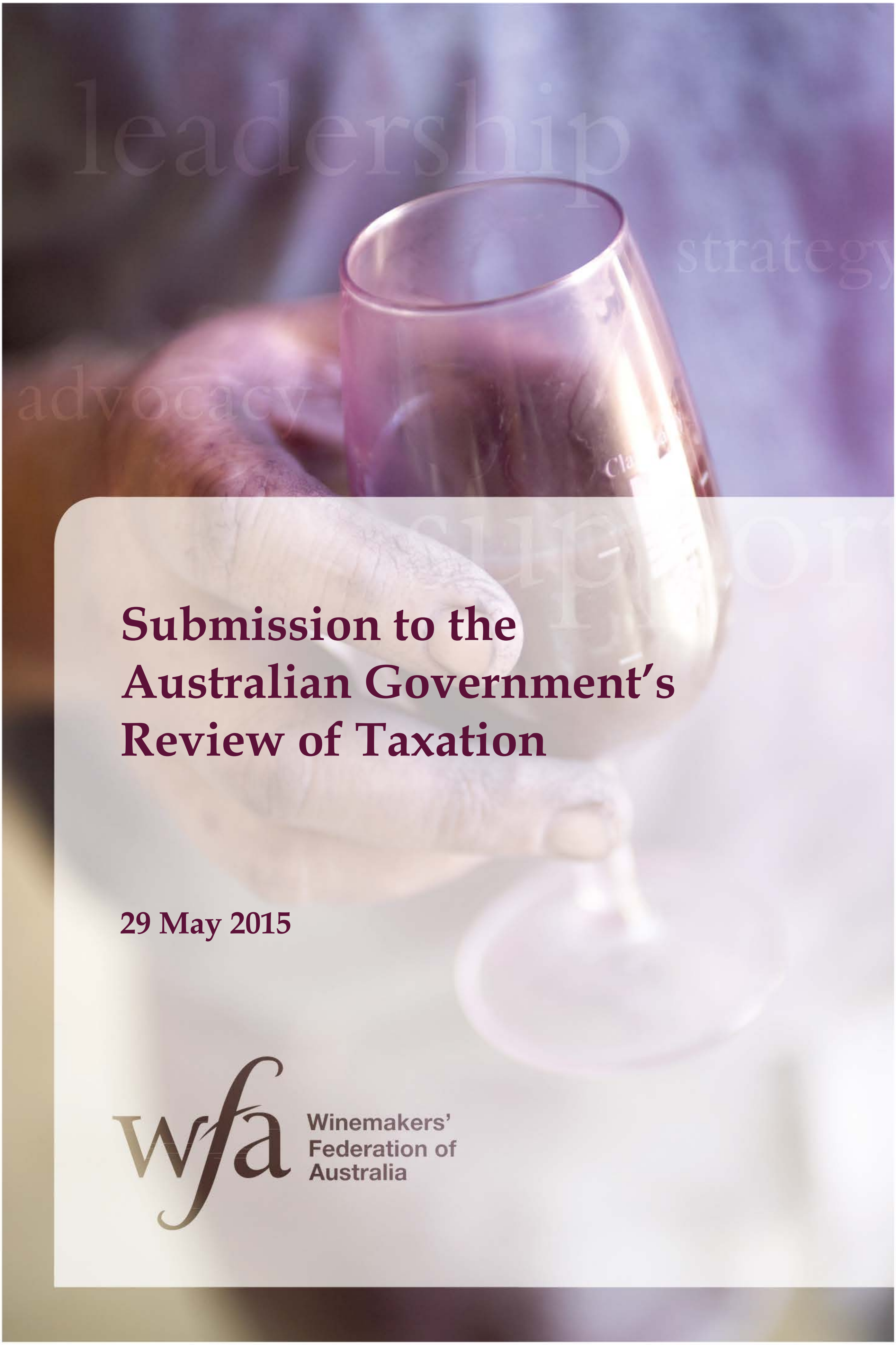


Submission to the Australian Government's Review of Taxation

29 May 2015

Winemakers' Federation of Australia

Contents

Appendices

1. INTRODUCTION

The Winemakers' Federation of Australia has developed this submission to assist the drafting of the Tax White Paper and to inform government of the industry's majority views on the future of wine and alcohol taxation and other taxation matters relevant to the industry.

As the peak industry association representing over 2,500 winemakers across Australia, we are committed to working with government to put in place sustainable tax arrangements that are both fair and supportive of the commercial aspirations of individual businesses and which encourage productive and profitable endeavour for the industry as a whole. It is important that any future reform to wine taxation reinforces our global competitiveness in the international wine marketplace by encouraging a strong and profitable domestic sales base to build brands and products that can then be confidently taken to the world stage. Reform should also safeguard our industry's unique contribution to the socio-economic fabric of regional Australia. We believe the recommendations to government in this submission do both.

Consultation with industry has confirmed mixed views on the optimal tax platform for the Australian wine sector with opinions heavily dependent on the various models and portfolio weightings of the individual businesses. As such, WFA does not hold a position on the preferred structure for wine tax. WFA does advocate for no increase to the level of wine tax revenue, no reforms to wine tax arrangements that are driven by social policy objectives and a differentiated tax rate for wine from other alcohol categories. These positions have the support of industry and are detailed in this submission.

WFA also advocates for reforms to the Wine Equalisation Tax (WET) rebate. WFA notes the Government has announced a separate Discussion Paper process to specifically examine the WET rebate. Once lodged, WFA's submission to this separate process will be forwarded to the Tax Review.

We do not believe there is a case to increase the level of wine tax revenue. Arguments from other alcohol categories that all alcohol producers should be taxed at similar rates are predicated on reducing complexity but do so at the expense of fairness by not accounting for the unique commercial challenges confronted by the Australian wine industry; our once-a-year production opportunity resulting in a limited ability to spread risk, recover from losses and maximise profits, our inability to generate more tax revenue compared to the highly profitable beer and spirits sectors, and the significant socio-economic footprint of the wine industry that is predominately regionally based small businesses. These unique differences for wine production are accepted and recognised in alcohol tax regimes around the world with wine being taxed less than beer and spirits in the vast majority of wine producing countries and which Australian wines compete with.

There is also no case to increase the level of wine tax revenue to achieve a reduction in alcohol-related harm. It is important to note that Australia is already making progress towards a more moderate drinking culture by pursuing a range of long-term and targeted educational and cultural change activities aimed at specific at-risk population cohorts. This submission provides further evidence that artificially increasing the level of wine tax revenue will not impact the consumption behaviours of these at-risk population groups and will only serve to penalise the local industry, regional communities and the vast majority of responsible wine consumers.

We commend this submission to you as our consolidated advice on the future of wine tax arrangements. We believe our proposals, if supported by government, will contribute towards the necessary taxation framework to assist the wine sector in its recovery.

The submission is underpinned by a considerable body of analysis and we would welcome the opportunity to detail this with you.

We commend this submission to you.

To contact WFA, please email Melissa Cheesman-Faull, General Manager, Government Relations at Melissa@wfa.org.au or phone 08 8133 4312.

Tony D'Aloisio AM	**Paul Evans**
President	**Chief Executive**

29 May 2015

2. EXECUTIVE SUMMARY OF KEY FINDINGS AND POLICY RECOMMENDATIONS

Summary of key findings:

- The Australian wine industry continues to experience low levels of profitability and tough trading conditions.
- Australian wine producers confront unique structural and capital challenges compared to brewers and spirit manufacturers. Central to these differences:
  - Wine is an agricultural product with only one production opportunity each year. This "one shot" intensifies the pressure to "get it right" but also constrains the ability of winemakers to spread risk, recover from losses and to maximise profits.
- Australian wine producers play a critical role in the socio-economic fabric of regional communities and would be significantly impacted by increases to the level of wine tax revenue.
- Due to the different business models of our members, WFA does not hold a position on the preferred structure for wine tax.
- The Australian wine industry is already highly taxed by global industry standards.
- Wine is consistently taxed lower relative to beer and spirits in the vast majority of countries that Australian wines compete with.
- The wine industry has a significantly lower profit margin than beer and spirits.
- The Australian drinking culture is making progress towards moderation and reduced levels of at-risk drinking.
- The Australian Bureau of Statistics (ABS) have recently reported that Australians are drinking less alcohol overall than any time in the previous 50 years.
- Increasing the level of wine tax revenue will not impact the consumption behaviour of at-risk drinkers or reduce alcohol-related harm. It will only penalise responsible drinkers, the local wine industry and regional communities.
- The compulsory agricultural industry levies matched by government and managed on behalf of industry by the Australian Grape and Wine Authority remains an important measure for the development and advancement of technological innovation in the wine industry.
- However, the proportion of the levy payments used for marketing is insufficient to fund the required effort to lift demand for Australian wine in key overseas markets and to re-engage global consumers with the diversity and value of the Australian offering.
- An increase to existing levies is not feasible and is not supported by industry. The sustained low profitability being experienced by the industry means it cannot withstand another impost on earnings at this time.
- Proposals to introduce consumer levies are not supported by industry.

Summary of policy recommendations:

Recommendation 1: Wine should continue to receive a differentiated tax rate to other alcohol types.

The production and capital risks, economic footprints and industry structures of the wine, spirits and beer industries are very different. A fair tax regime should recognise and reflect these inherent differences, as happens in other wine producing countries. Just because they are all producers of alcohol does not mean that it would be reasonable or fair to tax them at similar levels. Central to these differences is that wine is an agricultural product, and producers have only one production opportunity a year. This means wine producers have limited ability to spread risk, recover from losses and maximise profits. Beer and spirits are produced throughout the year and do not have these same operational and commercial constraints.

Recommendation 2: There should be no increase to the level of wine tax revenue.

The Australian wine industry is already highly taxed by global standards. For commercial premium wines (the sort that would retail at twelve dollars), Australia's 29% WET is one of the highest tax rates among the significant wine-exporting countries: France has 0.8%, Italy 0%, Spain 0%, Argentina 0%, Chile 15%, South Africa 3.8% and the United States 6.6%. When expressed in Australian cents per standard drink of alcohol, Australia's wholesale tax for commercial premium wines (22 cents) is marginally lower than New Zealand's 26 cents, but at any higher price point Australia's tax exceeds New Zealand's. That 22 cents tax in Australia compares with zero in Argentina, 3 cents in South Africa, 5 cents in the United States, and just 1 cent in France and zero in the other Old World wine-exporting countries.

Recommendation 3: Wine tax arrangements should not be determined by social policy objectives.

Tax policy should not be driven by social policy objectives. Pricing is an ineffective driver of consumption behaviour especially for 'at risk' consumers. In the wine industry, this is compounded by the fact that demand patterns for wine are poorly understood. Increasing the level of wine tax revenue simply because wine may currently be the cheapest form of alcohol would only penalise the local industry and the vast majority of responsible wine drinkers while simply transferring risky consumption behaviours to the next cheapest form of alcohol. Targeted intervention measures are a more appropriate and effective tool for addressing harmful drinking.

Recommendation 4: Retain the compulsory agricultural levies as the primary funding source of the wine industry's RD&E and base marketing needs.

WFA and WGGA continue to support investment in R&DE through an industry levy matched by Government, with a cap on matching contributions for all statutory levies at 0.5%, managed on behalf of industry by the Australian Grape and Wine Authority. It is important that industry play a role in setting AGWA's R&D priorities and that these priorities are used to guide the expenditure of government-matched industry levies.

WFA has recommended to government, the provision of one-off funding for a targeted AGWA marketing effort to re-engage global consumers to help lift the demand for Australian wine. This funding requirement cannot be met by increasing existing compulsory industry levies given the low levels of wine business profitability.

Even if there was capacity within the industry to increase levies, the potential sums are insufficient to support the marketing capability and projects necessary to lift demand. Further, there was an agreement reached between the Government and the industry upon the creation of AGWA, which was to safeguard RD&E funds being reappropriated for marketing.

3. SUMMARY OF RESPONSES TO SPECIFIC DISCUSSION QUESTIONS

In responding to the Government's Tax Discussion Paper, we have focused on a limited number of specific questions, preferring to structure our submission around the most pressing issues, particular to the Australian wine industry.

Our response to some specific questions asked in the Tax Discussion Paper can be summarised as follows:

Question 4. To what extent should reducing complexity be a priority for tax reform?

There is strong support for a reduction in complexity across the tax system. Individual wine businesses are well placed to comment on these issues. As one example from amongst our membership, we would refer readers to the submission made by Accolade Wines. Claims that a uniform tax rate for alcohol, across all categories, will deliver on the objective of reducing complexity, do so at the expense of fairness. WFA contends that wine should retain its differential tax treatment compared to beer and spirits. This is discussed in Chapter 2 of our submission.

Question 5. What parts of the tax system are the most important for maintaining fairness in the tax system? Are there areas where fairness in the tax system could be improved?

When it comes to the Australian wine industry, WFA contend that the following points are the most important for maintaining fairness in the tax system:

- Retaining a differentiated tax system for wine compared with beer and spirits; and
- No increases to the level of wine tax revenue.

