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

3rd October, 2016

Anthony Fikkers, Fikkers Wine

As a wine producer concerned with the future of our industry, I feel it important to participate in the consultation process regarding proposed changes to the Wine Equalisation Tax rebate, and in particular the definitions of ‘eligible producer’ under the act. My response to the Government’s discussion questions are as follows:

1. **For rebatable wine, is the proposed definition of packaged and branded wine appropriate?**

Yes, the definition of packaged and branded wine is appropriate.

**If a trademark approach is used, what types of trademarks should be permitted (e.g. exclusively licensed trademarks) and what would be the impact?**

Common law and registered trademarks should be permitted, licenced trademarks permitted unless they entitle one business or associated businesses access to multiple rebates.

1. **For eligible producers, how should a winery ownership and leasing test be applied? What should be the nature and extent of investment in the wine industry required to access the rebate, and how can this be implemented?**

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

1. **What is the impact from a 1 July 2019 start date of the tightened eligibility criteria? How might this change from an earlier transition period?**

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

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

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

I am a sole trader running a small wine business. I’m the only person working in the business so my role includes everything from winemaking to bookkeeping to marketing. I have been producing 1400 cases of wine for the past two vintages (2015 & 2016) which has increased from my initial production of 100 cases in 2010. This increase has come solely from my savings and hard work, all the money that I make from the business has been put back into it over the last six years to increase production (I’ve made no profit even with the WET rebate but feel that I’m building a legitimate business). I purchase all my grapes from growers in the Yarra Valley and rent space in a winery (Seville Estate) to make the wines myself. I use a distributor (Imbibo) to sell my wine across five states in Australia and most of this wine is sold to ‘on premise’ venues. My prices range from $12.80 to $18.20 (per bottle) wholesale.

I started in the wine industry in 2000. I have gone onto gain two undergraduate degrees in Winemaking and Viticulture and have worked 19 vintages (in Australia and overseas) in that time. I’ve held positions including, cellar hand, Assistant winemaker and Winemaker in multiple Australian wine regions. I currently work three days per week in an Assistant Winemaking role to supplement my income. My winery has recently been included in the ’10 best new wineries’ in James Halliday’s 2017 Wine Companion.

In 2016 I purchased grapes from five separate growers (19 tonnes in total) paying an average of $2000 per tonne (premium prices). These growers are small in scale and rely on small wine producers like me to purchase their fruit as the bigger companies generally won’t deal with these small growers. I rent space at a winery in the Yarra Valley, Seville Estate. I supplement Seville Estate’s income by making use of underutilised winery equipment and space. Other businesses that rely on small and medium sized wineries include the mobile bottling lines that I use and my distributor (Imbibo) whose portfolio is made up of small producers like me.

The potential loss of the WET rebate would make my business unprofitable. My business turnover was approximately $80,000 last year; I can’t afford to give up $23,000 of that to the government before deductions. I’d be forced to shut my business down if the WET rebate was taken away from me as I don’t have the funds to lease an entire vineyard or winery or run a cellar door. In the years since my business’ establishment I’ve not made a profit. This is because all funds generated go back into the business so hopefully one day I can make a modest living from it.

I make wine because I love doing it and I don’t take for granted that for the last 15 years I’ve made a living out of doing it (for other companies). Part of the reason that I decided to start my own business was to make some extra money in an industry where University educated professionals get paid poorly (in 2007 – post graduating with a Bachelor of Science in Wine Science - I was paid $35,000 for the year as a full time employee expected to work many overtime hours during vintage). It has evolved to the point where it’s my insurance against the lack of jobs in the industry. If I don’t have my business, I find it unlikely that I’d be able to find full time employment. Without full time employment, myself and many other trained wine makers would probably have to retrain.

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

Independent financial modelling undertaken by PWC for the Winemakers Federation of Australia has clearly demonstrated that almost all of the so called ‘rorting’ of the rebate and recuperation of lost taxation revenue can be remedied by simply eliminating the rebate for bulk and unbranded wine, and by tightening the rules regarding ‘associated entities’ claiming multiple rebates.[[1]](#endnote-1) I, my regional association, state association and national industry body are all supportive of these measures.

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

*“The business owns or leases one out of three of a vineyard, winery (production facilities or fermentation facilities) or cellar door outlet*” [[2]](#endnote-2)

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

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

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

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

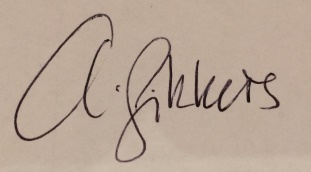
Sincerely,

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1. PWC report to WFA, Appendix F: *Returning WET Rebate to Fairness and Original Policy Intent - Supporting Advice on the Impact to Government Revenue,* 2015, pp iii-vi [↑](#endnote-ref-1)
2. *Wine Equalisation Tax Rebate Consultative Group report* October 2015, p 5. [↑](#endnote-ref-2)