WINE EQUALISATION TAX REFORM CONSEQUENCES

Report on the Survey Results commissioned by Wines of WA

Survey Completed by WA Wine Businesses in May 2016

10 June 2016

CONTENTS

1. EXECUTIVE SUMMARY

This report shows there will conclusively be significant impacts on the wine industry in Western Australia with a loss or reduction in the WET Rebate. There can be no doubt the impact will be disproportional in Western Australia. There is a perfect storm of unintended consequences. Western Australia will have 50 wine businesses feeling the immediacy of the cap reduction combined with grape growers who are adjusting to the removal of bulk and unbranded wine, and WA's lower than national wine export levels, will see a period of extreme rationalisation.

The major findings from the survey were:

1. There were 194 (55%) of the estimated 350 wine businesses in WA responded to the survey, these 194 represent 85% of the production;
2. There were an estimated 2,157 full time jobs in the 194 respondents;
3. 84 (43%) of respondents said they have no interest in a winery;
4. 79 (41%) of respondents said they have an interest in a vineyard but no interest in a winery;
5. 131 (68%) of respondents felt they would require an unsustainable price increase to compensate for the reduction in the rebate;
6. 98 (50%) of respondents felt they would reduce the number of people they employ with a WET Rebate reduction;
7. More than one in ten WET Rebate claims are over $290,000 in Western Australia – contrary to the budget announcement. 29% of the claims over $500,000 are in Western Australia meaning Western Australia will be disproportionately affected by the cap reductions;
8. 47 (24%) will require an exit from grape supply agreements;
9. WET Rebate lost to Western Australia each year via the cap reduction is estimated to be $8m.

Many in the industry have great concerns with the proposed changes. These vary in degree depending on the size of the business. The many 'free hand' comments to the survey (Appendix 2) demonstrate the uncertainty that currently exists with the very limited information that has been released so far. As one respondent put it "The difference between 29% to nothing is going to create huge debate within family businesses as to if the wine industry is viable to be involved with".

There are also those that support the changes, although significantly fewer in number. The Government has said they recognise there are a range of wine production models in the wine industry, including wine growers who have a real investment in the industry, but may not own equipment for crushing and fermentation.

The Government has also said it will hold meetings with stakeholders in major wine producing regions. This report shows the Government needs to exhaustively investigate the changes they propose and consult widely as their decisions will significantly impact negatively the regional wine communities of Western Australia.

2. 2016 FEDERAL BUDGET ANNOUCEMENT

The 2016 Federal Budget announced ‘The Coalition Government will address integrity concerns with the wine equalisation tax (WET) rebate and better target support by reducing the WET rebate cap and tightening eligibility criteria. The Government will also provide more support for export and regional wine growers.’

Tax Fact Sheet 10 of the 2016 Budget went on to say a number of things:

a. A phased reduction of the cap will help affected winemakers transition to the new arrangements;
b. Under tightened eligibility criteria, a wine producer must own an interest in a winery and sell packaged, branded wine domestically;
c. The Government will undertake consultation to settle final details on the tightened eligibility criteria, including the definition of a winery;
d. The Government will also provide $50 million over four years to the Australian Grape and Wine Authority (AGWA) to promote Australian wine overseas and wine tourism within Australia to benefit regional wine producing communities.

On the 6th May 2016 a joint media release was issued by the Assistant Minister for Agriculture and Water Resources, Senator Anne Ruston and Minister for Small Business and Assistant Treasurer, Kelly O’Dwyer which explained further ‘the plan to strengthen the Wine Equalisation Tax Rebate integrity rules to put the wine industry in a stronger, long-term position’.

The media release went onto say ‘The additional tightened eligibility criteria will limit access to the WET Rebate to packaged, branded wine which is for sale to domestic consumers. This will exclude bulk and unbranded wine from the WET Rebate. The new criteria will also restrict access to those with a significant interest in a winery’.

3. WINES OF WA RESPONSE TO THE BUDGET

Wines of WA felt they did not have suitable data to be able to comment intelligently on the proposed changes with particular knowledge on how their members were to be affected.

The announced reduction in the WET Rebate from a maximum of $500,000 to $350,000 on the 1 July 2017 and finally to $290,000 on the 1 July 2018 may have significant cash flow implications for many businesses. The Federal Budget Tax Factsheet 10 stated that ‘nine out of ten claims are below $290,000’. Wines of WA were keen to test this claim over their member base.

The definition of a winery was also deemed important as it was suspected there were many producers who may not fit the initial criteria.

They determined a survey of their members would be an appropriate way to gather the required data.

4. SURVEY PROCESS AND REVIEW

4.1 Wines of WA Response

Wines of WA listed 18 questions they would like answered (Appendix 1). They felt it was important the information was kept confidential and engaged the services of RSM Australia to interpret the results of the survey. The terms of reference were given as –

‘Evaluating the Economic and Social Consequences of WET reform to the West Australian Wine Industry’

The online survey was opened in the middle of May 2016 and ran for just over 2 weeks.

4.2 RSM Australia Interpretation of Results

Access to the online survey was completed by RSM Australia through their own log-on which was password protected and set by RSM Australia in Busselton.

Consultation with Wines of WA determined the review would concentrate specifically on the answering the two major imposts of the Federal Budget announcement:

- Impact of the WET Rebate cap reduction
- Eligibility criteria for rebate

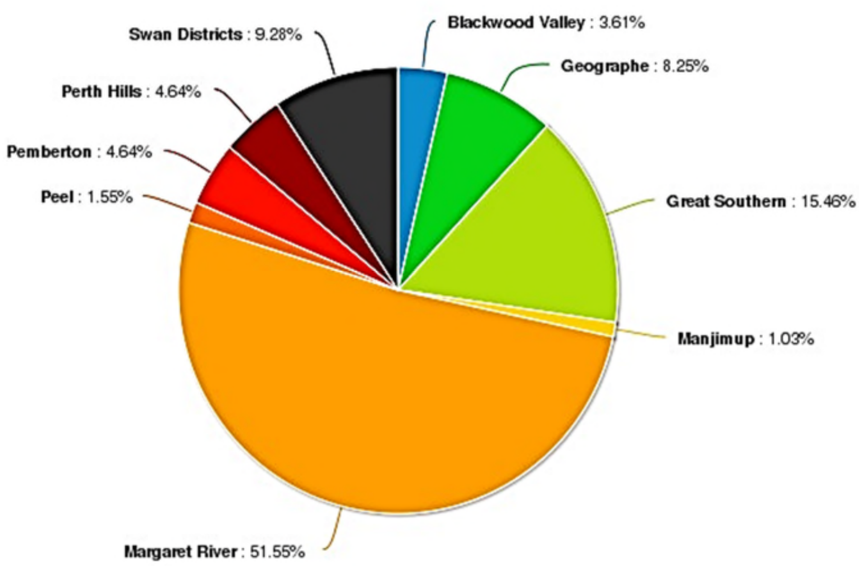
The survey included a number of questions that asked the respondents to answer by selecting a band of numbers. In calculating the dollar impact throughout this report I have used the middle number of the band as being the average for the respondents in that band.

Wines of WA advised the total number of identified wine producers in the state is about 350 from wine industry and liquor license records. There were 194 submissions received on the survey spread across the geographical indications of Western Australia. The non-respondents were reviewed and it was determined the majority of these were smaller producers of under 100 tonnes. There were however 9 identified non-respondents that were over 100 tonnes plus a further 3 non-respondents that were multi-state and/or primarily export.

We have estimated that the survey represents 85% of the Western Australia's production.

Wines of WA advised RSM Australia the survey does not include the 200 grape growers who supply the wine producers in this survey.

Spread of respondents was -



4.2.1 Number of People Employed

Businesses were asked to respond to three employment categories which were split into 7 bands of employment numbers.

The survey showed there was an estimated 2,157 full time people employed by the 194 wine producer respondents which were broken in the employment categories as –

Production (growing grapes and making wine)	875 persons
Sales and marketing, including cellar door sales	715 persons
Management and administration/accounts	567 persons
Businesses that employed no-one	28 respondents (most probably owners)

This survey question was looking at the number of full time employees. It did not look at the part-time or casual employees the industry employs and made no reference to contracted employees that are engaged in the industry.

Vineyards are labour intensive and do require large numbers of people at certain times of the year which are supplied by labour hire companies to a great degree. There are also many flow on jobs that are reliant on the wine producers including bottling lines, freight companies, warehouses, etc. No estimation has been made on these associated jobs.