Our full response can be found in Chapter 2 of this submission.

Question 55. To what extent are the tax settings (i.e. the rates and bases and the administration) for each of these indirect taxes appropriate? What changes, if any could be made to these indirect tax settings to make a better tax system to deliver taxes that are lower, simpler and fairer?

This question was posed at the conclusion of the chapter addressing indirect taxes in the Government's Discussion Paper.

WFA contends that a fair tax system for wine is one that:

- Retains a differentiated tax system for wine compared with beer and spirits; and
- Does not increase the level of wine tax revenue.

Australia's current system of taxing wine less than beer and spirits is consistent with taxation practices in the vast majority of wine producing countries and with which Australian wine competes. There are good reasons for this. This practice of differentiation recognises the added production risks, economic footprint and industry structure of wine, compared to spirits and beer manufacturing which are very different.

Central to these differences, wine is an agricultural product with only one production opportunity each year. This “one shot” intensifies the pressure to “get it right” but also constrains the ability of winemakers to spread risk, recover from losses and to maximise profits. The socio-economic contribution made by the wine industry to Australia and in particular to our regional communities is also uniquely different compared to beer and spirits.

Australia’s 29% WET is already one of the highest tax rates among the significant wine-exporting countries: France has 0.8%, Italy 0%, Spain 0%, Argentina 0%, Chile 15%, South Africa 3.8% and the United States 6.6%.

Our full response can be found in Chapter 2 of this submission.

CHAPTER 1: STATE OF THE WINE INDUSTRY

Key finding: The Australian wine industry continues to experience low levels of profitability and tough trading conditions.

The Australian wine industry enjoyed considerable success from 1991 through to 2007. However, in more recent times, a range of factors have challenged the industry. An independent expert review of the industry dynamics commissioned by WFA in 2013, which can be found in Appendix 2, concluded:

1. The Australian wine industry has a structural mismatch of supply and demand. As a consequence, seasonal improvements such as the Australian dollar depreciation will not address this imbalance in the long-run. If the industry does not undertake structural reforms, the mismatch of supply and demand will persist.

2. The Australian wine industry tripled in size from less than 400 million litres to 1.2 billion litres and achieved total revenues of $5 billion in 2007, and was very successful at building export markets.

3. Since 2007 the profitability of the Australian wine industry has declined significantly:

    - The global financial crisis hit world markets starting in August 2007 and accelerated through 2008—coinciding with a significant fall in Australian wine exports.
    - From 2004 the Australian dollar rose steadily to almost parity in July 2008. A sharp fall to 62 cents in August 2008 preceded a steady climb back to parity in November 2010 and beyond.
    - Domestic demand growth during the same period has been flat and there has been an increase in wine imports.
    - A supply-demand imbalance has ensued resulting from excess planting and wine making capacity given the 'unexpected' fall in export demand and rise in the Australian dollar.

4. This decline in profitability has intensified:

    - Export returns have declined sharply. Export volumes recovered through 2009, only to fall again in 2010 and 2011 including a fall in demand for Australian wine in key markets, especially the US, UK and Canada, from 2007 to 2012. From 2012 to 2013, export volume decreased by 6%, while export value decreased by 5%.
    - Total industry gross margin has declined by 38% to $1,107 million in 2012, from $1,787 million in 2007.This was driven by a $747 million decline in export gross margin. In 2013, using 13 representative companies, average profit margin in the sector was 1.6% compared to -1.4% in 2012.
    - Domestic margins have been squeezed by retailers, low demand growth, and increased imports. Domestic retail consolidation which has resulted in approximately 77% of all off-premise wine sales now being controlled by the two national grocery chains.
    - The decline and shift in export demand has created and "oversupply/under-demand" of grapes and wine in certain quality segments. It is estimated that up to 70% of total 2012 wine grape production may be uneconomic with the most significant profitability issues concentrated in lower grade grapes. For 2014, the estimated unprofitable production is 84% of total production assuming cost of production has increased by 3%.

5. Efforts to improve profitability have, in many cases, only reduced the extent of the decline.

6. There are foreseeable circumstances that would put further pressure on profitability.

7. The other side of this 'perfect storm' is that no single lever will 'fix' the problem.

   - Australian Grape and Wine Authority's (formerly Wine Australia) scenarios for global demand growth indicate that even under their optimistic scenario (in which growth returns to pre-GFC levels) the US and the UK will not return to their 2007 value by 2017.

8. The industry is not being impacted equally—some players/segments are more affected than others; there are a number of success models.

9. Wine tax arrangements remain an issue for the industry. While wine remains the cheapest form of alcohol on average per standard drink, other alcohol producers have intensified their proposals to increase wine taxation. Public health activists also believe that an increase in wine taxes will reduce alcohol related harm. Both these arguments are addressed in this submission.

Since these findings of the expert review were released in 2013, industry fundamentals have not changed. The 2014 Vintage Report found an average crush in line with vintages of the last seven years. Following a 2013 vintage of 1.83 million tonnes, the 2014 vintage will continue to distort pricing across the sector and fuel the production of retailer private label wines. In addition, the market supply and demand imbalance will be impacted by sustained high inventory levels (i.e. 1.8 million litres in 2012-13) and a fall of average winegrape purchase price compared to last year. Unless action is taken, it is unlikely that the industry will experience a transformational upward shift in pricing and margins for the foreseeable future.

Below is an extract from the 2014 WFA Vintage Report, see Appendix 3 for full report.

> *The 2014 Australian grape crush is estimated at 1.70 million tonnes, a 7.41% decrease from last year's crush. This figure is on par with the 7-year average and 136,000 tonnes lower than last year's crush estimate. The decrease in overall crush is attributable to generally lower yields per hectare in the cooler temperate regions, albeit higher yields in the warm inland regions.*
>
> *The 2014 beverage wine production estimate is 1,202 million litres, a decrease of 2.36% from last year's. An analysis of sales and inventory levels suggests that if 2013-14 inventories remain the same as last year's, stock to sales ratio will further increase to 1.48 due to decrease in export sales.*
>
> *The 2012 Expert Review analysis on production profitability has also been extended to 2014 data. Accounting for a 3% increase the cost of production, profitable production decreased to 7%, low profitability was unchanged, breakeven decreased to 5% and unprofitable production increased to 84%. Results are due to factors such as an approximate 11% decrease in the average winegrape purchase price from 2012 to 2014, decrease in average yields for the cooler temperate regions and increases in yields in warm inland regions.*

CHAPTER 2: WHY SHOULD WINE CONTINUE TO RECEIVE A DIFFERENTIAL TAX RATE COMPARED TO OTHER ALCOHOL TYPES? [1]

Key findings:

- Due to the different business models of our members, WFA does not hold a position on the preferred structure for wine tax. WFA does advocate a differentiated tax rate for wine from other alcohol categories and there is majority industry support for this position.

- Australian wine producers confront unique structural and capital challenges compared to brewers and spirit manufacturers. Central to this:

  - Wine is an agricultural product with only one production opportunity each year. This "one shot" intensifies the pressure to "get it right" but also constrains the ability of winemakers to spread risk, recover from losses and to maximise profits.

- Australian wine producers play a critical role in the socio-economic fabric of regional communities and would be significantly impacted by increases to the level of wine tax revenue.

- The Australian wine industry is already highly taxed by global industry standards.

- Wine is consistently taxed lower relative to beer and spirits in all countries that Australian wine competes with.

- The wine industry has a significantly lower profit margin than beer and spirits.

Wine should continue to receive differentiated tax treatment compared to other alcohol beverage types. This recognises the added production risks, economic footprint and industry structure of wine, compared to spirits and beer manufacturing which are very different. Just because they are all products with an alcohol base does not mean that they should be taxed at similar levels. The unique socio-economic contribution made by the wine industry to Australia and in particular to our regional communities should also be considered along with the sector's limited capacity to pay even higher taxes during a period of on-going challenges in both domestic and international markets.

Contribution to the national economy

The wine industry contributes the most of all the alcohol sectors to the national economy and this will continue for the foreseeable future:

- The wine industry contributed around $1.77 billion to the national economy in 2013-14 and this is expected to increase at an annualised rate of 4.3% (vs. annualised GDP growth of 2.5%)
- The spirits industry contributed around $130 million to the national economy in 2013-14 and this is expected to increase at an annualised rate of 3.3% (vs. annualised GDP growth of 2.5%)

[1] Unless stated, all facts and figures are based on IBISWorld Industry Reports (Wine Production in Australia, July 2013; Spirit Manufacturing in Australia, September 2013; and Beer Manufacturing in Australia, November 2013)

- The beer industry contributed around $1.17 billion to the national economy in 2013-14 and this is expected to increase at an annualised rate of 0.5% (vs. annualised GDP growth of 2.5%)

The wine industry employs the highest number of people:

- The wine industry directly employs 16,122 in 1,867 businesses
- The spirits industry directly employs 800 in 55 businesses
- The beer industry directly employs 3,918 in 228 businesses

Wine tourism[2]

- International wine visitors (for the year ending September 2014):
  - Account for 696,602 visitors to Australia or 11% of the total visitors to Australia
  - Number of wine visitors increased by 1% from last year
  - Winery visitors account for 40 million nights within Australia or 18% of the market. This represents an average annual growth of 1% since the year ending September 2009
  - Contribute $4.9 billion to the overall visitor expenditure to Australia

- Domestic Overnight Wine Visitors[3]
  - Account for 3.1 million trips, a 7% increase from last year
  - Contribute 15.7 million visitor nights (5.2% of total)
  - Contribute $3.3 billion in visitor expenditure to the domestic market

The contribution of the wine industry in attracting international tourists vastly outweighs that from the beer and spirits industry. Tourism Australia estimates that beer and spirits manufacturing and tourism attractions such as the Cascade Brewery in Hobart, the Sullivans Cove distillery (producer of the 'world's best single malt whiskey' in 2014), together with Coopers in Adelaide, the Bundaberg Distillery in Queensland and other micro-breweries and micro-distilleries, for example, would only add up to 10% of the total benefits of wine tourism[4].

[2] Figures for year ending September 2014, Tourism Australia
[3] Overnight trips In the NVS, overnight trips are defined as trips involving a stay away from home for at least one night, at a place at least 40 kilometres from home. Only those trips where the respondent is away from home for less than 12 months are in scope. The trip is the basic collection unit used in the NVS to obtain information about overnight travel undertaken by Australians.
[4] Socioeconomics benefits of the Australian alcohol industry, Deloitte Access Economics, May 2014

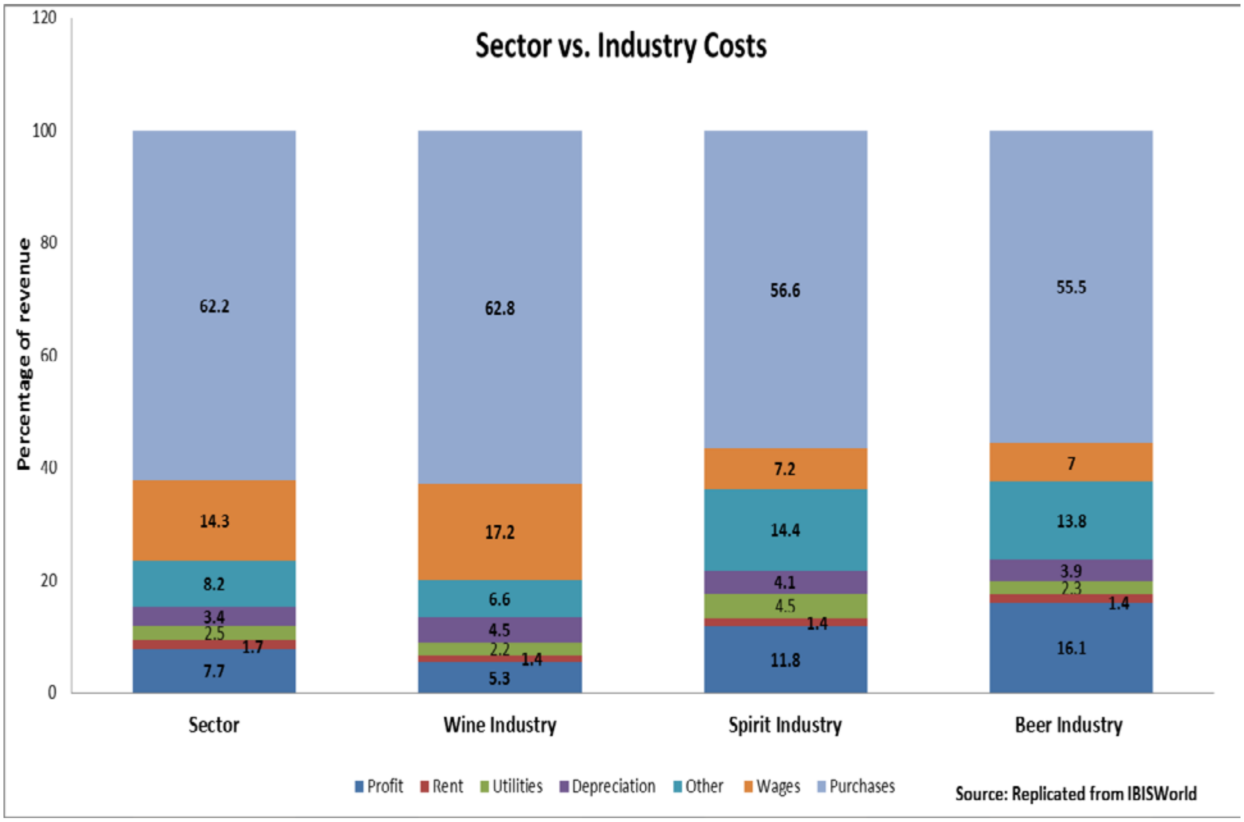
The competitive disadvantages of wine manufacturing

Despite this impressive economic contribution to the Australian economy, there are several commercial and structural factors unique to the winemaking industry which justifies taxing wine at a lower rate when compared to spirits and beer.

