YOUR MARGARET RIVER REGION

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The Treasury
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Via email: wetrebate@treasury.gov.au

Dear Sir/Madam

Response to the WET Rebate Reform Implementation Paper

The Margaret River Busselton Tourism Association (MRBTA) is a self-funded, not-for-profit membership based organization, representing more than 780 local businesses in The Margaret River Region's tourism and hospitality sector.

In addition to our representation of these local tourism operators, we are also responsible for high quality, award-winning visitor servicing through our Visitor Information Centres located in the towns of Busselton, Dunsborough, Augusta and Margaret River. Through these centres, our airport ground handling operations and our various cave and lighthouse attractions throughout the region, we come into contact with over 850,000 of the 1,100,000+ visitors who visit this region annually.

I am writing on behalf of the local tourism industry, being our operators and stakeholders, which includes 128 Wine industry members (producers and commercial enterprises) aligned and affiliated with the Margaret River Wine Region.

Wineries and the wine industry is the cornerstone of the Margaret River Region. The region is renowned for its premium wines, and is characterized by small boutique wineries which focus on producing a premium product. These businesses form an integral part of the regional economy and generate significant employment and economic activity, whilst also supporting the local tourism economy.

Given that the proposed reforms to both WET and the WET Rebate have potential implications not only for wineries in the Margaret River Region, but the tourism industry and the local economy as a whole, MRBTA would like to submit a response to the Wine Equalization Tax (WET) Rebate Reform Implementation Paper.

Rebatable Wine – Proposed Definitions of Packaged and Branded Wines

MRBTA supports the WET Rebate reforms which seek to eliminate any market distortion that may occur through the application of the rebate to bulk and unbranded wines. As such, we support the tightening of eligibility criteria for the rebate so that it is restricted to packaged and branded wine.

MRBTA does not have a view on the types of trademarks that should be permitted.

Investment in Wine Industry Required to Access Rebate

MRBTA believes the proposal that a producer must own an interest in a winery does not fully recognise the many legitimate business models used by smaller wine producers. Furthermore, changing the eligibility criteria so that only producers with an interest in a winery can claim the rebate will disqualify over half of the small producers in Western Australia from claiming the rebate.

One of the hallmarks of the wine industry in this region has been its capacity and enthusiasm for innovation. There are many exciting, genuine and innovative winemakers and wine businesses for whom owning or leasing an interest in a winery is simply not part of their business plan, and for whom part of their ability to innovate and grow their business rests on the fact that they have not invested their capital in a winery. This allows them to explore new winemaking methods and styles without being tied to particular infrastructure, and of putting their often very limited capital to use in ways that are more nimble and innovative.

As such, MRBTA supports the view that there should NOT be an assets test associated with eligibility for the rebate, particularly with respect to small producers. It is our view that existing eligibility criteria should instead be expanded so that producers must:

i) operate from a place of business in a wine region, and
ii) maintain ownership and control of the grapes from which wine is made from the crusher to the finished bottled and branded product.

Impact of Timings

It is MRBTA's understanding that the transition period required to implement revises WET Reforms, will depend on the extent of the changes to the eligibility criteria and how many businesses are affected.

If the criteria include a winery ownership or leasing test (which we are opposed to for the reasons stated above), the transition period would need to be significantly longer than 2 years, given the level of restructuring that many businesses would face. For around half the wine producers in Australia, it would mean an expensive and wholesale restructuring of their businesses, or an orderly exit from the industry. A four year transition period would be more appropriate if a winery ownership test was adopted.

Additional comments and considerations

It is MRBTA's understanding that the WET reforms will have a disproportionate impact on smaller wineries. Firstly, WET as a value based tax results in a substantially higher tax being paid on high value fine wines, relative to lower value wines and therefore places smaller fine wine producers – like those in the Margaret River region - at an enormous disadvantage relative to larger lower cost producers. Furthermore, while larger wineries may be able to absorb the reduction in the rebate cap, it will make a significant impact to finances of smaller wineries.

Research undertaken by RSM Australia on behalf of Wines of Western Australia, estimates the proposed Wine Equalisation Tax (WET) Rebate Reforms will see around $18 million per annum removed from the WA regional wine community, being $9.9 million from the proposed changes to eligibility criteria and $8 million from cap reduction. The research indicates 50% of wineries will implement job cuts and that the greatest impact of changes will be felt in Margaret River.

MRBTA believes the Government should also give consideration to the WET Rebate cap in the consultation process and focus reform on restoring the original intent of the WET Rebate (i.e. to support smaller wine producers in regional and rural Australia with domestic sales).

The proposed reduction in the cap will damage the viability for legitimate producers and their ability to invest in their businesses. As such, it is our view that the overall rebate of $500K should be maintained, but refocused so that the full rebate amount is only available on cellar door or direct sales. A limit on the rebate, within the cap, could be introduced and available for wholesale sale at $350K, transitioned in over 4 years.

Given the significantly negative social and economic implications of the WET Rebate Reforms to the Margaret River Wine Region and our community, we urge the government to consider reviewing the rebate changes. Rather than adding complexity to the WET Rebate system or reducing the amount of rebate available, reforms should aim to provide a simpler and fairer system based on volume of wine rather than value of wine, without prejudicing the sustainability of regional wine communities.

Yours sincerely

Pip Clo

Pip Close
Chief Executive Officer
Margaret River Busselton Tourism Association
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