I note that the Department of Agriculture and Food Western Australia (DAFWA) claim 6000 directly employed people are engaged in the Western Australian Wine Industry.

4.2.2 How many businesses are affected by the new producer eligibility criteria?

The initial announced requirement that to be eligible for the WET Rebate going forwards was, you have to have an interest in a winery is of some concern.

The survey showed:

Business that own a winery	101 (52%)
Business that lease a winery	9 (5%)
Business that have no interest in a winery	**84 (43%)**

If the definition of an eligible producer excludes businesses with no interest in a winery then 84 respondents will not be eligible for the rebate which equates to 1307 fulltime jobs employed by these businesses. This also equates to a potential loss of $9.9m in WET Rebate Claim each year. That is, 43% of businesses that responded would no longer be able to claim.

Wines of WA have estimated of the other 156 non-respondents about 94 do not have an interest in a winery either. The $9.9m above excludes these non-respondents who are believed to be small in nature (under 100 ton).

Business that own a vineyard	169 (87%)
Business that lease a vineyard	10 (5%)
Business that have no interest in a vineyard	15 (8%)
Businesses that have an interest in a vineyard but no interest in a winery	**79 (41%)**
Business that have no interest in a winery or a vineyard	5 (3%)

The survey shows that 41% respondents have no interest in a winery but have invested in a vineyard while a further 3% have no interest in either a winery or a vineyard. These people will be directly affected by the changes announced in the budget.

These 79 businesses represented $10.675m in Cellar Door Sales and $22.65m in domestic bottled wholesale sales. The total WET Rebate claimed by these businesses totalled $9.445m ($119,556 average per business). The full time jobs across these 79 businesses is 572 persons.

The loss of the ability to claim any WET Rebate by these types of businesses would see a large impact on the wine communities of Western Australia if almost $10m in WET Rebate was taken away altogether.

4.2.3 WET Rebate Reduction

The survey included a question that was a statement with a number of questions to it. The respondents could answer all or any one of the questions depending on how they felt a WET Rebate reduction would affect them.

There were some stark responses to this question as it showed 68% of respondents (131 businesses) felt they would require an unsustainable price increase to compensate for the reduction in the rebate. The impact on jobs is of concern as 50% (98 respondents) felt they would reduce the number of people they employ.

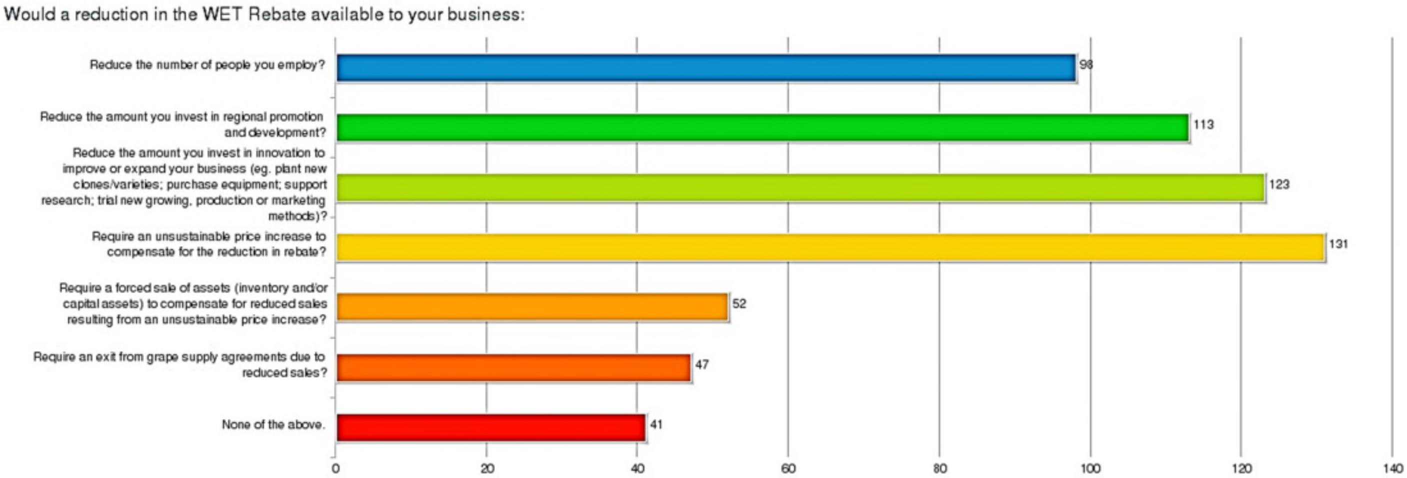
There were 47 respondents that said they would require an exit from grape supply agreements due to reduced sales. This is a concern to grape growers and those small wine producers that supplement their wine business with cash flow from the sale of excess crop.

When this is considered in light of the legal participants claiming on bulk wine now having to evolve their businesses, the surplus fruit that will result over the coming 3-5 years is the "perfect storm". I have identified this issue as a potential disaster to the Western Australian Wine Industry. This type of rationalisation will be generational.

When reading the WA Wine Industry Strategic Plan 2014-2024 I noted *"WA exports fell from $52.9m in 2006 to $33.0m in 2010 but rebounded to $45.3m in 2012"* and *"the industry is highly reliant on the domestic market, principally the local WA market. About 48% of the total value was generated through wine sales in WA, 40% in eastern Australia and 12% in exports."*

The only buyers for these grapes will be larger producers and retailers that can fund and take advantage of the lower Australian dollar, Free Trade Agreements and market power.

These indicators are and should be of serious concern to the policy makers and industry.



4.2.4 How many business are affected by the reduction in the cap

The announced reduction in the WET Rebate Cap from $500,000 to $290,000 will affect 46 businesses (24%) that responded to the survey – two of these were identified as being multi-state. A further 9 businesses have been identified from the non-respondents as also being affected. The reduction in the cap was to be reduced in two stages. The impact of the survey respondents is –

$500,000 to $350,000	41* businesses affected ($5.15m in potential rebate lost)
$350,000 to $290,000	Plus another 12** businesses affected ($2.82m in further rebate lost)

* Excludes multi-state businesses and includes 4 of the 9 non-respondents

** Includes 5 of the 9 non-respondents

	WET Rebate Lost					
	$150-$290	$290-$350	$350-$450	$450-$500	$500+	Total
Total Submissions	*30*	*7*	*8*	*8*	*23*	*76*
WET Rebate lost in year 1 ($500k to $350k)			$400,000	$1,000,000	$3,750,000	$5,150,000
Notes						
1	Full $150,000 lost by $500+ bracket. Added 4 non-respondents and deducted 2 multi-state businesses					
2	Assumed average claim on the $450-$500 bracket was the middle point = $475,000					
3	Assumed average claim on the $350-$450 bracket was the middle point = $400,000					
	WET Rebate Lost					
	$150-$290	$290-$350	$350-$450	$450-$500	$500+	Total
WET Rebate lost in year 2 ($350k to $290K)		$360,000	$480,000	$480,000	$1,500,000	$2,820,000
Notes						
1	Further $60,000 lost by highest bracket. Added 4 non-respondents and deducted 2 multi-state businesses					
2	Further $60,000 lost by the $450-$500 bracket					
3	Further $60,000 lost by the $350-$450 bracket					
4	Assumed average claim on the $290-$350 bracket was the middle point = $320,000. Added 5 of the non-respondents to this bracket					

The drop in the cap will potentially see $7.97m removed from the WA economy each year after the second year rebate reduction is introduced. The impact on individual businesses may be more dramatic than just a reduction in rebate as each business requires the rebate for cash flow to different levels.

The survey reveals 29 producers in the WET rebate band of $150,000 - $290,000 and there are numerous comments that explained that the reduction in the cap would impede their ability to grow. This is highlighted by the following "*We have ceased plans on a $0.5m cellar door and a 140 seat restaurant fit out. This is a new investment that would employ 20 people.*" The rebate is an incentive to invest in regional communities, and the reduction in the cap clearly changes that behaviour.