Profitability

Of the alcohol manufacturing sectors, wine has the highest cost structures and highest level of revenue volatility, making its profit margins smallest.

- Profits in the wine industry are only 5.3% of total revenue
    - Profits in the spirit industry are 11.8% of total revenue
    - Profits in the beer industry are 16.1% of total revenue and known to be one of the most profitable manufacturing industries in the world
- Wine industry purchases accounted for an estimated 62.8% of revenue, while labour costs account for an estimated 17.2% of revenue. Depreciation is about 4.5% of revenue.
    - Purchases costs include containers and other packaging materials; wine for blending, fortification or distillation; grape juice and grape spirit; sugar; and other purchases. Grapes, the most important production input, are predominantly grown and harvested specifically by wineries and grape growers for the purpose of wine production and is subject to significant seasonal volatility in both pricing and supply.
    - Wages in the wine sector are expected to have grown as a proportion of total revenue in 2013-14. This growth was mostly due to falling revenue, but also because of the labour intensiveness of various functions in wine production, such as the upkeep and maintenance of vineyards and manufacturing processes. Analysts believe that wages are expected to fall as a proportion of revenue over the next five years due to increasing investment in modern technologies, thereby making the industry's production process more highly capital intensive.
    - Depreciation in the wine sector remains at about 4.5% of revenue. This is a little higher than other beverage industries such as beer, mainly due to greater costs involved in wine maturation equipment and storage.



- Purchases are the greatest cost to the spirit industry, accounting for roughly 56.6% of revenue. Labour costs have steadily risen over the past five years, accounting for an average of 7.2% of revenue in 2013-14. Depreciation is estimated at about 4.1%, as the industry is capital intensive. The major purchases are packaging, such as bottles and cans, and full-proof spirits for RTD producers.

- Beer industry purchases represent the largest cost to the industry at 55.5%. Labour costs are equivalent to about 7.0% of revenue.

  - The major purchases of the brewing industry are packaging (glass, aluminum, cardboard and kegs) and malt. The former category accounts for about 60.0% of material costs and the latter for 18.0%. Of the other materials purchased by brewers, the most important are refined sugar (4.0%), hops (2.0%) and water (1.0%).
  - Labour costs are equivalent to about 7.0% of revenue, which is low compared with the average for all food and beverage and reflects the high level of mechanisation. This trend is expected to continue over the coming years, especially as industry operators boost automation.

- The wine industry has the highest revenue volatility. Production and prices are affected by the supply of grapes, which is affected by weather and soil conditions, disease and plagues.

  - Earnings fluctuate due to changing input prices, changes in supply of grapes and restructuring costs.

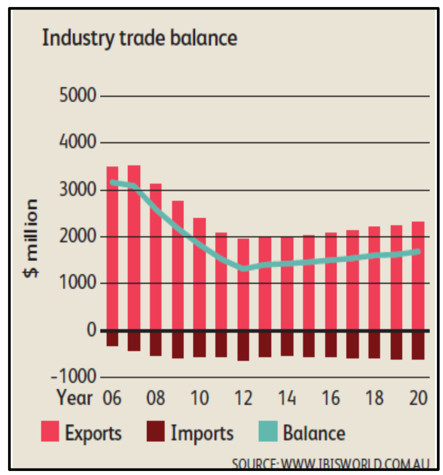
- o Strong competition within a highly consolidated wine retail market continues to place significant downward pressure on wholesale pricing and margins. The retail price increases of wine has lagged CPI for over five years unlike the above-CPI price rises experienced by beer and spirits.
- o Unpredictable fluctuations in exchange rates also disproportionately impact the wine sector's exposure to imports in comparison to beer and spirits products.

- The spirit and beer industries exhibit far lower levels of revenue volatility. Due to higher profit margins, volatile prices for commodity inputs such as packaging, ethanol, aluminum and barley have only a moderate effect on beer and spirit pricing and revenue.

Industry trade balance

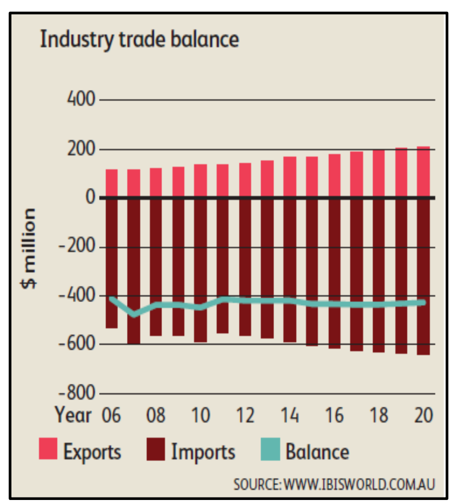
The wine industry is a net exporter and therefore more vulnerable to global market issues such as exchange rate fluctuations and global supply/demand imbalance compared to other alcohol manufacturing industries. The spirit industry is a net importer since the majority of the spirits consumed in Australia are imported with no further processing, value-add or transformation. This also implies a lower manufacturing and transportation cost compared to the wine industry.

- Export revenues for the wine industry are $2 billion p.a.
  - o Export revenues for the spirit industry are $168.3 million.
  - o Export revenues for the beer industry are $51.2 million.



Wine Industry trade balance

- Wine exports have fallen sharply over the past 5 years, declining at an annualised rate of 6.5% to account for a 34.5% share of revenue.
  - o Increased competition in the global wine market and global economic downturn have weighed down industry exports and intensified competition between winemakers on the domestic market.
  - o Wine producing countries such as Chile and South Africa have emerged to challenge Australian wine in its key export markets especially in the commercial wine segment.



Spirit Industry trade balance

- The majority of the spirits consumed in Australia are imported, which are estimated to account for 60.1% of domestic demand for spirits in 2013-14.
  - o Spirits are usually transported in an over-proof bulk form at 75% alcohol by volume, and are then diluted to 40% alcohol by volume before being bottled domestically and sold. This form of importing applies to an estimated 70% to 80% of spirits imported into Australia, and reduces the cost of transporting the product. The price of over-proofed spirits is largely dependent on exchange rates.

    - Australia is a significant net importer of spirits, and is expected to remain so over the next five years.
- The Australian beer industry has a significant trade deficit due to the low levels of exports of local beer, accounting for only approximately 1.1% of the industry.

Competitive landscape

The wine industry is the least consolidated sector within alcohol manufacturing which reduces its ability to leverage economies of scale and command margin from a highly consolidated wine retail sector.

- The four largest Australian wine producers account for 40.8% of industry revenue.
- The top four players in the spirits industry are estimated to account for about 65% of industry revenue.
- The market share of top two major beer manufacturers is 82.7% of industry revenue

Retailer margins

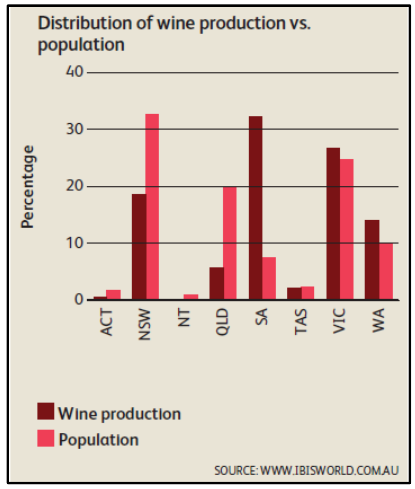
Retailers generate greater margins on wine sales than sales from beer and spirits. Wine sales provide two to three times more margin than beer. This has been confirmed by Woolworths Liquor Group as shown in a presentation slide below. The ability of retailers to extract greater margins from wine can be seen as a reflection of the highly fragmented industry structure and ease of transferring costs to wine producers.

Compulsory levies

There are currently three levies/charges on wine/grapes. The grape research levy; the wine export charge; and the wine grapes levy. These industry levies/charges fund marketing, research and development and plant health programs for the grape and wine industry. As of 2012/13, the total levy receipts from the grape research levy, wine grapes levy and wine export charge amounted to $17.12 million. Neither the spirits nor the beer industries are subject to compulsory industry levies/charges such as these.

Regional benefits and challenges

The wine industry contributes the highest value to regional economies by generating employment and economic activity. The Productivity Commission's report in April 2014 on Geographic Labour Mobility highlighted the challenges facing regional growth, and agricultural manufacturing sectors such as wine grape production and winemaking play a vital role in the socio-economic fabric of many non-metropolitan regions. While the industry's proximity to vineyards limits transport costs to source raw materials, the long distances from vineyards to metropolitan areas and distribution centres results in significantly higher transport costs to markets and end-consumers.



Wine industry business locations

The geographic spread of wine production is closely correlated with the distribution of wine grape production.

Wine production facilities are often located at or near vineyards to limit transport costs and ensure the freshest grapes are crushed. Of those employed in the industry, just 29% work in metropolitan areas, with nearly 62% in inland regional areas. This reflects the location of grape growing and wine production facilities.

Capital intensity

Looking at the snapshot overleaf, it is apparent that wine is more capital intensive than beer in most stages of the supply chain:

- Wine's fermentation equipment/machinery are used two to six cycles a year while beer's fermentation equipment is used 50 cycles a year in a commercial brewery.
- Wine's maturation stage can range from 2.6 months to 16 months while storage of beer can be from one to six weeks (commercially produced typically one to two weeks).
- Between bottling and selling, wine needs to be stored before it gets ready for sale from one to three years in a cool storage, while beer is sold after bottling.
- Wine's supply chain is also less flexible than beer since it only has a once-a-year production that needs to be crushed in six to eight weeks. On the other hand, barley can be stored and converted to malt throughout the year as needed and only takes one week to process.

SNAPSHOT OF CAPITAL INVOLVED IN THE WINE AND BEER INDUSTRIES

WINE

	GRAPE GROWING →	CRUSH →	FERMENT →	MATURE *			→ BOTTLE →	HOLD/STORE →	SELL
Description	Grapes are grown and supplied to the winery. The management of a perennial crop like grapevines is more capital intensive than an annual crop.	Wineries crush their entire year's production in 6 to 8 weeks	Equipment/machinery are used 2-6 cycles a year	Short maturation	Long maturation	Total maturation	Wine is bottled once winemaker is satisfied with wine	Depending on the type of wine, it is stored before it gets ready for sale	Wine is sold to on/off premise
Duration	Minimum of 4 years to get a viable crop	6-8 weeks	2-6 weeks per cycle	Common - 1.7mths Premium - 1.6 mths Luxury - 4.2 mths	Common - 0.9mths Premium - 6.8mths Luxury - 11.8mths	Common - 2.6mths Premium - 8.4mths Luxury - 16mths	2 weeks	1-3 years	
Capital involved	cost of trellising	crusher	fermenter	refrigerated stainless steel tanks / non-oak maturation	oak		bottling facilities	cool storage	

*there will be variations depending on type of wine

BEER

	GRAIN PRODUCTION →	STORE →	BREWING/FERMENT →	MATURE →	BOTTLE →	SELL
Description	Annual barley crops, these require subsequent processing into malt which takes a week.	Malt storage is less costly than wine storage; needs to be weather and insect/rodent proof but no temp control or cover gas needs.	Brewing plant typically does 8 brewing cycles in a 24 hour day. Fermentation equipment/machinery are used 50 cycles a year in a commercial brewery (i.e. weekly turnaround).	Beer needs to sit in storage at 0C for at least a week before subsequent filtration and processing to get it ready for bottling. This provides physical and organoleptic stability. Oxygen must be kept from the product at all cost once fermentation has completed.	Beer is prepared to end product specification and is passed for bottling after organoleptic assessment	Beer is a fresh product and is best consumed fresh. Shelf life out to 12 months, but beer needs cooler (under 25C storage and should be kept away from light.
Duration	Short harvest but need to store the annual grain requirement	Barley is converted to malt throughout the year as needed.	Brewing is typically an 8 hour event and fermentation cycle is one week.	Storage of beer can be from one to six weeks. Commercially typically 1-2 weeks.	typically 24 x 5 production on keg, can and bottle lines all year.	0
Capital involved	farming, growing, harvesting and grain storage costs	maltings plant and grain storage	brewing plant, and stainless steel vessels and line for fermentation and yeast management	Tanks are stainless steel construction, refrigerated and with CO2 cover gas. Use centrifuges to separate yeast from beer, heat exchangers and fitration systems to chill, filter and carbonate to end product specification. Need pressurised tanks for final product pre bottling.	High speed 900bpm bottle and up to 2000 CPM on cans. Most beer pasteurised in package, some will be aseptically filtered and bottled. Coopers products required several weeks controlled temp storage before they can be released to trade due to secondary in bottle fermentation.	Distribution warehouse

Nature of capital[5]

A typical Australian wine producer is likely to have more difficulty accessing capital due to the small scale of operations, lack of diversity and level of risk associated with fluctuating industry earnings from season to season. In general, capital requirements for the wine industry are widely described as being greater, relative to the beer and spirit industries, due to vertically-integrated wine producers requiring the use of vineyards and winemaking facilities. Furthermore, the industry has a longer stockholding period than the beer industry, increasing requirements for working capital. Returns for winemakers on capital have been declining over the past four years, due to the lower levels of profitability and higher levels of capital required.

