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

7th October, 2016

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On the definition of Eligibility for the WET rebate, I strongly disagree with the Government position that an Eligible Producer must own or lease a winery, vineyard or cellar door.

If implemented, this will discourage innovation by small producers at a time when precisely these producers are at the forefront of promoting the Australian wine scene as vibrant, creative and foreward-looking.

Here are two reactions to Wine Australia’s recent *Artisans of Australian Wine* tasting in London, showcasing small up-and-coming producers:

‘It's the most important tasting you've done in 20 years’ – Oz Clark, wine writer.

‘Modern Australian winemaking is iconoclastic, inquisitive, dedicated to the land. Like their forebears these winemakers tap into a well of accumulated knowledge, and push on ahead.’ - Adam Lechmere, wine writer.

An asset test approach to eligibility would be complicated, unwieldy and inequitable, and would negatively effect many small, innovative producers.

If the WET rebate is seen by some as a reward for those who have invested capital in wine regions, it should be noted that *every small producer who buys grapes from a vineyard is supporting that grower’s capital investment; and every small producer who uses a contract winery to make their wine is supporting that winery’s capital investment.*

In other industries, government policy aims to promote more efficient, less capital intensive business models. Why would the government seek to encourage small wine producers to unnecessarily invest in production infrastructure? Why would it try to drive small producers into an unsustainable, over-capitalised production model, rather than free that capital to be used for R&D and export promotion, and to support vineyard improvement through paying higher prices for grapes?

At the very least, there should be an asset test free level of WET rebate (e.g. $125,000 p.a.) to support small, innovative producers. I do not believe it should be time limited, as some have suggested, as many small producer projects co-exist with their employment at a larger winery, so the individual is unable to grow production to a scale where it is self-sustaining. It is important that such a rebate should be indexed, and not reduce in value year on year.

I have worked in the wine industry since 1997, but only in the past two and a half years have circumstances made it possible to pursue my own wine label as an independent business. In 2016, I sourced fruit from 21 different growers in Western Australia, typically paying 50-100% above the average market price per tonne. In the Great Southern region, my production costs go direct to many local businesses for goods and services, including a contract winemaking facility (Forest Hill), a contract filtration and bottling facility (Rockcliffe Winery), Labels, Packaging and Dry goods (Cospak, Activ Industries), warehousing and freight (Farr Transport), Australia Post and couriers, fuel and vehicle servicing.

Over the past two years, I have purchased storage vessels, barrels, transport and winery equipment (basket press, bottling filler, pumps, hoses) costing tens of thousands of dollars, investment which I assume would count for nothing in asset-based WET eligibility criteria.

La Violetta Wines already exports to Japan, the UK and Singapore, however loss of WET rebate eligibility would utterly destroy our ability to compete in the domestic market, which underpins our ability to seek and grow export markets.

To summarise, I quote the producers from @heartinthegame, Dave Mackintosh – Arfion, Damian North – Journey Wines, Rory Lane – The Story, and Samantha Connew – Stargazer:

“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.”

I don’t own a winery building, or a vineyard, or a cellar door, but if, as someone who picks with my own hands the grapes I buy, and literally crushes and presses them with my own bare feet, using equipment I purchased myself; if I don’t qualify as a legitimate wine producer, then something is very, very wrong.

Sincerely,

Andrew Hoadley