The survey showed that 67% of respondents would require an unsustainable price increase to compensate for this reduction in the rebate. This is best illustrated by an example:-

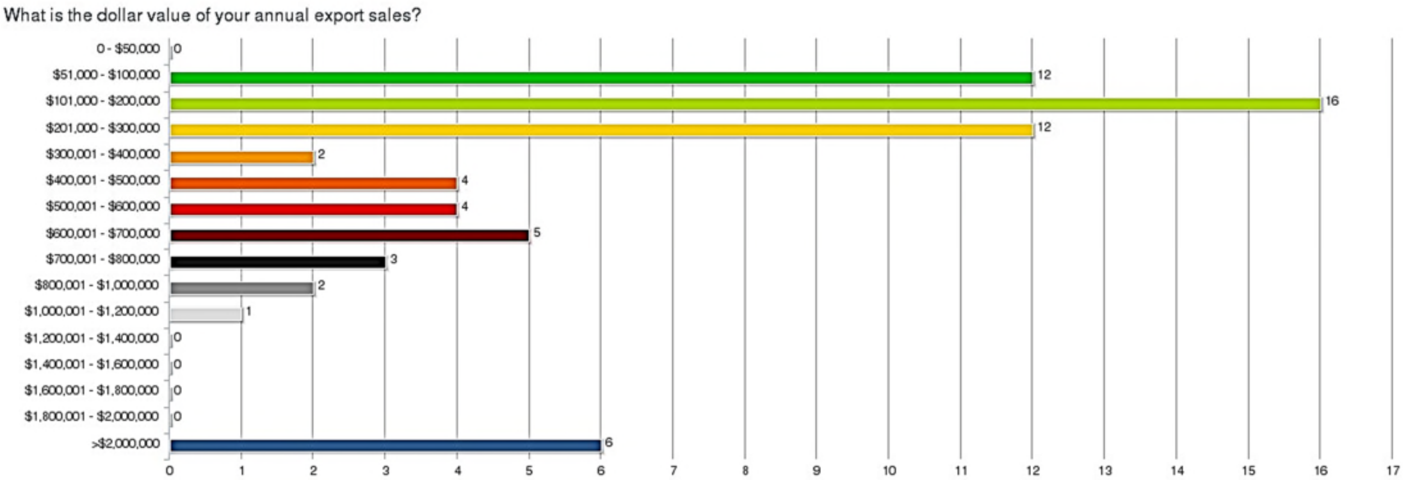
Example 1 – Business with 20,000 cases sold domestically at an average case price of $90. The WET rebate lost is $150,000 within 12 months which requires an increase in the net case price of $7.50, ceteris paribus (this does not factor in the demand inelasticity of a price rise or inflation). That is a retail price increase of 8.33% or going from $24 a bottle to $26 a bottle.

The following year would require a further $3 case price increase to cover the loss of another $60,000 reduction the WET Rebate cap. That is a retail price increase of 3.08% or going from $26 a bottle to $26.80 a bottle.

There is a risk that price rises of this magnitude could see wines delisted by major retailers.

Example 2 – Business tries to hold the $90 a case net price in the domestic market and looks to cover the lost rebate in export markets. Assuming the gross profit per case is 33.33% and the extra overhead costs to cover marketing, travel and establishment is 15%, the business will require further gross income of $818,200 or a 45% increase in sales.

There were 61 respondents that have annual export sales between $51,000 and $2m each year which equates to approximately $19.3m of export sales or an average of $316,000 per exporter. There were a further 6 businesses that achieved more than $2m in export sales.



The ability for all of these businesses to replace the loss of the WET Rebate in year 1 through export channels of the magnitude required is extremely unlikely.

The survey identified 23 businesses that claim the $500,000 rebate. The PWC report implied 79 producers were eligible to claim the full amount of the WET Rebate. This means that Western Australia will be disproportionately affected by the cap reductions. That is, 29% are in Western Australia.

4.2.5 How many Jobs are affected by a reduction in the cap?

Businesses were asked to select a WET Rebate band they were in and separately they were asked what they would do if there was a reduction in the WRT Rebate cap. The table below details the answers to these questions.

Would a reduction in the WET Rebate available to your business							
	WET Rebate Claimed						
	$150-$290	$290-$350	$350-$450	$450-$500	$500+	Total	
Total Submissions	*30*	*7*	*8*	*8*	*23*	*76*	
Reduce the number of people you employ?	19	3	7	6	14	49	64.47%
Reduce the amount you invest in regional promotion and development?	22	4	7	7	13	53	69.74%
Reduce the amount you invest in innovation to improve or expand your business (eg: plant new clones/varieties; purchase equipment; support research; trial new growing, production or marketing methods)?	19	4	7	7	16	53	69.74%
Require an unsustainable price increase to compensate for the reduction in rebate?	22	6	8	7	16	59	77.63%
Require a forced sale of assets (inventory and/or capital assets) to compensate for reduced sales resulting from an unsustainable price increase?	11	1	1	2	2	17	22.37%
Require an exit from grape supply agreements due to reduced sales?	8	1	1	3	7	20	26.32%
None of the above	6	1	0	1	5	13	17.11%
Number of People Employed in Production	110	26	36	81	331	584	
Number of People Employed in Sales	96	21	58	24	269	468	
Number of People Employed in Administration	87	21	26	24	190	348	

There were 46 respondents that said they claimed more than $290,000 in WET Rebate which is 24% of all respondents (one in four). The Federal Budget 2016 Tax Fact Sheet 10 said ‘around nine out of ten current claims are for less than $290,000’. That statement needs to be read in context that 75% of claims are below $100,000 (refer table 15 on page 19 of the PWC report to the Winemakers’ Federation of Australia) and that most businesses claiming under $50,000 cannot sustain a full time self-employed person.

In WA, if you excluded the businesses that require external resources to be sustainable i.e. the respondents under $50,000 annual WET rebate claim, 37% of the surveyed respondents are directly impacted by the cap reduction. It is these businesses that have the capacity to deliver on jobs and growth in regional communities.

Wines of WA have estimated there are 350 businesses in total in the state and there were 156 non-respondents to the survey. It is difficult to extrapolate the ‘one in four’ across the full 350 businesses as Wines of WA suggested the 156 non-respondents were predominantly smaller in size. That said, it would still seem likely that more than 10% of the total WA industry claim more than $290,000 each year.

The impact on employment is starker as 30 of the 46 respondents who do claim more than $290,000 said they would reduce the number of people employed.

The impact on employment will vary across wine regions. On drilling down into the area with the most number of respondents – Margaret River - it showed 34 businesses (of the 46 businesses) identified themselves as being from that geographical indication. The total survey respondents from Margaret River was 98 and hence over one-third of them are going to be impacted by the WET Rebate cap reductions. If the above numbers are extrapolated it would mean 22 businesses would look to reduce employment in the Margaret River geographical indication.

References –

1. Budget 2016 Tax Fact Sheet 10 'Improving the integrity of the wine equalisation tax rebate and growing exports'

2. Joint Media Release 'Wine Equalisation Tax Rebate – improving integrity and growing exports', Assistant Minister for Agriculture and Water Resources, Senator Anne Ruston and Minister for Small Business and Assistant Treasurer, Kelly O'Dwyer, dated 3 May 2016

3. Joint Media Release 'Wine Equalisation Tax Rebate – consultation on implementation', Assistant Minister for Agriculture and Water Resources, Senator Anne Ruston and Minister for Small Business and Assistant Treasurer, Kelly O'Dwyer, dated 6 May 2016

4. Modelling Changes to WET Producer Rebates Technical Report for Winemakers' Federation of Australia, August 2014 prepared by PWC

5. Department of Agriculture Food WA (DAFWA), Profiles of the Major WA Agriculture Industries, Wine Only, March 2013

6. Western Australian Wine Industry Strategic Plan, 2014-2024

Disclaimer

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APPENDICES

APPENDIX 1 – QUESTIONS TO THE SURVEY

1. GI Location of your business
2. Do you own or lease a winery?
3. Do you own or lease a vineyard?
4. Do you have a Cellar Door Sales Outlet?
5. Tonnes processed for brands you own
6. How many people do you employ full time in production (growing grapes and making wine)?
7. How many people do you employ full time in sales and marketing, including cellar door sales?
8. How many people do you employ full time in management and administration/accounts?
9. What is the dollar value of your annual cellar door/direct sales (excluding all taxes)?
10. What is the dollar value of your annual domestic bottled wholesale sales (excluding all taxes)?
11. What is the dollar value of your annual domestic bulk sales (excluding all taxes)?
12. What is the dollar value of your annual export sales?
13. What is the dollar value of your annual bulk export sales?
14. What is the dollar value of your investment in production (including vineyard and winery)
15. What is the dollar value of your investment in cellardoor/wine tourism?
16. Would a reduction in the WET Rebate available to your business:
17. What is the dollar value of your annual WET Rebate claim?
18. Do you support the $50 million market development/regional tourism funding package for AGWA and Regional/State Associations funded from the reduction in the WET Rebate Cap?
19. Would you support a simpler and fairer taxation mechanism such as a per litre, category based (taxed differently to beer and spirits) under the WET legislation that is revenue neutral to Government?
20. How will the amendments to WET legislation as stated in the 2016 Budget affect your business?