Access to capital

Access to capital for any business is impacted by a wide range of factors such as:

a) the scale and diversity of the business (geography and product range)
b) age and maturity of the business
c) strength of the brand
d) market share and position
e) distribution channels to market
f) current level of interest bearing debt
g) variability/consistency of return, and
h) management strength and capability.

The scale of a business' operation is a critical factor to the accessibility of debt or equity capital. Larger businesses with a high degree of product and geographic diversification may find accessing capital easier.

Access to capital is a significant challenge for winemakers in Australia as they tend to be small in scale and lack diversity relative to global beer and spirit operations. Smaller, privately held companies may typically source equity capital from private investors (e.g. friends and family) and may source debt financing in the form of small trade loans from banks and financing lease arrangements for plant and machinery.

Wine businesses in the early stage of the lifecycle are likely to be purely equity funded with only the more established businesses able to attract a limited amount of bank debt. This debt would tend to be short term in nature with annually renewable debt most likely, although funding of up to three years is possible for the stronger, more established businesses. This contrasts with a beer and spirits multinational that could potentially access long-dated debt (i.e. 7-10 years). For an Australian winemaker, equity would typically come from private investors and be limited in volume.

[5] This section on the comparative analysis of the nature of capital in the beer and spirits was provided by PwC.

Small businesses within the wine industry do not typically lend themselves to being operated as public corporations (which enable easier access to equity capital), and are mainly run as small scale, privately owned businesses for the following reasons:

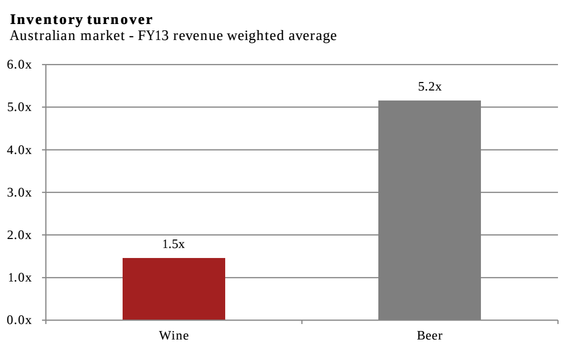
a) the high capital intensity of the industry
b) the high level of agricultural risk
c) wine producers only have one production opportunity per year which increases risk
d) wine producers have a high inventory holding requirement which requires capital, and
e) the industry has historically generated low returns on invested capital.[6]

Capital requirements

Capital requirements for the wine industry are widely described as being greater, relative to the beer and spirit industries. In general, wine producers are vertically integrated and therefore require the use of vineyards and winemaking facilities.

Furthermore, given the longer holding period of inventory in the wine industry relative to beer and other beverage producers, a higher level of working capital is required. As set out in the chart below, the wine industry in Australia has an inventory turnover of approximately 1.5 times (implying that on average, a business holds enough inventory to satisfy 65% of total sales for the year), whereas the Australian beer industry has an inventory turnover of approximately 5 times (implying on average, 20% of total annual sales could be satisfied with inventory on hand).

Fig. 1. Chart of weighted average inventory turnover across the Australian wine and beer industries



Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

Note:
1. Inventory turnover is calculated using the formula: cost of goods sold/inventory
2. Based on the average of inventory turnover from financial year 2011 (FY11) to FY13
3. The weighted averages have been calculated based on the FY13 revenue of each company
4. Based on the analysis of 16 Australian wine companies (3 public and 13 private) and 3 Australian beer companies (2 public and 1 private)

[6] John Angove, the Managing Director of Angove Family Winemakers, L. Lockshin, Future opportunities and challenges for the South Australian wine industry: An interview with John Angove, Wine Economics and Policy 2 (2013) 50-54, 5 May 2013

The demerger of Treasury Wine Estates (TWE) from the Foster's Group Limited in 2011, also highlights the different (and higher) requirements for capital in the wine industry relative to the beer industry. The key benefits from the demerger were stated to:

a) "allow the beer business to pursue growth opportunities and invest…without the potential constraints of competing capital demands of the wine business"

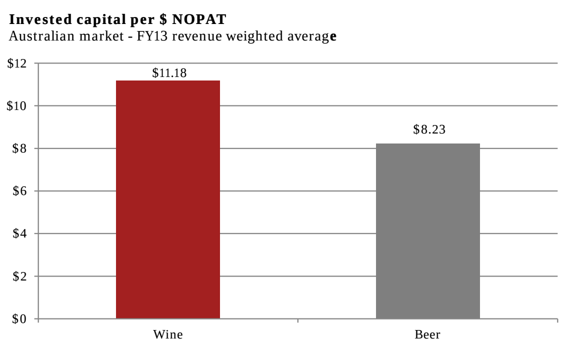
b) "allow the beer and wine businesses to establish a more appropriate capital structure… TWE would require a more conservative capital structure than Fosters, given agricultural and cyclical risks and its high asset intensity"

A more conservative capital structure would be a consequence of less predictable cash flows[7] and more risky returns, thereby increasing the cost of capital.

More uncertain and higher risk cash flows reduce the amount of debt that could be serviced in the capital structure of the original Foster's Group. As such, following the demerger, Fosters was able to sustain a higher level of gearing, relative to the wine business, given the more stable, more predictable cash flows of the beer business.[8] Fosters was expected to have a pro-forma leverage ratio of 2.0x (net borrowings divided by earnings before interest, tax, depreciation and amortisation (EBITDA)) and TWE a lower leverage ratio of 0.5x post demerger.[9]

Based on available financial data for respective wine and beer companies in Australia, at a high level, the amount of invested capital required to generate a dollar of net operating profit after tax (NOPAT, or profit) appears to be higher in the Australian wine industry than in the Australian beer industry. Over the last three years, the average level of invested capital required to generate a dollar of profit is approximately $11 in the wine industry, whereas the amount of invested capital required to generate a dollar of profit in the beer industry is approximately $8. Given a considerable portion of the smaller brewers across the Australian beer industry are privately held, there is a limited amount of financial information that can be used to draw conclusions. Conclusions and figures presented here should therefore be considered in light of this limitation.

Fig. 2. Chart of weighted average invested capital per profit across the Australian wine and beer industries



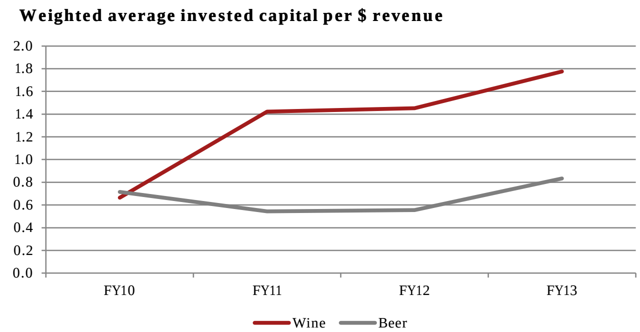
Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

[7] Grant Samuel Independent Expert Report, page 135
[8] Proposed Demerger of Treasury Wine Estates Limited from Foster's Group Limited, Concise Independent Expert's Report, Grant Samuel, 17 March 2011
[9] Ibid

Note:
1. Invested capital per $ NOPAT is calculated using the formula: Invested capital/NOPAT
2. Invested capital = Long term debt + Equity (Book value of equity for private companies and market capitalisation at the end of each financial year for public companies)
3. NOPAT = EBIT*(1 – Tax). Tax is assumed to be 30%, in line with the Australian statutory company tax rate
4. Based on the average invested capital per NOPAT from FY11 to FY13
5. The weighted averages have been calculated based on the FY13 revenue of each company
6. Companies with negative NOPAT are assumed to have zero invested capital per $ NOPAT
7. Based on the analysis of 16 Australian wine companies (3 public and 13 private) and 3 Australian beer companies (2 public and 1 private)

The level of capital used in the Australian wine industry has increased over the past four years, and by a higher amount than the beer industry. The charts below illustrate the average level of invested capital that was required to generate one dollar of revenue, gross profit and net income respectively. Each chart illustrates the increasing level of required capital to generate a dollar of each metric.

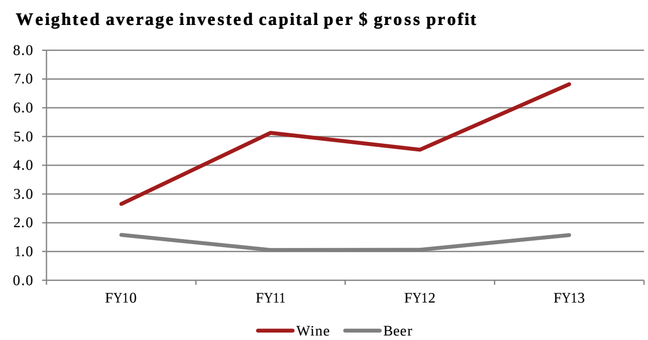
Fig. 3 Weighted average level of invested capital per dollar of revenue generated from FY10 through to FY13, based on a small sample of 14 Australian wine businesses and 3 Australian beer businesses



This chart illustrates that on average, capital invested in Australian wine businesses to generate a dollar of revenue has increased over the past four years from $0.66 in FY10 to $1.78 in FY13 compared to the average beer business, which has increased from $0.72 to $0.83 over the same period.

Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

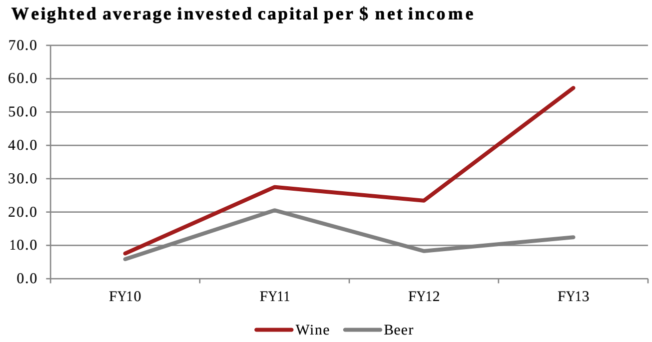
Fig. 4. Weighted average level of invested capital per dollar of gross profit generated from FY10 through to FY13, based on a small sample of 14 Australian wine businesses and 3 Australian beer businesses



On average, the level of capital invested in Australian wine businesses required to generate a dollar of gross profit has increased over the past four years from $2.66 in FY10 to $6.81 in FY13, relative to beer which has remained broadly flat over same time period.

Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

Fig. 5 Weighted average level of invested capital per dollar of net income generated from FY10 through to FY13, based on a small sample of 14 Australian wine businesses and 3 Australian beer businesses



Over the last four years, the amount of capital invested to generate a dollar of net income for a wine business has increased from $7.56 in FY10 to $57.19 in FY13, relative to a beer business which has increased from $5.88 in FY10 to $12.43 in FY13.

Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

Note:
1. Companies with negative net income are assumed to have zero invested capital per $ net income for the purpose of this analysis

Return on capital

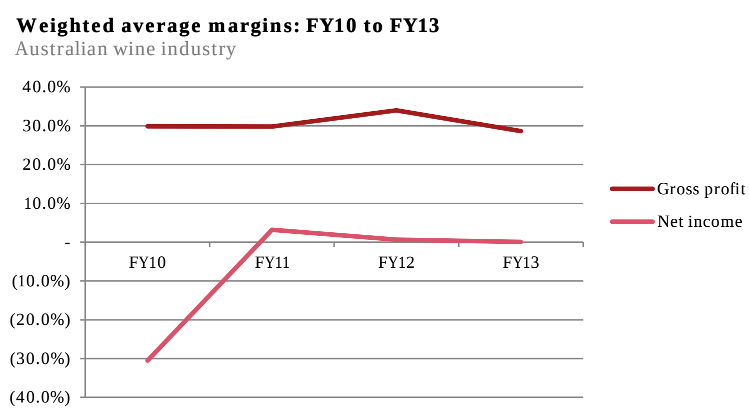
The ability for a business to generate the appropriate level of return (relative to the level of risk) is influenced by specific industry dynamics such as the:

a) level of competition within the market (e.g. level of fragmentation or consolidation)
b) level of supply and demand for the product
c) bargaining power of buyers
d) level of capital intensity.

