April 2017

WINE TASMANIA SUBMISSION TO THE AUSTRALIAN GOVERNMENT'S DRAFT TREASURY LAWS AMENDMENT BILL 2017: WINE EQUALISATION TAX

Introduction

Wine Tasmania welcomes the opportunity to provide input on the draft Wine Equalisation Tax (WET) Amendment Bill. Wine Tasmania has supported changes to eligibility for the WET rebate, in order to refocus it on its original intent of assisting genuine small regional wine producers. Wine Tasmania does not support a reduction in the WET rebate and has consistently stated that a reduction in the rebate cannot be considered separately to the overall structure of wine tax.

The Tasmanian wine sector is being held up as the country's benchmark wine region - it is realising some of the highest value for its wine grapes and bottled wine (in some cases five times the national average), it is undertaking significant growth and attracting new investment, it is one of the top three motivations for people choosing to visit Tasmania (with more than 1 in 5 of all visitors calling into a cellar door during their stay), it directly employs around 1,500 FTEs (with many more indirectly throughout regional areas), and it is a major contributor to the Tasmanian Brand, with increasing global recognition for the quality and uniqueness of its wines.

This high value has been achieved based on wine quality, and should not be mistaken for profitability. Tasmania has higher average costs of production, including hand harvesting and pruning; a longer ripening period requiring extended labour; significant vintage variation due to our cool climate and impacting on the volume of wine available to sell; and high freight costs in terms of both shipping in dry goods, machinery (etc) and shipping out bottled wine. Tasmania's total wine production averages just 600,000 dozen per year, and all of our wine producers are therefore producing small volumes of wine.

The success of the Tasmanian wine sector is in spite of the many challenges and risks we confront in Tasmania, and the Australian Government's proposal to increase the net tax through the rebate reduction threatens to arrest the Tasmanian wine sector's growth.

Tasmanian Wine Sector

- Availability of Tasmanian wine (2016) -1.1M 9 Litre Equivalents, +17% based on five year average
- Average value of Tasmanian wine grapes - $2,707/tonne + 5.5% on 2015 (national $526/tonne)
- Average value of Tasmanian wine (domestic off-premise) - $22.36/bottle (national $10.87/bottle)
- Average value of Tasmanian wine (exports) (2016) - $13.66/litre (national $5.48/litre)
- Interstate / international visits to Tasmanian cellar doors (2016) - 262,233 people, 21% of all visitors and +23% on 2015
- Overall yield in Australian cool and temperate regions (latest ABS Vineyard Census for 2012/13) - Tasmania +14%, national -11%

Wine Tasmania

Wine Tasmania is the peak representative body for Tasmanian grape growers and winemakers, with voluntary membership representing more than 98% of Tasmania's wine production. Established in 2006, Wine Tasmania operates against a clear and consultative Strategic Plan, overseen by the skills-based Wine Tasmania Board.

Proposed Rebate Reduction

Wine Tasmania notes that the proposed reduction in the rebate from $500,000 to $350,000 per producer is at odds with the Government's statement that the amendments *"are intended to support the Australian wine industry by ensuring that wine producers who build brands, invest in regional communities and create local jobs are the beneficiaries of the rebate and not wine traders and retailers"*. So too is the continuing eligibility of New Zealand wine producers to access and claim this rebate.

The Australian Government also states that reforms to the WET rebate is to address *"industry concerns about distortions in the market through the misuse and exploitation of the WET producer rebate"*. At no stage did the Australian wine sector request a reduction in the rebate. In fact, the Australian wine sector voluntarily proposed changes to the rebate eligibility, including its removal from bulk and unbranded wines, which will add an estimated $200M+ over four years to Government revenues.

Whilst the Government has announced an additional $50M in wine marketing and tourism initiatives and also proposed a new Wine Tourism & Cellar Door Grants program, proposed to be capped at $10M (although Wine Tasmania has recommended this be increased to $20M), it is still adding to its wine tax revenues and applying a net tax increase of $50,000+ to producers currently claiming the full rebate.

It is not perhaps understood that the proposed reduction of the wine tax rebate impacts small, high value producers, such as those in Tasmania. With wine being based on its value, this significantly impacts Tasmanian wine producers who sit in the top 10% of Australia's highest valued wines on the basis of our wine quality. High quality Tasmanian producers don't need to be very large to reach high value sales, more quickly reaching the rebate cap than wine producers elsewhere that may be two or more times their size, but have lower value wines.

If you look at average wine values, the conservative wholesale value of Tasmania wines is $132/dozen compared with $65/dozen as the national average. A Tasmanian wine producer would therefore only need to be selling 13,000 cases to reach the current rebate cap ($500,000), which represents less than 200 tonnes and is unquestionably a small producer.