APPENDIX 2 – RESPONSES TO QUESTION 20 OF THE SURVEY

How will the amendments to WET legislation as stated in the 2016 Budget affect your business?
Reduce income as price rises are impossible with two major parties dominating. Large supermarkets will just purchase more wine from larger companies where the WET rebate reduction has zero impact. Pretty dumb outcome really.
Reduced WET will stifle business size, and make business unsustainable given the capital investment to date.
Initially it will have no effect, however with planned growth domestically it will cause pricing and profitability pressure. That said the extra monies spent well on our export markets is welcomed from the Government. Some of our current WET Rebate is directed to invest in our own export markets. This rebate is critical to our overall business success and that of our contract customers.
We are a small producer of high quality wine and this reduction would stifle our future growth plans
We do not expect that the amendments will have any effect on our business
No Difference
My business also manages vineyards for many grape growers and wineries. The reduction of eligibility for bulk wine will affect the viability of many enterprises. In a lot of instances grapes are sold to entities that make and sell bulk wine, this will shrink substantially, causing a new oversupply of grapes, and again reducing the grape price across the board. I believe that many small producers will have no incentive to produce beyond their new WET eligibility threshold. This will also cause a contraction in the local industry that will result in lower grape demand, and reduce regional employment opportunities. I think that this legislation if enacted will only strengthen the large wine producers at the expense of small business. This will have a decidedly negative impact on the diversity that our wine region has on offer, and will have a long lasting negative effect on associated tourism and employment opportunities.
They would make our business unprofitable, or close enough to unprofitable. We would not be able to update equipment in the vineyard as often as at present. The large producers would be able to crowd us out of our markets. If, as the proposal stands, we become ineligible for WET rebate, we would go out of business. We have been growing grapes on 2 large vineyards, in Margaret River and Blackwood Valley, for over 20 years. When we started we made a business decision to use contract winemaking, rather than invest in a winery. It was a good business decision because we did not have the money to build a winery, or the expertise to make wine. But we consider ourselves to be bona fide producers every bit as much as other producers who own wineries. We are not rorting the WET rebate, and to deny the rebate to us while continuing to give it to others, including New Zealand producers, would be grossly unfair.

The reduced threshold will not affect my business, nor will it affect most small producers i.e. less than 50 tonnes. However, linking the rebate eligibility to winery ownership or lease is a mistake. Many of us are growers and owners of vineyards, who have made significant investments in land, equipment and staff to grow grapes. The wine is then made under contract at a local and centralised winery facility, which services up to 10 different grape growers. Small producers cannot afford the cost of vineyard ownership and operation as well as winery ownership and operation, which requires even more additional staff and cash flow.
Will be looking at options to maintain and grow our diverse income streams but we now need to work towards replacing our current bulk wine contract supply to one which yields us the same or increased income, but is in packaged or bottled form so that we are still eligible to claim the WET rebate. Our current Strategic Plan for our wine business has goals and objectives to increase our direct, cellar door sales, so money invested into regional market development and regional tourism would benefit us in this area.
Will have a negative effect on profitability and sustainability and decrease wholesale sales after the next two years. We are not involved in the bulk wine market. Note our wine is premium wine produced by contract winemakers from fruit sourced from our selected growers. We rely substantially on regular part time staff.
The difference between 29% to nothing is going to create huge debate within family business's as to if the wine industry is viable to be involved with. The other aspect of the reforms been considered is vineyards are to have their own winery or be financially involved with a winery. Most vineyards do not have their own winery for wine production so they rely on contract winemakers who specialise in this field. This allows these people to invest to produce premium wines which is something most vineyards would not have the resources to establish such a structure. For the quality of wines to be maintained or improved then the current system needs to be maintained Ie contract winemaking.
On the back of losing $90k per year state cellar door rebate this year, we will lose a further $360k over the next 3 years of our profit/margin with the reduction in WET, WHILE THE BULK TRADERS/WHOLESALERS/RETAILERS can still benefit from accessing WET rebates until 1/7/19. The so called $50m to AGWA is coming from the likes of us who are now forced to look for savings and we won't be participating in certain export market events as we have just lost vital income that allowed us to try and grow overseas sales! We won't be recruiting any new staff, won't be investing into the winery or vineyards as we will be constrained from doing so! we supported the WET reform to remove WET rebate eligibility from bulk and unbranded IMMEDIATELY and to ensure legitimate, genuine, long term regional wineries/brand owners who contribute to regional communities were able to receive it to get the WET back to the original intent. We supported the reforms WFA put forward, but we have now been penalised with the Government's position on how they wish to implement it! We are now much worse off.

As we do not own a winery we would lose $500k in WET as the proposal currently stands, making it impossible for us to continue to operate. If we could still claim WET (we own a vineyard and a label that produces ~40,000 cases pa) the reduction in the claimable amount of WET will directly reduce profit by the amount of the reductions. This would still be incredibly hard and a restructure would be required and unless bottled wine prices rise long term viability would need to be considered. This is one of the main problems and the ability to raise prices will be extremely hard, because of the order of implementation. The biggest problem with the proposed changes is that the eligibility to be able to claim the rebate is only tightened after the reductions in claimable WET, this is completely the wrong way around. The hope would be by removing the WET from bulk and virtual winemakers there will not be so much discounting of bottled wine prices. If it occurred this way then there may be a chance for the rebate to be dropped as there may be some chance of increasing prices. What should happen is that the qualifications to be able to claim WET is restricted to only those who have real estate assets in the wine industry either vineyard or winery (could be long term lease) and have their own label/brand that is owned by them, not a (Coles or woolies brand only). Once this has been done then the industry can reset somewhat before any other changes are contemplated.
We grow over 200 acres of grape which we sell under contract, we have a small label of our own and we would be impacted because we do not have a winery.
I believe it’s not a bad thing, there is too much heavy discounting by medium sized businesses taking advantage of the WET rebate as it stands. Maintaining this high WET rebate encourages too much discounting. I have a major problem with this question - if no effect this should be a possible answer. A lot of people would click each one as I have done to cry poor but in fact impact may be positive by reducing competition, allowing for a more profitable business. Would a reduction in the WET Rebate available to your business:* Reduce the number of people you employ? Reduce the amount you invest in regional promotion and development? Reduce the amount you invest in innovation to improve or expand your business (e.g. plant new clones/varieties; purchase equipment; support research; trial new growing, production or marketing methods)? Require an unsustainable price increase to compensate for the reduction in rebate? Require a forced sale of assets (inventory and/or capital assets) to compensate for reduced sales resulting from an unsustainable price increase? Require an exit from grape supply agreements due to reduced sales?
In year 1 it has no effect, but in year two onward it will necessitate price increases and reduced spending in some area.
It's simple. The WET rebate was first introduced by the government with the well-intended intention to assist smaller to medium wine companies to invest in their vineyards and wineries, brands and marketing etc. However, as soon as the retail majors were aware that the wineries had this extra money on the table they said "we'll have that - and reduce retail prices". Almost immediately wines that were $20 became $18. So who got the money in the end - the consumers with some also oiling the wheels at Coles and Woolies. The rest of the retail liquor world then followed the majors down on price. And as margins were whittled ever lower in the competitive environment that followed all that was left for MOST of the small to medium wine businesses was the 29% WET with many having to live and fund their businesses on half of that. So what happens if the WET rebate is lost on a large amount of the current rebate? Eventually prices will have to creep up at retail to compensate. The key work is eventually - my guess would be 2 - 3 years to full equilibrium - and most wine businesses in that boat just would not have the financial resources to stay afloat while that happened. Could be saying goodbye to 50% of the current industry, many of whom have spent decades building their businesses. I support eliminating those who are rorting the system - including the major retailers. However, I think changing the WET rebate down could well terminally and unfairly damage the businesses of many in the middle ground - and maybe still not stop the very creative rorters who could just potentially slice the pie pieces thinner.