Each of these factors is likely to contribute to the low level of returns observed in the wine industry today.

As set out in the chart below, profit margins have been falling over the past three years in the Australian wine industry.

Fig. 6. Weighted average profit margins (gross margin and net income margin) from FY10 through to FY13, based on a small sample of 14 Australian wine businesses



Source: S&P Capital IQ, ASIC, PwC analysis

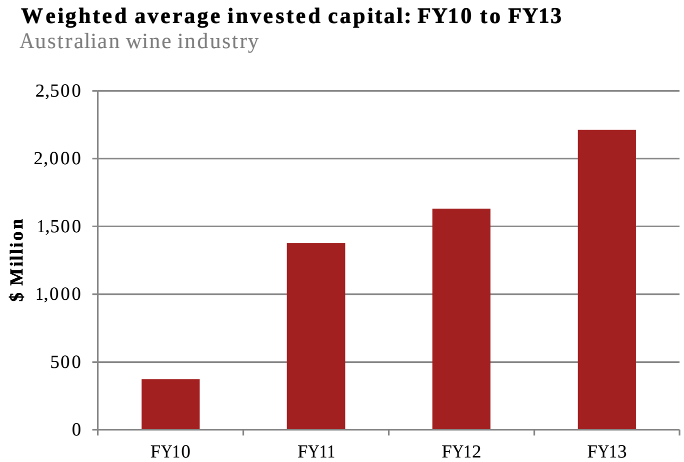
Declining profit margins are in part driven by the domestic oversupply of wine, which has resulted in heavy discounting throughout the supply chain. In addition the profitability of wine producers has been negatively impacted by:

a) the increasing dominance and bargaining power of supermarket retailers
b) the high Australian dollar, reducing the competitiveness of Australian wine in foreign markets[10]
c) fragmentation of the industry leading to difficulties in pricing growth.[11]

Profit margins across the Australian wine industry are expected to be approximately 5.4% in 2014-15, being significantly lower than the average profit margin of the beer and the spirit manufacturing industry of 16.0% and 13% respectively.[12]

In comparison, as set out in the chart below, the average level of capital employed (long-term debt financing, plus equity) has increased over the comparable period.

Fig. 7. Weighted average level of invested capital from FY10 through to FY13, based on a small sample of 14 Australian wine businesses



The average amount of capital invested (debt and equity) in a wine business (based on a small sample of businesses in the wine industry) has increased from $375 million in FY10 to $2,214 million in FY13. However, this chart does not take into consideration the level of productivity or output generated by the increase in invested capital.

Source: S&P Capital IQ, ASIC, PwC analysis

Given these trends, the declining profit margins and increasing levels of invested capital, returns on capital for the wine industry have been reducing over the past 5 years, as illustrated overleaf.

[10] Wine Production in Australia, IBISWorld Industry Report, August 2014
[11] Treasury Wine Estates Limited, UBS Broker Report, 25 June 2014
[12] Wine Production in Australia, IBISWorld Industry Report, August 2014

Fig 8. Weighted average level of return on invested capital (ROIC) generated from FY10 through to FY13, based on a small sample of 14 Australian wine businesses and 3 Australian beer businesses

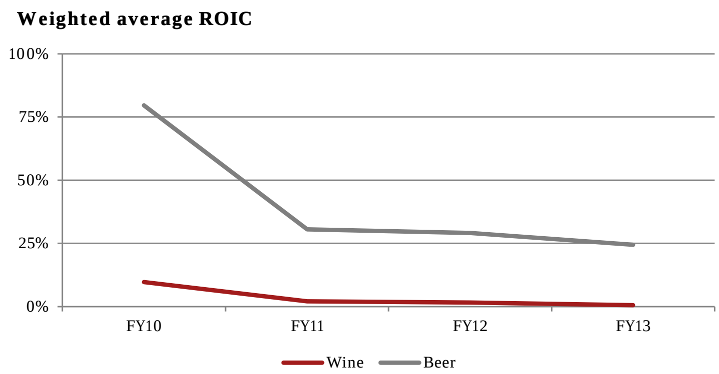
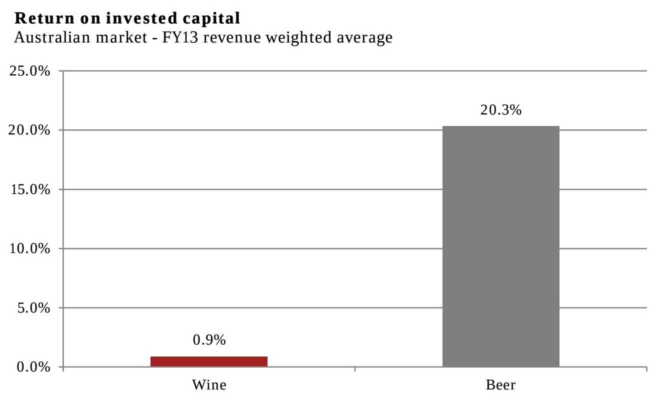


Figure 8 illustrates the average return on capital invested across businesses in wine and beer industries has declined over the last 4 years. Based on the small sample of companies analysed, returns in the beer industry are generally greater than the wine industry. On average, in FY13, the return on invested capital was approximately 25% for beer companies, compared to 0.6% for wine businesses.

Source: S&P Capital IQ, ASIC, PwC analysis

The average return on invested capital (ROIC) in the Australian wine industry is less than 1% which compares to the average ROIC in the Australian beer industry of approximately 20.3%.[13] This implies that for every $100 of capital invested in the wine industry, a wine business (on average) generates $1 of profit (NOPAT), whilst for every $100 of capital invested in the beer industry, approximately $20 of profit is generated. Please note that there is limited data available for Australian beer companies and these figures should be considered in light of this limitation.

Fig. 9. Chart of weighted average return on invested capital across the Australian wine and beer industries



Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

Note:
1. ROIC is calculated using the formula: NOPAT/ Invested capital
2. NOPAT = EBIT*(1 – Tax). Tax is assumed to be 30%, in line with the Australian statutory company tax rate
3. Invested capital = Long term debt + Equity (Book value of equity for private companies and market capitalisation at the end of each financial year for public companies)
4. Based on the average of ROIC from FY11 to FY13
5. The weighted averages have been calculated based on the FY13 revenue of each company
6. Based on the analysis of 16 Australian wine companies (3 public and 13 private) and 3 Australian beer companies (2 public and 1 private)

[13] Based on the analysis of 16 Australian wine companies (3 public and 13 private) and 3 Australian beer companies (2 public and 1 private)

Risk rating[14]

Risk component	Wine	Spirit	Beer
Structural risk (25%)	6.48	4.48	3.25
Growth risk (25%)	5.88	5.37	5.54
Sensitivity risk (50%)	6.37	6.4	6.7
Overall risk	**6.27**	**5.66**	**5.55**

The wine industry has the highest overall risk among alcohol producers at 6.27 (out of 9) which is due to high levels of structural and sensitivity risks. The wine industry's risk rating is higher than the average risk score for all Australian industries and the manufacturing sector. The main structural risk factors for the industry include high level of competition, decreasing exports and a high level of revenue volatility due to changes in grape supply and prices, in addition to the influence of intra-industry competition. Both spirit and beer industries are have low volatility risks due to the ability to mitigate effects of market fluctuations, a steady consumer base and high profit margins. Further analysis on the differences in risk rating among the three alcohol sectors can be found at Appendix 4.

Global wine and alcohol taxation[15]

Domestic taxation rates on wine are important in ensuring the stability and growth required to develop strong brands and business models that can be confidently taken into the highly competitive and volatile global marketplace. It is critical for local taxation rates to be comparable to global competitors to ensure we continue to grow a globally competitive industry and produce world-renowned wines.

An analysis of how Australia's wine taxes compare internationally however shows that Australia is taxing wine relative to other alcoholic beverages more than most other wine-exporting countries. It is also important to note that wine is taxed lower than other alcohol beverages in the vast majority of wine exporting countries. A summary of this work undertaken by Professor Kym Anderson entitled *Excise Taxes on Wines, Beers and Spirits: An Updated International Comparison* can be found at Appendix 5.

The key findings to emerge from this analysis are:

- For commercial premium wines (the sort that would retail at twelve dollars), Australia's 29% WET is one of the highest tax rates among the significant wine-exporting countries: France has 0.8%, Italy 0%, Spain 0%, Argentina 0%, Chile 15%, South Africa 3.8% and the United States 6.6%.

[14] To calculate the overall risk score, IBISWorld assesses the risks pertaining to industry structure (structural risk), expected future performance (growth risk) and economic forces (sensitivity risk). Risk scores are based on a scale of 1 to 9, where 1 represents the lowest risk and 9 the highest. The three types of risk are scored separately, then weighted and combined to derive the overall risk score.

[15] Anderson, K., 2014. Excise Taxes on Wines, Beers and Spirits: An Updated International Comparison, Adelaide: Wine Economics Research Centre University of Adelaide.

- When expressed in Australian cents per standard drink of alcohol, Australia's wholesale tax for commercial premium wines (22 cents) is marginally lower than New Zealand's 26 cents, but at any higher price point Australia's tax exceeds New Zealand's. That 22 cents tax in Australia compares with zero in Argentina, 3 cents in South Africa, 5 cents in the United States, and just 1 cent in France and zero in the other Old World wine-exporting countries. See Table 2.1: Excise taxes on alcoholic beverages per standard drink of alcohol in wines beers and spirits, 1 July 2014.

- Analysis also shows when expressed as a percentage of those for other beverages, wines are taxed less than spirits in all but Japan, and are taxed at a similar or lower rate than beer in all but a handful of countries. Again, Australia is taxing wine higher relative to other alcoholic beverages more than most wine-exporting countries, the main exception being Chile where beer is very lightly taxed. See Figure 2.1: Specific consumer tax on commercial premium wine as a percentage of that on spirits per standard drink, 1 January 2012 and 1 July 2014, and Figure 2.2: Specific consumer tax on commercial premium wines as a percentage of that on beers per standard drink, 1 January 2012 and 1 July 2014.

Table 2.1: Excise taxes on alcoholic beverages per standard drink of alcohol[c] for wines, beers and spirits, 1 July 2014[16]

(Australian cents at the wholesale pre-tax prices per litre shown in column heads)

	AUD in cents						
	Non-premium wine	Commercial premium wine	Super premium wine	Sparkling wine	Beer	Spirits	Exchange rate (local currency per AUD)
	$2.50	$7.50	$20	$25	$2	$15	
Argentina[b]	0	0	0	0	8	10	7.72
Australia[b]	7	22	58	73	58	99	1.00
Austria	0	0	0	14	9	22	0.69
Belgium	8	8	8	28	8	38	0.69
Chile[b]	4	11	30	38	8	13	523.83
Czech Rep.	0	0	0	12	2	19	19.03
Denmark	21	21	21	27	14	36	5.17
Estonia	12	12	12	12	11	30	0.69
Finland	49	49	49	49	58	82	0.69
France	1	1	1	1	13	31	0.69
Germany	0	0	0	20	4	24	0.69
Greece	0	0	0	0	12	44	0.69
Hungary	0	0	0	8	9	19	216.17
Ireland	62	62	62	123	41	77	0.69
Italy	0	0	0	0	12	17	0.69
Luxembourg	0	0	0	0	4	19	0.69
Netherlands	13	13	13	37	9	31	0.69
New Zealand	26	26	26	26	33	60	1.08
Poland	5	5	5	5	8	25	2.88
Portugal	0	0	0	0	34	23	0.69
Slovak Rep	0	0	0	12	6	20	0.69
Slovenia	0	0	0	0	22	24	0.69
South Africa	3	3	3	9	9	17	10.06
Spain	0	0	0	0	18	17	0.69
Sweden	36	36	36	36	35	100	6.35
UK	49	49	49	63	43	64	0.55
USA[a]	5	5	5	12	29	13	0.95