The rebate on tax was introduced specifically to support small, regional wine producers, and has offset the tax impost for Tasmanian wine producers to a degree, however several Tasmanian wine producers now exceed the rebate cap and are paying 29% on the high value of their wines. The proposed reduction to the rebate will have an additional negative and disproportionate impact on the island's small, high value wine producers.

In Tasmania, there at 18 wine businesses that are effectively having their net tax increased - all of whom are building brands, growing their investment in regional communities and represent the majority of employment in the Tasmanian wine sector. These wine producers are being penalised for being successful and are the very businesses the rebate was designed to support.

Over the next 2-3 years, if they continue their current rate of growth, a further 15-20 Tasmanian wine producers would be negatively impacted - this is perhaps the greatest, hidden impact of the proposed rebate reduction - it has the potential to inhibit future growth.

Changes to Eligibility

Wine Tasmania’s comments on the Government’s proposals to restrict rebate eligibility follow:

- Producers maintain ownership through the winemaking process, with 85% of the final product originating from source product that was owned by the producer. ***Wine Tasmania supports this in principle, but questions how it will practically be assessed.***

- Proposed amendment to the definition of a ‘producer’ (Section 33-1 - definition of a producer), which states that the producer “means an entity that manufactures the wine” - this will negatively impact on the many grape growers that have their wine contract processed, effectively making them ineligible for the rebate, although this is not understood to be the Government’s intention. ***Wine Tasmania does not support this change - it should be removed or reworded to ensure that growers who have grapes they own contract processed continue to be eligible for the rebate.***

- Producers have branded by a registered trademark or common law trademark if a registered trademark is not possible. ***Wine Tasmania supports this in principle, but understands that legally a trademark that is incapable of registration may also be incapable of functioning as a common law trade mark.***

In Tasmania, there are several wine producers that incorporate a place name into their brand (eg. Freycinet Vineyard, Coal Valley Vineyard, Relbia Estate, Derwent Estate) that may not be able to register a trademark. Initial consultative discussions suggested that a register of such wine producers could perhaps be maintained by Wine Australia, thereby ensuring these producers continue to be eligible for the rebate, but do not need to resubmit evidence on an annual basis, as proposed in the Government's draft Bill.

- It is understood that the Government proposals aim to more closely link the WET paid with the producer rebate, however the proposed changes to the quoting system appear to be impractical, even more complex, create an additional burden on the wine producers the rebate is intended to support and remove the rebate from some transactions, which create a WET liability and should be eligible. For example, a producer may sell wine to another producer for blending, or to a purchaser who on-sells that wine under quote or diverts it to export. In the first two scenarios, a WET liability is incurred without the producer receiving the associated rebate. ***Wine Tasmania notes that the Government proposal is not practical as drafted, and needs to be reviewed and redrafted.***

- Whilst understanding that the criteria limiting packaging size to 5 litres is intended to remove the rebate from bulk wine, Wine Tasmania notes that the sale of wine in kegs is increasing in popularity, providing a cost effective, practical and environmentally-friendly format, which should not be penalised. ***Wine Tasmania recommends this is increased to 51 litres, as per cider and perry.***

Additional Comments

Wine Tasmania and the island's wine producers appreciate the opportunity to be part of the consultative process over the past year since the Australian Government's original announcement on proposed changes to wine taxation. The revised position of the Australian Government in delaying the introduction of changes by a further year, restricting the rebate reduction to $350,000 and the introduction of the new wine tourism and cellar door grants program is recognised as a vast improvement. The additional funding support for marketing and regional tourism initiatives is also acknowledged as part of these broader discussions.

However, Wine Tasmania and the island's producers simply cannot understand or accept the Australian Government's proposal to increase the net tax paid by several of its wine businesses - those representing the majority of regional employment, and in light of the Tasmanian wine sector's growth and contribution to the Tasmanian economy, tourism, investment, regional communities and brand.

The proposed changes to the rebate eligibility definitions, as well as the new Wine Tourism and Cellar Door grant is contributing to the complexity of the wine tax structure and associated compliance requirements and resourcing. Whilst well intentioned, the wine tax system continues to become more and more complicated. ***Wine Tasmania recommends ongoing consideration and discussion on the broader structure and impact of wine taxation.***

Contact:

Sheralee Davies, Chief Executive Officer

Wine Tasmania

147 Davey Street, Hobart TAS 7000

Phone: 03 6223 3770

Email: sdavies@winetasmania.net.au