We do not have our own winery - investment in such would be uneconomic given the size of our operation. However we are a legitimate grape grower and wine producer utilising the services of a contract winery facility. We do not produce "bulk wine" which is essentially the root of the wine industries woes. If the definition of a wine business is accepted as proposed i.e. "the operation must own a vineyard and winery", then we will be put out of business and will have to close our doors.
While we are a vineyard and make small volumes of single vineyard wine we do not own a winery. Instead we contract a local winemaker who has an established business specifically to accommodate the needs of businesses such as ours. The proposed changes in particular the definition of a winery will impact us significantly and we will need to explore the viability of our label. Possibly reverting to fruit growing only in future. If this is also the case with other similar size operations it will mean the big wineries will enjoy seeing the small businesses/competition disappear (and just buy their fruit at depressed prices) and consumer choice will disappear.
I would be forced to sell
We have ceased plans on a $0.5m cellar door and a 140 seat restaurant fit out. This is a new investment that would employ 20 people. We have a $2m investment in equipment and stock that as the definition stands, makes us ineligible for the rebate. What do private equity firms and Coles and Woolies get the rebate? They are not small winemakers.
The amendments to WET legislation will encourage us to stay small and not to pursue growth beyond a level which is supported by WET rebate.
WET needs reform with reduced access by non-vineyard owners and NZ entities. Some reduction of cap probably fair. Eligibility criteria based on having winery equipment on site is absolutely not logical. A boutique tourism wine region like Margaret River is very dependent on small and often single vineyard producers, with properties owned and operated often by family, with tourism Cellar Doors on site. Economies of scale preclude wine production assets being owned, only the grape growing assets. Loss of rebates to these will make almost all non-viable, leaving only a few large wineries, who already buy in large amounts of grapes (and so are not unique and estate grown). These large wineries will then mop up the fire sale of boutique vineyards responsible greatly for building the Margaret River brand, also then putting the remaining grape grower (but not wine producer) element also out of business as there will then not be demand for their grapes.
One of the largest issues for the industry is hyper competition. The removal of the WET rebate would assist in that regard as it removes NZ & challenges the supermarket brands. There are a large number of company's rorting the system with subsidiaries set up just to use the rebate to fund their existence. The only way to end this is to end the rebate. However reviewing the WET itself should also be addressed. Also, I ticked a box in the "Would a reduction in the WET Rebate available to your business". None of the options related to us but the questionnaire did not allow an option for - this will not detrimentally effect the business. So please disallow our answer to this question.
Providing we still get the rebate up to $290,000. Nothing will change. We will continue to grow our business in a sustainable way. Your questionnaire does not address all the contract businesses that service the industry. Being a small producer we employee a number of different contractors, picking, pruning, bottling, pruners etc. They are not full time employees but rely on their income form a collective number of business employing their services. I suggest you create another questionnaire to determine this information. Also I feel you should have had an option n/a as we do not produce bulk wine but had to answer this question, so the result is inaccurate. This could also apply to some wine businesses for wholesale and export wine sales.

The proposed cap reduction to 290000 will not affect our business at the current size we are, it will mean however we will not be looking to expand or grow our business. Of more concern is the definition of a winery. If this remains as stated we will no longer be able to operate as a wine business even though we have considerable sunk capitol in owned vineyards and a cellar door facility located in our region and we have a brand that has been marketed for 10 years in Australia.
Open new markets that businesses such as wholesalers (that don't have massive capital investment) buying cleanskins / bulk wine and putting a label on it and then claiming the rebate.
It is difficult to have an opinion on the yet as the details of the proposal are not yet known. Several of the categories do not apply to me I employ no staff and export no wines.
NIL
I think the changes to eligibility criteria will be great move for the industry as I personally know of many producers exploit the system
A large portion of our income is from bulk wine sales as we are not big enough to sell all our wine as a branded product. We grow and make this wine and think a rebate should still apply in this situation. Other bulk wine sales where the wine is not grown and made by the producer should be exempt from the rebate.
No immediate negative impact More emphasis on export growth in the future.
As you can see from the dollar values quoted above, our current wine business is marginal at best. Any reduction in the Wet rebate would make our wine business financially unviable and would ultimately cause its collapse. Perhaps the $50 Million funding for market development/regional tourism package could be funded by the removal of the Wet Rebate for New Zealand producers and on the sale of Bulk wines.
We estimate the current WET rebate represents approx. our net profit. The government receives tax from our profits so they could create a lose/lose situation. I imagine this would apply to a brand producing under $1m turnover. Our setup costs were $1 million plus and we carry $3-$400,000 in stock [cost] any reduction would make us nonviable. It’s already marginal they must leave it as is or make it better for family style boutique producers.
We will not be affected as we lease a vineyard and winery, we fall under what the rebate was originally intended for which is why we won't be affected. I have no issues with the reduction of the WET limit, if larger wineries are reliant upon State or Federal rebates to remain viable then their business models need reviewing. The eligibility criteria must acknowledge those who produce the grapes i.e. own/lease vines - more so than someone who owns/leases a winery. Only those who have invested capital in the way of ownership/lease of a vineyard or winery should be eligible for the rebate. Virtual wineries who don't own or lease a vineyard or winery should not be entitled to the rebate. As a small producer we outlay funds every year to lease the vineyard and winery - why should wine brands who outlay nothing still be entitled to the rebate?
We will have exit the industry as we would be unable to compete with the larger wine businesses.

Some good, some bad. Requiring a business to have an inefficient small winery to process their own fruit will diminish the economic efficiency of that business as well as the business of the contract winery which will suffer diseconomies through reduced scale. It should be noted that this survey is seriously flawed in that it does not allow for many options. We have not spent $300,000 on our cellar door but had no lesser option. The dollar value ranges make it appear that everyone fits into all categories.
PLEASE _DO NOT MUDDY THE WATERS WITH THIS!!! No new ideas, no new suggestions. There are glaring errors in the spirit of the WET changes as to the proposals put by the WFA and WGGA. The industry (mainly small/medium size producers) agreed to it, so continue to go with this approach. Government reacts slowly and has missed the point with ownership of an actual processing facility as a prerequisite to WET eligibility. It needs a calm and measured response and all should be well. It is in the drafting of the changes, one would hope!? *** The spirit of the WET changes (without the errors) will be good for the bulk of the wine industry, reducing Rorts by the big players and NZ importers.
Firstly there will be a reduction of our claim up to $200,000 dollars, which will have a significant impact on our net profit. We will have to look at reducing wages where possible and capital expenditure. We will not be able to claim on bulk wine sales. Our business understands the need to limit the advantage to lower priced wines. At the same time this could have be aimed at bulk wine under $2.50/ litre that isn't sold into genuine brands. We have invested over 10 million into our winery and our vineyards and bulk wine is a mechanism to support our family brand that we are building over time. The government needs to understand it takes generations to build a successful brand. If you don't have an alternative income to the wine industry to support building brand viability, many wineries sell wine as bulk to generate income. Our wine is all sold over $2.50 / litre to established Margaret River brands. Our business has been audited 3 times by the ATO and we have passed every time. Our business will survive this change, but we require until 2019 to make this transition. For wine bodies to be dismissing this time frame as too long, lack understanding of businesses with a similar model. There are many businesses with this model, which aren't breaking the law or miss-using the WET rebate under the current laws. This may not be the initial intent of the WET rebate which the government is changing back to, but it's a commercial reality to many businesses, especially ones that have invested greater amounts into the industry by building a winery. Credaro Wine's would like to be part of any discussions that include winery owners. WoWA, you are our representative body to the government. We understand that bulk wine has had some negative impact for genuine brands and we understand that change is required. You have to send a fair message to government for all types of wine businesses. The WFA don't have a practical view with dealing with the issues on hand, only a idealistic approach that will hurt smaller wine businesses with multiple avenue's for selling their wine by trying to reduce the transition period. We need time for transition, no different to those without a winery and we expect that you will support the approach the government has taken by giving us until 2019.
NEGATIVELY!
By implementing simplistic generalised criteria for eligibility, such as the requirement to have a winery, ignores the large investment many such as ourselves have made into the agricultural pursuit of wine grape growing. To plant, grow, spend and employ in regional areas. Producing wine enables us to diversify from purely growing grapes. Without the rebate we would unlikely be able to continue to produce wine for the Australian domestic market. While we have no winery of our own we spend considerably at a contract facility. Contract Winemakers may begin to fail if small wine producers like ourselves did not continue to use their facilities. We support reform of the Rebate to remove financial incentive to businesses that do not invest in agriculture and the regions. Ie/ Bulk wine purchasers that sell wine at uncompetitive prices. But simplistic reform based on generalised criteria will harm many of the small businesses that the rebate was established to protect.