[a] USA data are for 2012

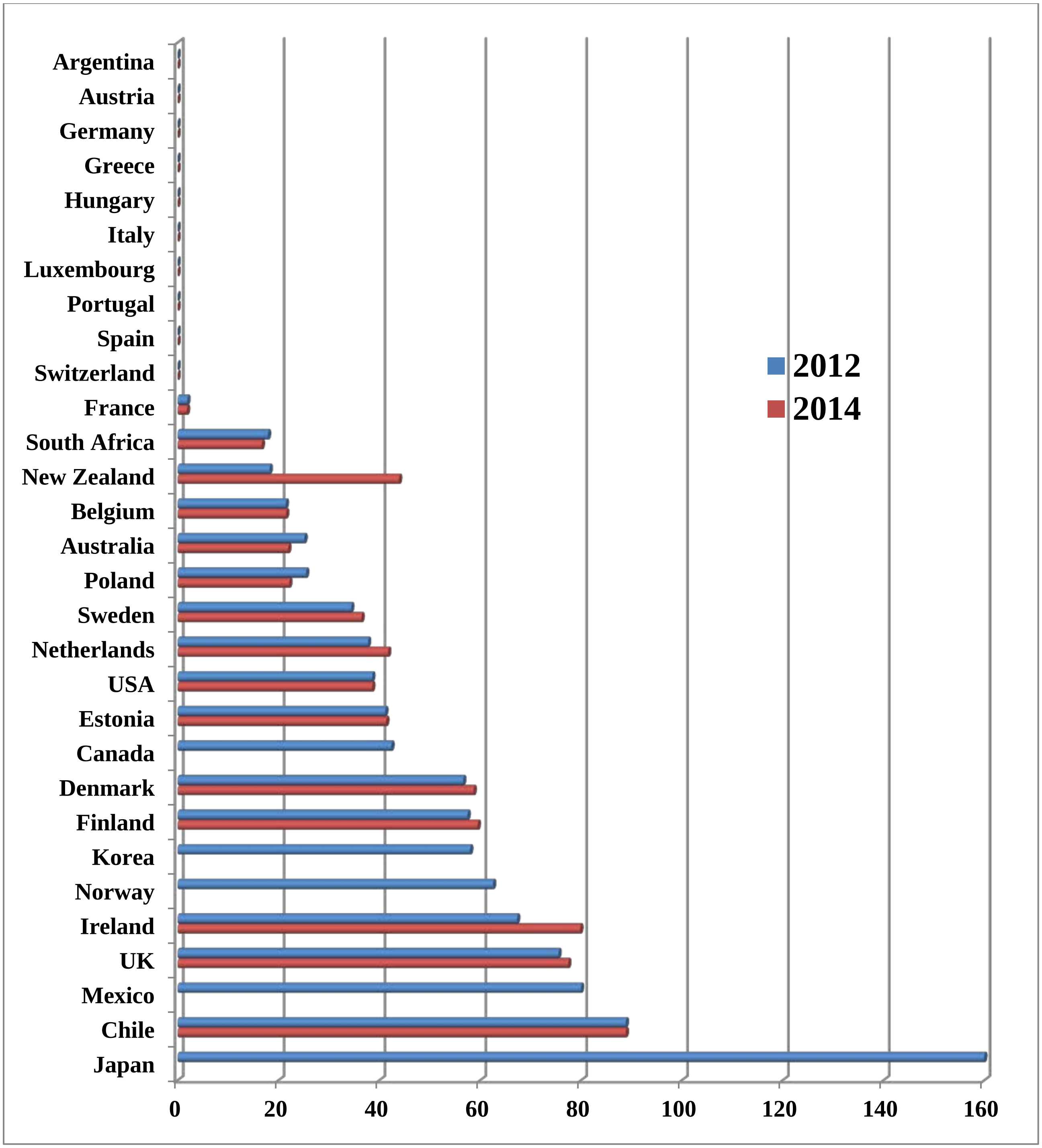
[b] Argentina, Australia and Chile have an ad valorem tax on wines

[c] One standard drink in Australia is 12.5 ml of pure alcohol, and so is equivalent to 250ml of beer at 5% alcohol or 12.5° Plato, or 100 ml of wine at 12.5% alcohol, or 31.25ml of spirits at 40% alcohol.

[16] Anderson, K., 2014. Excise Taxes on Wines, Beers and Spirits: An Updated International Comparison, Adelaide: Wine Economics Research Centre University of Adelaide.

Figure 2.1: Specific consumer tax on commercial premium wines as a percentage of that on spirits per standard drink, 1 January 2012 and 1 July 2014[17]

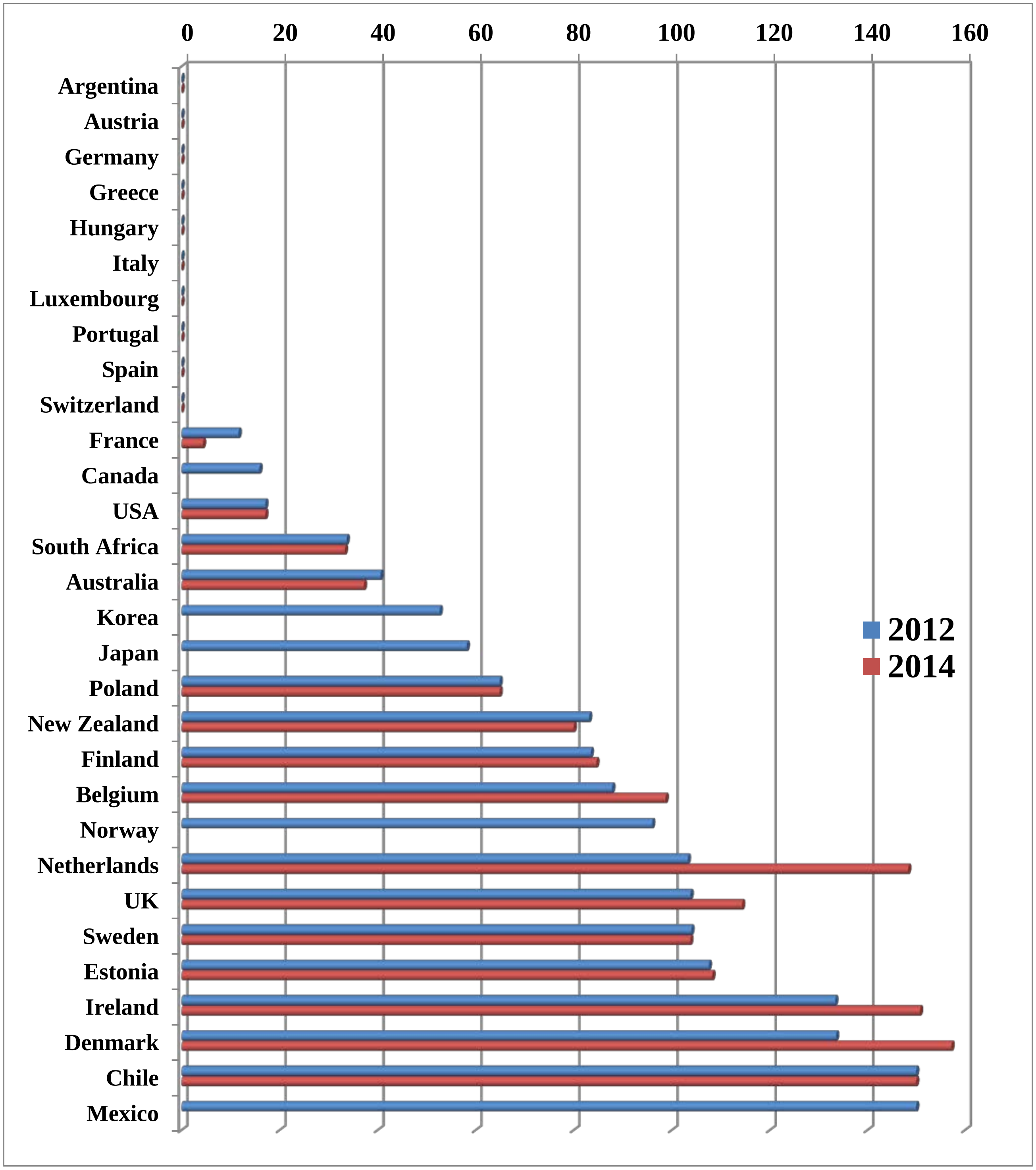
(percent)



[17] Anderson, K., 2014. Excise Taxes on Wines, Beers and Spirits: An Updated International Comparison, Adelaide: Wine Economics Research Centre University of Adelaide.

Figure 2.2: Specific consumer tax on commercial premium wines as a percentage of that on beers per standard drink, 1 January 2012 and 1 July 2014[18]

(percent)



[18] Anderson, K., 2014. Excise Taxes on Wines, Beers and Spirits: An Updated International Comparison, Adelaide: Wine Economics Research Centre University of Adelaide.

Summary

We have outlined in detail the various commercial and structural challenges facing the wine industry and the numerous ways in which the wine industry is at a competitive disadvantage relative to beer and spirits manufacturing. Globally, Australian wine taxes are already high but our approach of taxing wine less than other forms of alcohol is consistent with our competitors. Given these findings, WFA submits the wine sector should continue to receive a differentiated tax rate to other alcohol beverages. To introduce an increase in the level of tax revenue on the sector would jeopardise its recovery and its ability to grow strong brands and businesses that can compete globally.

Recommendation 1: Wine should continue to receive a differentiated tax rate to other alcohol types.

The production and capital risks, economic footprint and industry structure of the wine, spirits and beer industries are very different and a fair tax regime should recognise and reflect these differences. Just because they are all producers of alcohol, does not mean they should be taxed at similar levels. Wine is taxed lower than other alcohol beverages in the vast majority of wine exporting countries.

Recommendation 2: There should be no increase to the level of wine tax revenue.

The Australian wine industry is already highly taxed by global standards. It is critical for local taxation rates to be comparable to global competitors to ensure we continue to grow a globally competitive industry and produce world renowned wines.

CHAPTER 3: WINE TAX AND ALCOHOL-RELATED HARM AND MISUSE

Key findings:

- The Australian drinking culture is making progress towards moderation and reduced levels of at-risk drinking.

- The Australian Bureau of Statistics (ABS) have recently reported that Australians are drinking less alcohol overall than any time in the previous 50 years.

- It is not clear that an increase in the level of wine tax revenue will impact the consumption behaviour of at-risk drinkers and reduce alcohol-related harm. It will penalise responsible drinkers, the wine industry and regional communities.

While there is still much to be done in addressing problem drinking in Australia, on almost every key metric, our drinking culture is slowly but surely moving in the right direction, including:

- A decrease in the overall consumption of alcohol.
- A decrease in the rate of binge drinking, especially among young people.
- A decrease in the rate of drinking by pregnant women.
- An increase in the average age of a person's first experience with alcohol.
- A decrease in the level of lifetime risky drinking for all age groups apart from a small increase in 40-to-49-year-olds.
- The biggest recent decreases in lifetime risky drinking are in teenagers and people in their 20s.
- The number of abstainers is at the highest level ever recorded.
- The number of people who drink every day is at its lowest level ever recorded.

It is important for policy makers to note this progress and the impact long term investments in cultural change activities and education campaigns to targeted cohorts of at-risk drinkers are having. In comparison, tax increases on alcohol and other pricing levers are an ineffective driver of consumption behaviour especially for ‘at risk’ consumers. Increasing the level of wine tax revenue simply because wine may currently be the cheapest form of alcohol would only penalise the local industry and the vast majority of responsible wine drinkers while simply transferring risky consumption behaviours to the next cheapest form of alcohol and addiction.

Alcohol plays an important and legitimate role in the Australian community and is a meaningful part of the social fabric for millions of Australian families. WFA notes however, that excessive and irresponsible consumption for a minority of drinkers can cause significant harm. Patterns of drinking shape both benefit and harm and this duality of its nature makes alcohol unlike many other commodities. Like many other behaviours, drinking behaviour is shaped by learned, cultural factors. It can be addressed by responsible choices, and the potential for harm is preventable.

The public health lobby continues to assert that Australia is confronted by an alcohol epidemic. However, the facts do not support this view. In almost all key metrics, the strong push towards a culture of the responsible consumption of alcohol in Australia is resulting in a trend in the right direction.

But despite these trends, the public health lobby publicly continues to advocate that the way to address the irresponsible consumption of alcohol by a minority is through the use of broad “population control” measures. In particular, they advocate using the tax system on the assumption that an overall increase in the price of alcohol will result in a reduction in overall consumption and therefore a commensurate drop in harmful drinking levels.

Consumption patterns

Australians are often portrayed as some of the heaviest drinkers in the world by some in the Australian media and by the public health lobby.

The Australian Bureau of Statistics (ABS) has reported[19] that the total volume of alcohol consumed in Australia is dropping. The latest data shows that for 2013-2014:

- Across all alcoholic beverages, there were 9.7 litres of pure alcohol available for consumption in 2013-14 for every person in Australia aged 15 years and over. This is 1.7% less than the amount in 2012-13 (9.9 litres) and the lowest level since the early 1960s.
- The decrease is mainly due to a continuation of the downward trend in apparent consumption of beer, at the same time as a flattening out in wine consumption.
- For wine, there has been a steady increase in people's consumption over the long term but recently this trend appears to have plateaued, and in fact, per person consumption of wine has decreased slightly over the past three years.
- The quantity of pure alcohol available for consumption in Australia in the form of wine increased by 0.2% between 2012-13 and 2013-14, from 68.7 million litres to 68.9 million litres. White wine accounted for 47.7% of all pure alcohol in wine in 2013-14, while red wine made up 37.1% and other wines 15.2%.Wine accounts for 38% of all alcohol consumed.

