled sales; and this would greatly assist our wine being competitively priced against the larger multi-national producers and major supermarket chains, given their potential to exploit their greater scale of economies and market concentration.

Grape production

5. Our vineyard produces approximately 10 to 15 tonnes of grapes per year.

6. Initially (from 2006 to 2012), we produced wine from all of the harvested grapes from the vineyard, but from 2013 onwards we now produce wine from 4 tonne with the rest being sold to a third party.

Label, Registered Trade Name & Registered Trade Mark

7. We sell the wine produced from our vineyard under our own label, '***Vintners Ridge Cabernet Sauvignon***'.

8. **'*Vintners Ridge*'** is a registered Trade Name and we also have a Registered Trade Mark for our unique wine bottle label.

Customers

9. Our wine is sold to Independent Bottle Shops, Restaurants, Sporting Clubs and the General Public, both by direct selling by us, and on-line via our web-site.

10. Our customer base includes Perth and the South West of WA, as well as a growing number of repeat customers in Adelaide, Sydney and Melbourne. We do not sell any of our wine to the 2 major Australian-owned Supermarket Chains.

Our objective

11. Our aim is to establish a small but profitable vineyard and wine business that we can one day pass on to our children. In fact, our son currently assists in the maintenance of the

vineyard, web design and promotions, as well as deliveries, and is keen to further expand our operations.

12. We would like to have our business one day recognised nationally as an excellently run boutique vineyard and wine. In fact, it is our collective dream one day to produce a wine that wins the Jimmy Watson trophy. Our wines have already won numerous awards at a number of different wine shows across the nation.

External local contractors

13. In addition to our family members, we engage locally-based external contractors to:

    - maintain the vines;
    - harvest and transport the grapes for crushing;
    - manufacture and store our bulk wine;
    - bottle and label the end product;
    - store the bottle wine ready for sale; and
    - transport the bottled wine to customers.

14. Our average per annum costs for the above for the last five years (i.e. money we have put back into the local community) has been $81,000 (GST inclusive).

Wine sales

15. Our gross (GST inclusive) wine sales have averaged $76,000 per annum over the last five years.

16. The business has therefore been entitled to claim a WET rebate of approximately $15,000 per annum over the last five years.

Importance of WET rebate to our business

17. As outlined above, it is the effective exemption from the 29% WET that allows our small scale vineyard to compete against the vertically integrated national supermarket chains and large scale vineyard and wine makers.

18. The loss of the exemption would mean that we effectively would have to increase our prices across the board by close to 20% to recover the tax payable which would have a significantly detrimental impact on the profitability and therefore sustainability of the business.

19. We would find it very difficult to compete in the market place with an additional 20% impost that we either had to pass on to our Customers or absorb ourselves. The WET rebate is proportionally a much greater amount of sales to a small producer, than to a large producer, and therefore a much more critical element.

20. <u>Our customers continually applaud us for being a small boutique producer of wine from our own vineyard and '*for being prepared to fight the big guys*' to give them an alternative high quality choice</u> to the wine generally available in the large national supermarket chains and of that produced by the larger Australian producers.

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21. We understand that the producer WET rebate was introduced in 2004 to support small producers and winemakers such as ourselves in Australia's winemaking regions.

22. We believe Vintners Ridge Estate is exactly the type of business that the WET rebate was introduced for – one that is highly dependent upon and supportive of the local business community and one that provides consumers with an alternative good quality wine to that offered in the retail outlets now controlled by Australia's 2 large Supermarket Chains.

Tightening the eligibility criteria

23. We are aware of the various alternatives that Treasury is considering in tightening the eligibility for the WET rebate in addition to the current extremely narrow preliminary position.

24. Treasury's preliminary (extremely narrow) current definition of a producer:

    - Ignores producers such as ourselves who have made significant investments in the industry (i.e. a vineyard), but don't own their own fermentation facilities.

    - Doesn't take into account that whilst we don't own our own fermentation facilities, we are in control of the fermentation process via our winemaker, with whom we have very frequent contact, and are involved in all decisions regarding the wine right through to bottling (and therefore have a significant 'indirect' investment in the contracted wine maker's facilities).

    - Would result in a number of small producers finding it extremely difficult to compete against the larger players in the industry which could ultimately result in them not producing bottled wine sourced from grapes in their own vineyard.

    - The above would also ultimately lead to a lessening in competition between small and large producers – not to mention the vertically integrated supermarkets – and therefore a commensurate reduction in choice for consumers and fine wine enthusiasts.

***'Retention of Grape Ownership'* test**

25. In our view, Treasury's alternative *'retention of grape ownership'* test, whereby in order to be eligible for the WET rebate, Producers would have to

    - retain ownership of the grapes throughout the winemaking process; and

    - own or lease a winery, vineyard or cellar door;

    <u>is a much more representative and equitable definition of small producer and wine maker, as is commonly accepted within the industry.</u>

26. We think it is important for Treasury to understand that small producers are <u>not</u> asking for a handout from the Federal Government. They are simply looking to continue their operations based on the investment and tax conditions that were applicable to their businesses and investment decisions over the last few years.

27. A decision not to continue to grant the WET Rebate to Small Wine Producers such as ourselves — who have significant investments in the industry — would be totally inequitable and detrimental, not only to those producers but to a large number of people and businesses that rely upon our operations. Not to mention the significant adverse impact it would have on competition within the wine industry and ultimate reduction in consumer choice.

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28. We therefore strongly support the proposed *'retention of grape ownership'* test.

Defining a 'vineyard'

29. We believe a 'vineyard' could be defined by reference to a minimum number of acres under vine or minimum tonnage of grapes produced.

30. For example, we believe a vineyard that either: (i) has a minimum of 1 hectare under vine; or (ii) produces at least 4 tonnes of grapes used to manufacture the producer's own wine, would demonstrate a significant investment in the industry.

31. We also believe it should be sufficient that a producer has **<u>one</u>** of a vineyard, winery or cellar door. A *'two out of three'* test would be far too restrictive.

We greatly appreciate the opportunity to make this submission. If we can assist Treasury with the development of these rules in any way, please do not hesitate to call us on 0418-924-550.

Yours faithfully

Robin & Maree Adair
Owners/Directors
Vintners Ridge Estate

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