From what I understand the amendments are designed to support the operation we have so in theory there would be no impact on our business and we would be able to continue to claim back WET. The issue that is not clear is that we use a contract winemaker who utilises capacity at a number of wineries in the south-west. However, we own our own tanks, barrels and pay storage fees for that. So we technically don't own a winery but wines are made under contract from fruit from our owned vineyards. This impacts the majority of small wineries in WA.
We would lose rebate and therefore cease production or sell grapes only
We would most likely go out of business
Current amendments to the cap will not affect us directly at this point in time. It will not change employment at this stage. We are concerned about what the criteria will be to be eligible for the rebate ongoing, i.e. will there be a minimum vineyard area required, will it be a requirement to have a cellar door, and will there be a requirement to have a minimum winemaking production on site. Will you still be considered a small producer if in addition to fruit you grow you are purchasing from elsewhere within your own region or other GI's? We've answered the question above about what effect a reduced rebate would have, if it changed from what we currently receive today. If the rebate was removed or reduced further then we would see impacts.
The proposed reduction in the WET rebate will have a material effect on the cash flow of the business, which in turn will reduce our competitiveness and reduce the expenditure we can incur on business growth, innovation, tourism, etc.
Now that the WET rebate is being retained and we exist under the reduced forecasted maximum of $290,000 by 2019 and we own a winery we are very relieved. We believe a removal of the WET rebate would close businesses like ours.
Unfavourable financial impact With the both the recent removal of state based Cellar Door rebate and the proposed reduced Federal WET rebate in 2017 and beyond.
Our Winery have shown strong domestic growth over the past 5 years allowing for an increase in production. We will have to reduce production in coming vintages as some of our distribution channels will become unprofitable. We will review our prices but are concerned that this will have huge implication on our sales volume. We are very concerned that the WET reduction will result in staff reductions.
We will reach the amended ceiling next year. We make our wine offsite by a contract winemaker, possibly don't meet the producer definitions as they currently stand?
No impact from budget changes.
It depends on the eligibility criteria for the rebate. If the criteria includes ownership and/or lease of a vineyard and/or cellar door then the impact is expected to be beneficial for us. If it is not included in the criteria, it would make our operations uneconomic.
It won't really affect us too much as we are under the threshold. However, if the WET rebate were to disappear we would be out of the wine business without any doubt. Small cellar doors from artisan growers and small batch winemaking are the backbone of the tourist trade.
WET rebate eligibility changes will require capital resources to be diverted away from production, marketing and vineyard improvement to building a winery facility, Without WET rebate we cannot compete as we lack the economies of scale.

Not a lot of difference as under the threshold now. Crazy that New Zealand retained the WET, why?
We were about to build a cellar door facility and we will now suspend that investment. We use contract wine makers so there is great doubt as to whether we would be entitled to any rebate at all so our viability as a business is in serious question.
Inhibits expansion
There are a large number of small producers in the Margaret River Region that don't own wine equipment for crushing and fermenting and therefore contract out and pay for these services to 3rd party winemakers. Such an approach makes economic sense and maintains the viability of both producers and wine makers, whilst ensuring the consumer with a wider choice of quality wine. Removal of the WET Rebate for Producers without wine making facilities would almost result in the death/closure of our vineyard and thereby reduce its capital valuation quite dramatically. Although only a small producer - our total annual grape growing and wine making expenses are about $100,000 p.a. Removing the WET Rebate because we do not own wine making facilities would mean that this 'investment' in the WA economy would cease. I find it very hard to reconcile that only wine producers with wine making facilities would continue to be entitled to the rebate, despite the fact that it is small producers without such facilities such ourselves who contribute to the economic viability of many of these because of the fees we pay to utilise their crushing and fermenting facilities. Not only does such discriminatory treatment not making any economic sense, it is also grossly unfair to effectively penalise producers without wine making facilities by adding a 29% impost on their product which I can only see resulting in less choice for consumers and reduce competition across the wine industry. Moreover, I think the focus of the wine industry should be alerting to the public that there is in fact currently a 29% tax on wine - imaging the outcry if the Government decided to put a similar tax on the fast food industry! Another argument in support of maintaining the rebate for small producers (regardless of whether they own their own crushing and fermenting facilities) is the current tax free threshold and marginal tax rates that apply to all income taxpayers. Lower income earners obtain the benefit of the tax free threshold and then pay progressively higher tax rates as their income increases. If such an economic argument is justified for personal income tax payers, why should it be any different on taxes for producers in the wine industry?
* It would require more investment in export markets to try and grow the business outside the domestic market, which is expensive and would require greater transition time than is currently proposed for the change in WET implementation. * It may preclude contract winemaking for growers/ brands that are no longer eligible to claim a WET rebate. Without contract client income our financial position would be significantly impacted, as these contract clients reduce our fixed costs and provide important cash flow. * With less contract winemaking we may need to reconsider staffing requirements in the winery. COGS would increase with less contract winemaking and hence margins would be less, or prices would need to increase - which would not be sustainable in this current market. * A reduction in the rebate cap would provide less opportunity to expand our business into new markets / channels, grow current markets and undertake marketing and promotional activities in the domestic market.
Ask me in 4 years.
As stated now, the amendments will benefit my business. I would like to see Virtual Wineries, unbranded product and NZ product be removed from being eligible for the rebate. On the other hand I would like to have the rebate amount remain at $500000 so that as my business expands I can continue to receive the rebate.
As there is currently insufficient detail it is difficult to judge, until the definition of the word 'winery' is given it is impossible to say how my business will be impacted. If I do not receive any WET rebate at all it is hard to see how I could continue the business, it would simply not be viable. If I receive a gradual decrease in WET rebate it will seriously diminish the viability of the business. I support a tightening of the eligibility to receiving a WET rebate, I would also support a change to the way wine is taxed in general such as a

change to volumetric taxation. But at the moment the proposed reduction in WET rebate will, in my view, damage the very sector of the market that the WET rebate was designed for, that is smaller producers with investment in property and equipment in rural areas as part of local rural communities. The reduction of the WET rebate will not affect the large wine companies at all, there will be no pressure on them to raise wine prices, but for smaller producers there will be intense pressure to raise wine prices which will make the smaller producer even less competitive in the market than they already are. I believe that This will damage rural communities and have no effect of the multinational/large public wine companies. I believe the $50M proposed marketing spend is in no way a compensation for the loss in margin.
It will take 1 million dollars from our business bottom line over the next 4 years. We estimate without a price rise or some form of rationalization we would need to sell an 25000 cases per annum (more than double our size and roughly 2.5 million in sales)to cover the shortfall.
We are currently maintaining a virtual winery and intended to look at a new cellar door/tasting presence in the region within the next couple of years. The loss of the WET rebate together with the Cellar Door rebate situation will have serious impact on determining where we go with our Margaret River wine brand especially in terms of a new cellar door in the region.
Tightened eligibility criteria will progressively correct the supply/demand in balance, improve conditions for authentic/traditional producers, improve demand/margins for small/boutique estate grown producers, open up distribution channels and begin to return the market and WET re-investment to the people it was originally intended to benefit. This will assist the small producer to employ more full time staff and reinvest in their grower/producer businesses. These are the people who have put passion before profit.
1. We would close vineyard. 2. Close cellar door. 3. Close restaurant. 4. Go on the age pension.
We do not process grapes into wine - the capital cost of doing so in order to qualify for a WET rebate would be ridiculously uneconomic. Our contract arrangements mean that we support a small producer/contract wine maker employing three people besides his own and wife's labour. Withdrawing our contract work would most likely be also done by other small grape growers who contract to our wine maker. The net result would be a "kick in the guts" for a small, boutique industry providing premium wines in the near metro area. Our position would be uneconomic as our customer base would not accept effectively an almost 15% increase in the retail price of our wine (wholesale = 50% retail and 29.5% WET on wholesale). We would leave the industry and immediately go on to the old age pension for which I would be immediately eligible. Net losses all round.
It will directly impact, and reduce the profitability of our business, as we currently claim the full $500k. (A business that struggles to break-even as it is even with the rebate.) We do not claim WET on bulk sales, only branded finished goods. As a medium sized winery that supports the industry and local community, we have invested in vineyards, a winery, marketing and cellar door, we will be the group of wineries that feels the reduction the most. In my view we are part of a group of wineries that has claimed and uses the WET rebate as it was intended, supporting businesses that have and continue to invest in the industry and respective region. Again in my view by tightening and reducing the eligibility criteria of the rebate we should be able to see a dramatic reduction in the volume of claims, and hence allow the rebate to be left at $500k for the true wine businesses to claim and use the rebate as it was originally intended.
The amendments are welcomed by my business. Too many virtual wine brands exist that offer no investment into the wine industry. It is amazing that WET incentives can be offered to people who have no financial interest in the asset of the industry. The proposed WET reforms will strengthen the success of my winery and my related brands. Most of my competition exist on the bulk wine market, or on yearly contracts with growers and contract facilities and do not have to fund the cost of the asset that assists them in their enterprise. The WET rebate should be only offered to companies who have assets in the industry.