Furthermore, the latest Australian Institute of Health and Welfare (AIHW) data shows Australia is starting to see a trend in the right direction with fewer people drinking at risky levels:

- Daily drinking declined significantly between 2010 and 2013 (from 7.2% to 6.5%) and was at the lowest level seen since 1991. Rates fell for both men and women.
- Between 2010 and 2013, there was a significant increase in the proportion of people who had never consumed a full serve of alcohol (from 12.1% to 13.8%).
- Fewer people aged 12–17 are drinking alcohol and the proportion abstaining from alcohol increased significantly between 2010 and 2013 (from 64% to 72%).
- Younger people are continuing to delay starting drinking —the age at which 14–24-year-olds first tried alcohol has increased since 1998 from 14.4 to 15.7 years in 2013.

While these trends are encouraging, WFA recognises that there continues to be unacceptable levels of harmful drinking and associated anti-social behaviour. However, we strongly reject increasingly strident rhetoric from interest groups seeking to deny wine’s legitimate and accepted place in modern society and their push to effectively punish responsible drinkers through a range of command and control policy measures including tax rises.

[19] http://www.abs.gov.au/ausstats/abs@.nsf/mf/4307.0.55.001

Population control versus targeted measures

The public health lobby continues to advocate for "control of consumption" measures, predicated on the belief that reducing everyone's drinking across a population is the most effective and efficient way to reduce the harms associated with excessive alcohol consumption. Such policy measures include:

- An increase in alcohol taxation;
- Minimum Unit Pricing;
- Unwarranted restrictions on the sale and supply of alcohol; and
- Blanket bans on advertising and sponsorship.

This approach to addressing harmful drinking patterns has been increasingly questioned over recent years through the recognition that while the majority of drinkers do so responsibly, there are specific groups that engage in harmful behaviour and therefore targeted policy measures specific to those groups are a more effective tool for addressing this behaviour.

There are a number of fundamental flaws associated with population-wide control measures for addressing harmful drinking. Such measures are broad and non-specific and as a result they:

- Cannot differentiate between those who drink responsibly and those who abuse alcohol;
- Are insensitive to variations and cultural difference in the role of alcohol in society;
- Require legislation and structural change for their implementation;
- Rely on enforcement to be effective;
- Are not tailored to the reality of drinking; and
- Are inflexible to change and shifting societal needs.

In contrast, the aim of targeted interventions is to reduce misuse and the harms that flow from that, not to necessarily reduce overall consumption of alcohol. Targeted interventions seek to reduce the potential for harm by specifically and selectively focusing on problematic drinking patterns amongst those individuals, settings and behaviours where risk of harm from drinking is increased. The benefits of targeted measures are that they:

- Specifically address harm where it occurs;
- Can be tailored to individual, demographic, and cultural differences;
- Do not require structural change or legislation for implementation;
- Make best use of resources that are available;
- Avoid most unintended outcomes by virtue of their specificity; and
- Are flexible and responsive to the immediacy of community needs.

Given these benefits, WFA supports the use of targeted measures as a more appropriate and effective tool for addressing harmful drinking.

Price sensitivity of at-risk consumers

As noted, increasing the price of alcohol through increasing the level of tax revenue is often put forward as a tool for reducing the social costs associated with the harmful consumption of alcohol. There is, however, little research to support the theory that at-risk consumers are price-sensitive. In addition, there is a lack of up-to-date and differentiated Australian data which can be used to refute the constant assertions that price is the most important or influential driver to change behaviour. The Australian Wine Research Institute (AWRI) has recently conducted a comprehensive literature review and found that the majority of literature on prices/taxation elasticity or sensitivity of alcoholic beverages has been published prior to 2000, predominantly in the USA, with only six Australian studies dated between 1956 and 1986.

The literature post 2000 is predominately estimates and modelling of effects on per capita alcohol consumption and harms from changes to alcohol prices and taxation. In addition, one of the research gaps identified was whether changes in alcohol prices differentially affect drinking behaviour for important at-risk subgroups of the population, such as underage people, older people, and excessive and heavy consumers.

While it is true that like most other consumer goods demand for beverages declines when their prices rise, this applies across overall alcohol beverage consumption. This finding, however, is derived from research that considers alcohol as a simple good. As a complex good, the research suggests that consumers may make substitutions between purchases of different alcohol beverage types and qualities in response to price increases as well as by altering their overall consumption.

Furthermore, alcohol consumption is more often than not related to consumer demographics such as disposable income. Consumers with greater incomes are associated with more purchases of alcoholic beverages at on-premise places and at higher prices, and may regulate costs by changing to venues where alcohol is at lower prices.

Broad price-elasticity estimates are therefore simplistic and mainly mask demographic differences. To reduce the alcohol related harms associated with those who misuse alcohol, while preserving the benefits derived by the majority of consumers who do not impose harms, those most likely to impose harms should be the most responsive to prices and taxes, whereas those who are enjoying alcohol without generating external costs should be least responsive. The reality is that light and moderate consumers are most responsive to changes in price with heavy drinkers being coined “risk tolerant”. With the top 10% of Australian drinkers (i.e. those considered at-risk) consuming some 51% of all alcohol, policies that use price as a lever for addressing at-risk consumption are unlikely to achieve their stated aim.

The findings from the AWRI on the available research into price sensitivity of wine consumers are:

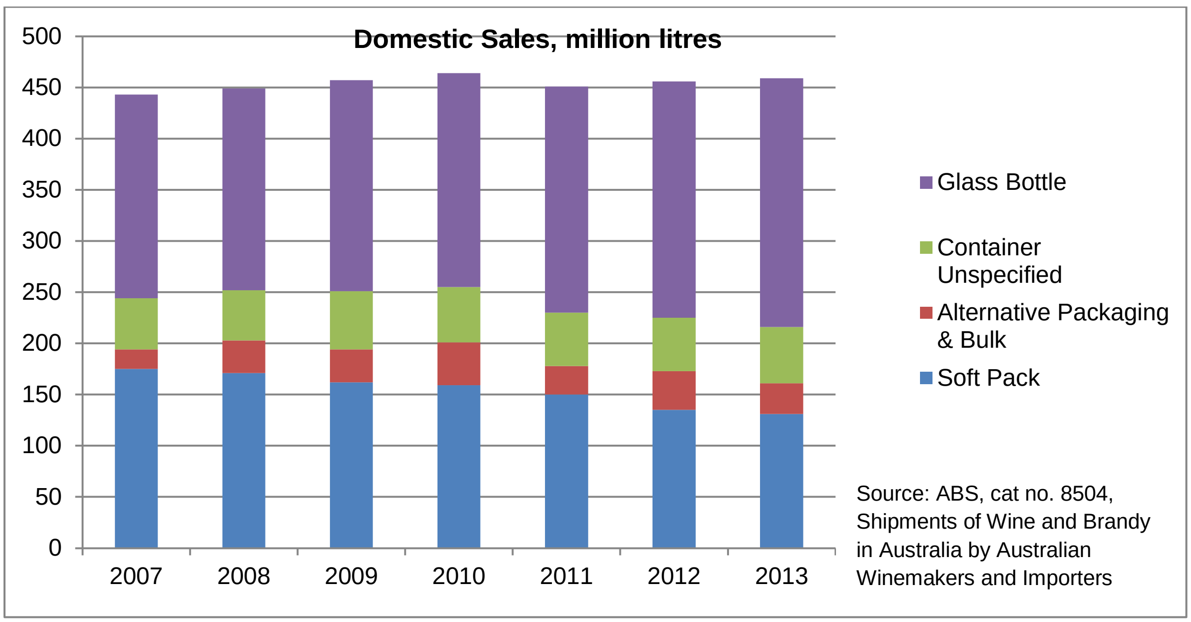
- adult men have less elastic demands compared with women;
- there is little or no price response by heavy-drinking adults, regardless of gender;
- price might be important for drinking participation by youth and young adults;
- heavy drinking by youth and young adults, regardless of gender, is not easily dissuaded by higher prices;
- wine is more elastic than beer but is generally less elastic than spirits, where there may also be substitution responses to price between qualities of wine; and
- price and income elasticities for wine and spirits differ between countries.

In seeking to further test the robustness of the literature specifically as it relates to the Australian context, the AWRI have undertaken a survey of more than five thousand households as part of the SA Health Omnibus Survey (a project of the Populations & Outcome Studies Department in the Discipline of Medicine at the University of Adelaide and Harrison Research). The findings from the survey suggest that price does not appear to be a significant lever for change in either the amount consumed or in beverage choice. Rather, the data suggest that the main levers for change in drinking behaviours are peers and culture, that is, family and friends, in addition to health[20].

On this basis alone, it is difficult to build a case that there is a compelling body of evidence to support wine taxation being used to achieve social policy outcomes among at-risk consumers.

The case of cask wine

Accusations are often levelled at cheaper wines, notably cask wine, that it is the beverage of choice for some at-risk consumers – notably the young - assumed largely because of a lower price. However, despite the price advantage, sales of cask wine continue to plummet as the chart below demonstrates. (In the chart, cask wine is referred to as "Soft Pack".)



The reality is that price is not the only determinant for alcohol sales. Other factors modify and even trump low prices including variables such as occasion, convenience, place of consumption, self-image, and peer status.

A study by the Foundation for Alcohol Research and Education (FARE)[21] found that less than one percent of 20-29 year olds drank cask wine. From the point of view of all consumers, FARE found that four percent identified Cask Wine as the drink they consumed most often and only 11% as something they consumed either regularly or from time to time.

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[20] Price is not a primary influence on wine consumption choices in Australia. C.S. Stockley, A.W. Taylor, A. Montgomerie and E. Dal Grande. To be submitted to the *Journal of Alcohol and Alcoholism*.
[21] http://www.fare.org.au/research-development/community-polling/annual-alcohol-poll-2013/

In contrast, bottled wine was found to be the primary beverage of choice by 33% of all consumers with 61% consuming either regularly or from time to time.

These findings are further supported by research undertaken by Wine Intelligence[22] which shows that in relation to wine casks:

- buyers are older:
    - 37% of frequent* large cask users are aged 55+; only 29% are younger than 34
    - 54% of frequent* large cask users are aged 45+; only 29% are younger than 34
- buyers are on lower incomes:
    - 45% of frequent* large cask drinkers earn <$60,000 ((Frequently = at least once a week)
    - 39% of frequent* small cask drinkers earn <$60,000
- consumption is invariably with food
    - 66% of small cask drinkers and 73% of large cask drinkers always or frequently eat food when drinking wine (Frequently = at least once a week)
    - 90% of small cask drinkers and 88% of large cask drinkers always, frequently or occasionally eat food when drinking wine (Occasionally = at least once a month)

There is little evidence to support the use of retail pricing or the taxation system as a means to address ongoing concerns over harmful drinking levels and negative social behaviour in Australia that will have any meaningful impact. Population-wide control measures simply punish the majority of drinkers who do so responsibly while having little to no impact on those whom the policies are meant to be targeting. Indeed, the evidence suggests that measures such as increasing price through taxation will be ineffective on the basis that heavy drinkers are not price-sensitive and are therefore unlikely to moderate behaviour as a result. Rather, WFA believes that targeted policy measures aimed at specific at-risk consumers is a far more effective means for reducing alcohol related harms.

Recommendation 3: Wine tax arrangements should not be determined by social policy objectives.

Tax policy should not be driven by social policy objectives. Pricing is an ineffective driver of consumption behaviour especially for ‘at risk’ consumers. In the wine industry, this is compounded by the fact that demand patterns for wine are poorly understood. Increasing the level of wine tax revenue simply because wine may currently be the cheapest form of alcohol would only penalise the local industry and the vast majority of responsible wine drinkers while simply transferring risky consumption behaviours to the next cheapest form of alcohol. WFA supports the use of targeted intervention measures as a more appropriate and effective tool for addressing harmful drinking.

[22] Wine Intelligence, Vinitrac®Australia, March 2014

CHAPTER 4: AGRICULTURAL LEVIES

Key findings:

- The compulsory agricultural industry levies matched by government and managed on behalf of industry by the Australian Grape and Wine Authority remains an important measure for the development and advancement of technological innovation in the wine industry.

- However, the proportion of the levy payments used for marketing is insufficient to fund the required effort to lift demand for Australian wine in key overseas markets and to re-engage global consumers with the diversity and value of the Australian offering.

- An increase to existing levies is not feasible and is not supported by industry. The sustained low profitability being experienced by the industry means it cannot withstand another impost on earnings at this time.

- Proposals to introduce consumer levies are not supported by industry.

The Australian Grape and Wine Authority (AGWA) is funded by grape growers and winemakers through levies and user-pays charges, and by the Australian Government, which provides matching funding for R&D investments[23].

Their primary sources of funding are 1) Market development funding; 2) RD&E funding; 3) Regulatory funding and; 4) User-pays activities.

Market development funding - Wineries pay the promotion component of the wine grapes levy in a stepped amount per tonne. The promotion component is payable on grapes delivered to a winery once the threshold of 10 tonnes has been reached. Wine businesses also pay the wine export charge on wine produced in and exported from Australia. The amount of levy payable is based on the free-on-board (FOB) sales value of wine for the levy year[24].

RD&E funding - The grape research levy (grapegrowers pay $2 per tonne of winegrapes crushed) and the R&D component of the wine grapes levy (wineries pay $5 per tonne of winegrapes crushed) are matched dollar-for-dollar by the Australian Government[25].