For wineries like us for it to be viable and for the region to remain it's viability we would need there to be no changes to the current situation to the WET or be similar to this if there was a change to a volumetric tax.
Reform of the Wine Equalisation Tax (WET) rebate is essential to address the structural issues that have been undermining the profitability and sustainability of the wine industry over the last decade. Removing rebate accessibility for bulk and unbranded wine, and targeting support to small genuine winemakers will make a demonstrable difference to reducing the distortionary impact of the WET rebate. Therefore, while TWE will lose part of its current rebate entitlement, we consider that the benefit of more effective market signals and less distortion in the industry significantly outweighs our individual businesses loss.
We are our own wine makers but use a facility offsite. The WET tax rebate is roughly our net profit to reduce it or remove it would make us nonviable. We currently pay tax on our profits so a change to WET would rob the govt of revenue and create unemployment and destroy many families and their livelihood. No one would vote for that. This would apply to all boutique growers with a cellar door.
Due to the structure of our sales, the amendments would have little effect on our business.
won't affect it
It is likely that we will not be affected by the reduction in cap at present but it would likely limit our willingness to expand our business. The most critical and immediate issue is the definition of a producer. We are too small (at a start-up stage of processing) to have processing facilities. Any definition which does not allow a small producer to have wines processed off premises will severely impact our operations and viability.
As I understand it would have little effect on my wine business, based purely on its size. I currently make wine in a winery without a formal lease, however that is can be rectified.
not sure
Motivation to grow the business/ employ more people would be reduced to zero- no benefit in doing so. Many of our contract clients would be adversely affected- we would see many of them reduce production or cease to trade all together.
reduce sales. Lose markets to Coles and Woolies. will put off employees
Will make it less viable at a time the industry still is getting back on its feet.
If the WET rebate is only available to producers who own a winery (or have a long term lease), our business will be severely impacted and our capacity to keep growing the business will be under extreme threat.
If it removes the cheap wine from the market place it will improve my business.

Drastically, as this will have a dramatic effect on all Small/medium wine businesses in Australia - let us elaborate. WET is the only tax that is applied to wine, (with the exception of GST) that results in an alcoholic beverage being taxed in Australia by an excise with that in turn being based on value, not volume. It was introduced at the time the GST was being brought into being in Australia in 1999. This was recommended by the Federal Treasury to be based on volume rather than price like all other alcoholic beverages. Wikipedia, the online encyclopaedia defines exercise as follows - An excise is considered an indirect tax, meaning that the producer or seller who pays the tax to the government is expected to try to recover or shift the tax by raising the price paid by the buyer. Excises are typically imposed in addition to another indirect tax such as a sales tax or value added tax (VAT). In common terminology (but not necessarily in law), an excise is distinguished from a sales tax or VAT in three ways: 1. an excise typically applies to a narrower range of products; 2. an excise is typically heavier, accounting for a higher fraction of the retail price of the targeted products; and an excise is typically a per unit tax, costing a specific amount for a volume or unit of the item purchased, whereas a sales tax or VAT is an ad valorem tax and proportional to the price of the product. The then treasurer, Peter Costello, faced pressure from the Wine Makers Federation of Australia for the tax to be based on value if their support was to be had for the introduction of the GST. Following representation to Mr. Costello, by two small producers, that such action would devastate the small/medium producers of the nation, relief in the form of the 'WET Rebate' was provided. This was on the basis that at that time, 86% of Australian wine was produced by just 20 large companies, with 60% of all wine being in low value cardboard casks. Today, in % terms there has been little change in the above percentages however cask wine production is down to less than 30% in volume and less than 10% in value. An increase to 2,500 wineries now account for the remaining 14% of production. State Governments also taxed wine and offered a rebate of that tax on cellar door and direct sales from wineries as an incentive for wineries to assist in driving the tourism industry in regional Australia and accounts mainly for the increase in the number of small wineries over the period. This has mainly been discontinued in Australia, with the remaining States, Western Australia ceasing rebates on 30th June 2015 and South Australia earlier this year. These State rebates resulted in many wineries opening tourist outlets on their properties, from Cellar Doors, Restaurants, and Art Galleries and in some cases holding annual concert performances. Significant amounts were spent in developing these attractions on the back of the Government support, by way of tax rebates, with these activities becoming a very important outlet for the sale of their wine - bear in mind, there were some 2,500 wineries in regional Australia, producing between them only 14% of the nation’s wine, with two major chain stores selling some 70% of retail wine in Australia. The contribution of the wine industry to tourism in Australia has, as a result, been very substantial. Small/medium producers, those in the 14% of Australia's production, are very much at the quality end of the wine spectrum, few if any produce cask wine, many use French oak for maturation, hold wine back for some years so as to provide aging etc. etc., their production techniques and marketing are totally different to cask manufacturers and many of the majors and vastly more expensive. Compared with the 20 that produce 86% of the nation’s wine, these smaller wineries don't enjoy the economies of scale in purchasing power of inputs such as bottles, packaging, oak or indeed wine making scale, yet they make an enormous contribution to the quality aspect and the reputation of Australian wine, both at home and abroad, to say nothing about their contribution to tourism. Weighing these various attributes up, just how can the small/medium wineries survive in an environment where their production is taxed on value, rather than quantity. Furthermore, what is the cause of alcoholism in Australia, why are all other alcoholic beverages in Australia taxed on the basis of an excise - surely it is the volume of alcohol not the price of the commodity that is the cause of the problems associated with alcohol. The Wine Makers Federation got away with their debate in 1999 for one simple reason, the Federal Treasurer, Mr. Costello was under pressure to introduce his GST and bowed to their wishes - time has changed, life has changed, the fine wine industry in Australia has changed dramatically in the intervening period and now is under serious threat; the two largest producers, Treasury Wine Estate and Pinot Ricard, who together account for 50% of Australia's wine production, recognise the problem and support a volume based tax. We need to get to that, it’s just how, just don't kill off the top end of the market in achieving that - let’s look at a positive way forward that brings equity to all if that is possible. Here is a suggested basis - 1. Except that a volume based tax, a true excise, is the only appropriate way to tax wine, the same way as all other alcoholic beverages are taxed in Australia. 2. Work out, in consultation with the industry the most appropriate rate at which this excise should be applied and here, the ultimate selling price of the product should become a consideration, for if that is high, that becomes a deterrent to produces and the ultimate harm will come about in reduced employment opportunities in regional Australia and lower quality wines being produced because of the tax element being applied. 3. This should, might we suggest, be at the average rate per litre that is currently charged, taking to account the health elements in respect to wine consumption and the unemployment, particularly in regional Australia, that will result if the overall tax element is increased. 4. Let the wine industry know of the Governments decision. Allow the individual producers a free choice as to whether they accept the new basis and go onto that forthwith, or transition on to that equally over say 5 years. Let's take a look at the ramifications of the current Government impost on the wine industry. Wine is currently taxed at 29% of the wholesale price. To this is added the retail margin them GST. Small producers, out of necessity, need to first sell to distributors who then add their margin, then the 29% WET plus 10% GST before on selling to retailers, restaurants, clubs etc., who then add back the GST, in the case of retailers, add a retail margin of 40% then GST at 10% to the final price. If wine were taxed at the average amount per litre of the tax currently collected that would average $1.40 per litre or $1.05 per 750ml bottle. Typically a comparison of the current and average basis goes as follows Current Average Freight ex winery $1.00 $1.00 Sale ex winery $9.00 $9.00 Cost to distributor $10.00 $10.00 Add wholesale margin of say 30% $3.00 $3.00 Total wholesale price $13.00 $13.00 Add Wet 29% or Average $1.05 $3.77 $1.05 Cost plus WET $16.77 $14.05 Add retail margin 40% $6.71 $5.62 Retail price $23.48 $19.67 Plus GST 10% $2.35 $1.97 Final retail $25.83 $21.64 Producer receives net at $9 34.8% 41.6% Best he can receive 41.6% The producer on the current basis receives, on a net price per bottle of $9, only 34.8% of the ultimate selling price. This increases to 41.6% if the WET is changed to $1.05 per bottle i.e. $1.40 per litre. The WET rebate has become a major stumbling block in having the industry accept the change to a volumetric tax, principally because many producers in the small to medium category believe they will be worse off if that were to be discontinued, when the reality is they would indeed be better off. Let's take the above example The WET paid on the current system is $3.77 Less the amount that is payable on the average $1.05 WET Savings per bottle on changing $2.72 This $2.72 remaining in the system is then marked up by the retail margin of 40% then by 10% GST Add 40 % retail margin on the $2.72 $1.09 Sub total $3.81 Add GST - 10% $0.38 Total price increase $4.19 The net result is that the producer receives back by way of the WET rebate an amount of $3.77, however, the price of his wine increases by an amount of $4.19 by the add one of the retail margin and GST over and above what would be the case if he were to pay only the average tax collected on all wine sold in Australia, in other words a standard excise of $1.05 per 750ml bottle. Either the price of the wine can be reduced by this amount, thereby generating grater sales or the saving are retained by the producer - in reality however, probably a bit of both, either way the producer is better off on a flat rate basis of the tax. Should the return per bottle be reduced to $4.50, or by 50% the producer is still better off as can be seen from the calculations below. $9.00 $4.50 Current Freight ex winery $1.00 $1.00 Sale ex winery $9.00 $4.50 Cost to distributor $10.00 $5.50 Add wholesale margin of say 30% $3.00 $1.65 Total wholesale price $13.00 $7.15 Add Wet 29% or Average $1.05 $3.77 $1.05 Cost plus WET $16.77 $8.20 Add retail margin 40% $6.71 $3.28 Retail price $23.48 $11.48 Plus GST 10% $2.35 $1.15 Final retail $25.83 $12.63 Producer receives net at $9 or $4.50 34.8% 35.6% Best he can receive 35.6% Undoubtedly the biggest loser in the present WET system is the Australia fine wine industry, as low priced wines are being given a substantial price advantage over the quality wines of the nation as a direct result of a system taxing value, when in reality it should be taxing the alcoholic content of the wine, a true excise. By way of example, if the selling price is increased as below the final price, because of the present basis of the WET surcharge, increases enormously as follows. Sale Ex Winery 750ml $4.50 $14.00 $19.00 $29.00 $49.00 Final Price - 29% WET $14.20 $38.74 $51.65 $77.48 $129.13 Final Price - $1.05/Litre $12.63 $31.65 $41.66 $61.68 $101.72 Variance $ $1.58 $7.09 $9.99 $15.80 $27.41 Variance % 12.5% 22.4% 24.0% 25.6% 26.9% The question must surely be asked as to just why, when it is the alcohol that is the cause of the problem in society, that the higher quality, better-made wines are taxed at such a disadvantage basis as is the case under the present system. The present system of taxing wine based on its value is an absolute aberration of the very basis of the belief that the increase in the price of a product will prevent or reduce abuse of the consumption of the alcoholic product. One only needs to ask why wine is packaged in 4 litre casks to appreciate that it is the final price that becomes the deterrent. Quality wine, matured in French oak,