AGWA's regulatory activities are funded on a cost-recovery basis through activity-based fees. In addition, wine businesses, regional associations and state government pay voluntary contributions to participate in market development activities.

In 2012/13, industry levies amounted to $17m which consisted of $11.6m of wine grapes levies, $2.2m of export levies and $3.4m of grape research levies. See below diagram for 2013/13 levy split.

[23] Information from AGWA's Strategic Plan 2015-2020
[24] Information from AGWA's Strategic Plan 2015-2020

[25] Information from AGWA's Strategic Plan 2015-2020

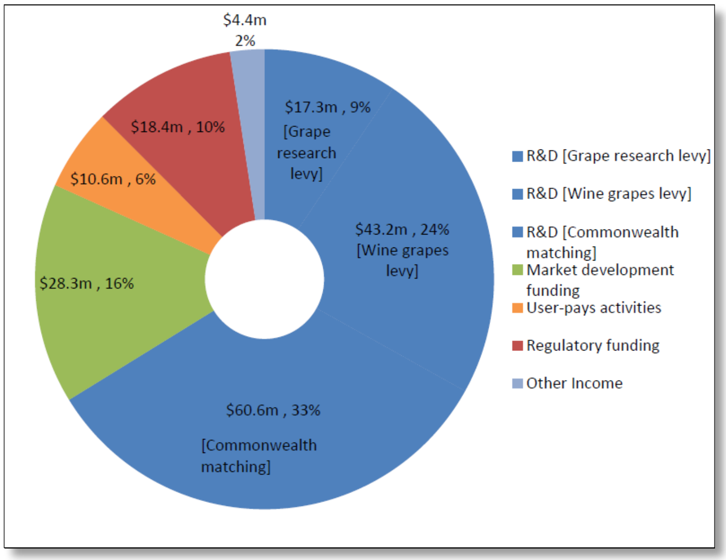
	2012/13	%
Wine grapes levy	3.235	
Export levy	2.142	
Levy Receipts WAC	**5.377**	**31%**
Grape Research Levy	3.354	
Wine grapes levy	8.385	
Levy Receipts GWRDC	**11.740**	**69%**
Total	**17.117**	**100%**
Wine grapes levy	11.621	
Export levy	2.142	
Winemakers/Wine Exporters	**13.763**	**80%**
Grape Research Levy	3.354	
Grapegrowers	**3.354**	**20%**
Total	**17.117**	**100%**

Of significance to AGWA is the fact that funding streams are tied to certain activities, which imposes constraints on its flexibility in allocating resources. They are committed to using their funds as effectively as possible and constantly seeking the best return for the wine sector's and Australian Government's investment. See the table below on AGWA's projected income 2015-16 to 2019-20 and chart on AGWA's projected income over the five years to 2020 by funding source:-

Projected income 2015-16 to 2019-20 (assuming 2% growth p.a. in wine export charge)

	2015–16 $m	2016–17 $m	2017–18 $m	2018–19 $m	2019–20 $m	Total $m
Grape research levy	3.5	3.4	3.4	3.4	3.4	**17.3**
Wine grapes levy	8.8	8.6	8.6	8.6	8.6	**43.2**
Commonwealth matching	12.8	11.9	11.9	11.9	11.9	**60.6**
Total RD&E Funding	**25.1**	**24.0**	**24.0**	**24.0**	**24.0**	**121.0**
Market development funding (assuming 2% growth in wine export charge)	**5.7**	**5.6**	**5.6**	**5.7**	**5.7**	**28.3**
User-pays activities	**2.1**	**2.1**	**2.1**	**2.1**	**2.1**	**10.6**
Regulatory funding	**3.6**	**3.6**	**3.7**	**3.7**	**3.8**	**18.4**
Other income	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**4.4**
	37.3	**36.2**	**36.3**	**36.4**	**36.5**	**182.8**

Projected income over the five years to 2020 by funding source



At this point in time, it would be difficult to redistribute research and development funding from within AGWA to cover the required effort to lift demand for Australian wine in key overseas markets. An explicit commitment to the Australian wine industry made by Government and WFA/WGGA to gain support for the merger of the two statutory authorities to create AGWA was to quarantine R&D levies and the supporting co-contributions from Government for R&D projects and this was reflected in the enabling legislation for the merger. It is unlikely at this time that industry would support such a redistribution of levy funding and any change would require significant industry consultation and legislative reform as required under the Act. Further, the redistribution would not be sufficient to cover the required marketing effort to lift demand.

WFA will continue to work closely with AGWA to help ensure the spending on marketing and R&D for the wine industry, that is derived from existing levies, is effective. WFA's consultation with AGWA on the implementation of their Annual Operating Plan and their 5 year Strategic Plan will support this objective.

A recent proposal to introduce a levy on consumers of wine is not supported by industry. Leaving aside the complexities of collection (and cost of collection) and distribution of any new levy, the industry regards growth in exports as the key opportunity to alleviate domestic supply/demand imbalance and a return to industry profitability. However, this can only be realised with the provision of additional government funds for marketing to help grow the demand opportunity. WFA continues to advocate for a special allocation of government funding to AGWA for this express purpose.

Levy collection costs for the Australian Grape and Wine Authority

Australian Grape and Wine Authority (AGWA) is funded largely through levies that are collected under the *Primary Industries Levies and Charges Collection Act 1991.* The Department of Agriculture has responsibility for levies collection of behalf of the Australian government and they deduct from the levies collected the costs of collection. The industry and AGWA have worked with the Department of Agriculture over recent years to reduce this cost of collection, but it still remains prohibitive (Table 1).

Table 1: Levy collection costs for the Australian Grape and Wine Authority

Year	**2011-12**	**2012-13**	**2013-14**	**2014-15 (est.)**
Collection costs	$956,183.44	$1,093036.63	$1056,530.42	$961.087.50
Levies Disbursed	$17,183,774	$17,116, 821	$18,486,133	$17,49, 000

Source: Department of Agriculture

It appears that most of the efficiency gains possible by the Department of Agriculture have now been made. Any future reductions in the cost of levies collection will come from either:

1. Increasing the efficiency of levy collection through changing the provider; and/or
2. Reducing the complexity of the levy collection system by reducing the number of levies and/or collection points.

AGWA believe that they can make a substantial cost saving from collecting the export levy directly, given they already operate an export licence system and collect FOB export values through our Wine Export Approval System. We believe this reform will deliver a more efficient and effective collection system, with the expected savings of approximately $200K to $250K per annum being available to provide enhanced services for the grape and wine sector.

It is our understanding that the *Primary Industries Levies and Charges Collection Act 1991* provides the Secretary of the Department with power to authorise another body such as AGWA to assume responsibility for levy collection, but he is required to consult with the relevant industry body before any changes are made.

WFA and WGGA have both expressed their support for this initiative and will continue to work with the Australian government and AGWA to achieve this outcome.

Reducing the complexity of the levy collection system is a far more complex task and to provide equity and efficiency gains mean that it is a longer term option. This would of course require wide industry consultation and compliance with the Levy principles.

Recommendation 4: Compulsory agricultural levies continue to be the primary funding source of the wine industry's RD&E and base marketing needs.

At this point in time, it would be difficult to redistribute research and development funding from within AGWA to cover the level of spending required to left demand for Australian wine in key overseas markets. It is unlikely at this time that industry would support such a redistribution of levy funding and any change would require significant industry consultation and legislative reform as required under the Act. In addition, such an action would contravene an agreement reached between the Government and the industry upon the creation of AGWA, which was to safeguard the reappropriation of RD&E funds for marketing. Further, any redistribution of existing funds would be insufficient to cover the required marketing effort to lift demand.

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APPENDICES

Appendix 1: Who We Are and Snapshot of the Australian Wine Industry

Who we are

The Winemakers' Federation of Australia (WFA) is the peak body for the nation's winemakers.

We represent and protect their interests, speak on their behalf and help them maximise opportunities so they can build resilient businesses and a profitable and sustainable industry that continues to win praise at home and around the world.

We are the first point of contact for Governments and the avenue through which the industry's views on policy and funding issues are heard. Our members set our agenda and fund our activities which serve to benefit the entire Australian industry, members and non-members alike. Membership is open to all Australian wine producers and we welcome the support of industry partners.

Our objectives are:

- to represent the interests of Australian winemakers and grape growers of all sizes on national and international issues affecting the Australian Wine Sector, through a single organisation;
- to actively promote and protect the reputation and success of Australian Wine and the Australian Wine Sector;
- to encourage unanimity of opinion and action amongst members in all national and international matters pertaining to the Australian Wine Sector;
- to initiate legislative or other regulatory activity, or Government response or action, or otherwise facilitate any outcomes, deemed desirable by the Association for the benefit of the Wine Sector in Australia;
- to provide a medium through which opinions of members may be ascertained or expressed;
- to provide relevant information to members;
- to foster co-operation and goodwill between viticultural and oenological research and education bodies and all other bodies relevant to the Australian Wine Sector;
- to encourage good practice and standards of winemaking and wine business management within the Australian Wine Sector;
- to administer funds collected from members in support of the activities and objects of the Association;
- to protect and enhance community and Government support for the Australian Wine Sector;
- to promote economic, environmental and social responsibility in the production and consumption of wine in Australia; and
- to promote the interests of the Association and to do all such other lawful things as the Association may consider incidental or conducive to the attainment or advancement of the objects of the Association.

WFA is formally recognised as the industry's voice under the *Primary Industries and Energy Research and Development Act* and the *Australian Grape and Wine Authority (AGWA) Corporation Act*. WFA is incorporated under the *SA Associations Incorporation Act 1985.*

WFA membership represents some 80% of the national wine grape crush, with more than 370 winery members who directly fund the organisation's national and international activities.

WFA equally represents small, medium and large winemakers from across the country's wine-making regions. Each group has an equal voice at the Board level. WFA Board decisions require 80% support so no one sector can dominate the decision-making process. In practice, most decisions are determined by consensus.

WFA works in partnership with the Australian Government and our sister organisation, Wine Grape Growers Australia (WGGA), to develop and implement national policy that is in the wine sector's best long-term interests.

WFA's activities are centred on providing leadership, strategy, advocacy and support that serves the entire Australian wine industry, now and into the future.

Snapshot of the Australian Wine Industry			
Wine Producers			
Wineries		Value	% change over last 12 months
2014	number	2,573	-3.6%
# Decrease	number	92	
Wineries by Size of Crush (2013)			
< 500 tonnes	number	2,244	0.04%
500-4,999 tonnes	number	177	-2.3%
5000-9,999 tonnes	number	14	-12.5%
>=10,000	number	28	-9.7%
Unspecified	number	110	0.9%
Direct Employment			
2014-15	number	16 186	0.4%
Viticulture			
Winegrape Crush			
2014	'000 tonnes	1 700	-7.4%
Winegrape Price			
Australian average, all varieties (2014)	$A	441	-11.6%
Environment			
Water Use (2012-13)			
Megalitres per hectare	ML	2.52	21.7%
Beverage Wine Production			
2014	million litres	1 202	-2.4%
Sales & Trade			
Domestic Sales - Volume			
2013	million litres	459	1.0%
Domestic Sales - Value (wholesale,using fob prices)			
2012-13	$A million	2 369	-5.0%
Imports - Volume			
2013	million litres	83	-1.2%
Imports - Value			
2013	$A million	610	9.0%
Exports - Volume			
2014	million litres	700	2.0%
Exports - Value			
2014	$A million	1 820	2.0%
Exports - Value per Litre			
2014	$A/litre	$2.60	0.0%
Wine as % of total value of crops export (fob)			
2013-14	%	8%	
Wine Exports' Ranking on major agricultural, fisheries and forestry commodities exports			
2012-13	ranking	6th	
Australian Wine's Contribution to Value of World WineTrade (2012)			
Ranking	ranking	4th	
%	%	6%	
Tourism			% market share
International visitors to wineries (year ending Sep 2014)	no.of people	696 602	11.0%
Domestic visitor overnight trips to wineries (year ending Sep 2014)	no. of trips in million	3	4.0%
Estimated tourism revenue generated from international and domestic visits (year ending Sep 2014)	$A billion	8.20	
Consumption			
Wine Consumption Per Capita			
2012-13	litres	29.11	-2.30%
Taxation			
Net Wine Equalisation Tax 2013-14	$A million	766	3.0%

Sources: *ABARES Commodity Statistics, Australian & New Zealand Wine Industry Directory, IBISWorld Industry Report, Tourism Australia, Entwine Member Database, ABS Domestic Sales and Import Statistics and Wine Australia Export Approval Database via Winefacts Statistics; ABS Catalogue No: 1329.0 Australian Wine and Grape Industry, ABS Catalogue No: 8504.0 Shipments of Wine and Brandy in Australia by Australian Winemakers and Importers, , ABS Catalogue No: 4307.0.55.001 Apparent Consumption of Alcohol ,Wine Australia and Treasury (Budget and Mid-year Economic and Fiscal Outlook), Aztec Report; Australian Taxation Office, Taxation Statistics; WFA analysis*