held back for maturation, presented in appropriate expensive packaging etc. is no more a cause in alcoholic consumption in Australia than Cask Wine, yet the present system results in the cask wine being taxed at between 30c and 40c per litre, compared with a $20 bottle of wine carrying a tax of $4.00 per litre; just where does this serve the community as far as alcohol abuse in the community is concerned - the present system is nothing more than a wealth tax, not one designed to curb alcohol abuse. Furthermore, a tax on the present system is an enormous inhibitor in Australia to the production of high quality varietal wines and as a consequence, to Australia's international reputation as a top quality, internationally recognized producer of these to the extent that would otherwise be recognized. There can surely be no other reason for wine to be packed in a cardboard box than cost, hence the lower tax involved. What we have here is a taxation situation that was dictated by the major producers, through the Wine Makers Federation of Australia, at the time of the introduction of the GST, that was modified with the WET Rebate that was not at that time appropriate as a whole of industry policy and as time has gone by has become even less appropriate. In the interim, the industry has changed substantially. The two major wine producers of wine in Australia have recognized the inequity of the current tax situation, the Australian Governments have changed the rebates, and small/medium producers are suffering. If the 2,500 small/medium producers, accounting for only 14% of our nations production, are to have a place in the wine industry of the future an urgent change in the basis of the tax, as outlined above, is necessary. Least the thought goes through the minds of the Treasury officials of our country that the average price per litre that is currently charged as WET on wine is not a sufficient impediment to its consumption they should appreciate that higher priced wines are in themselves an impediment to excessive consumption of wine, because of the price alone, caused by ageing of the wine, French oak treatment, packaging etc.
The overall outcome would limit the domestic sales efforts as there would be no incentive to grow past the rebate cap. Price increases are not sustainable in the current market
Force price increases in an already overly competitive market reduce employment in regional areas.
Reduce capacity to remain in the industry and invest in the industry.
It will stop me producing bulk wine. It will stop me selling my branded wine once I hit $1 million in sales (my profit margin per bottle is so low that sales above the WET cap, will mean I'm losing money on every sale!) Therefore less investment in new brands, less winemaking, labelling, packaging, bottling, deliveries, marketing etc. If grape prices don't improve above cost, then over half my vineyard will need to be mothballed, hence less vineyard employment. The question then becomes, can I survive with half a vineyard? If the WET rebate was completely knocked, I may as well send the keys to vineyard to the Government! Or perhaps I should send the keys to Coles, Woolworths, Accolade, and Treasury etc.
Reduction of the rebate has a direct negative affect on profitability and will reduce investment and employment.
No net effect.
The WET Rebate underpins the loss in sales value margin due to the lack of market access. The Government and Liquor Licencing has supported the dominance of these two major retailers and its time that the producer’s position be considered. The other option is that NO WET TAX is collected or payable by the producer or the producers Cellar Door. All WET Tax is collected by the retailer at the point of sale. The producer rebate should be given on the amount of litres of wine produced by the wine producer, based on the tonnage of grapes grown or purchased. If a small producer uses a contract processor, that's fine but it needs to be supported by the tones of grapes supplied to ensure the contract winery doesn't double dip.
I feel that the wet rebate should be to help small producers, who don't have the economies of scale of the larger producers. I support the reduction in the cap. More should be done sooner to remove unbranded and bulk wine. I support the eligibility idea, but not that you have to own a winery. The proposal put forward of

meeting two of three criteria makes more sense. e.g., meeting two of the following three. 1. own winery, 2. Own vineyard, 3. Sell packaged branded wine.
Severely if the eligibility for the WET rebate requires ownership or lease of a winery (defined as a place where grape processing into wine occurs). There would be no effect if "winery" is defined as a place where grapes are grown and the resultant wine (wherever made) is sold.
I suspect we would close our business down
Not a lot
Concerned at the change in eligibility criteria - potential exemption of producers who don't own their own winery. We have our wine made under contract by a contract wine making facility. Loss of WET rebate or eligibility would impact disastrously on our business, tourism operations and employment of staff if we were even able to continue operations.
Don’t know
Currently, The majority of our wine is selling through the cellar door outlet. The sales to on sellers will still be below the capped values proposed by the WET legislation. As far as I can see, we will be unaffected.
For what is already a very difficult industry for smaller players the WET rebate is an essential part of staying viable and innovative. Manipulation of the WET rebate by large importers and local players of bulk juice needs to be addressed.
A predicted downturn in custom crush winemaking lead us to develop a fully branded packaged wine business. The packaged wine business is in its second year of sales. It is based on developing a significant domestic market and then developing an export market. We anticipated that the ratio of domestic: export would be 2:1. The reduction in the WET rebate cap will force us into a greater proportion of much lower margin export. We anticipate the lowering of the cap will also affect our custom crush clients and therefore anticipate a further reduction in custom crush tonnage. 2016 represents the lowest custom crush tonnage since the inception of the business in 2004 and approximately half of our peak tonnage of 1500 tonnes. This lower tonnage is a reflection of the pressure our custom crush clients. Any reduction in the WET rebate will negatively impact the Margaret River region. We broadly support a revision of the WET rebate system to eliminate the rorting that has taken place especially in bulk wine and which inevitably has led to downward pressure of packaged wine prices. The lowering of the cap was a step to far and certainly the timing inappropriate.
It would take our business into the red forcing staff layoffs and reduced investment in the region.
We don't process fruit on site, but do own tanks, barrels and some other wine making equipment where it is used at the contract winery where we make our wine.
The purpose of the WET is to allow small producers to contribute to local economy through employment, providing tourism attraction and contributing to sustainable regional growth. Our production for reasons of capital efficiency utilises contract wineries also local to the Margaret River region. Changes to WET should not disadvantage small producers who clearly pass the criteria.
Such changes to the WET rebate will inevitably have a wholly deleterious effect upon our business - there will be literally one outcome: rationalising staff and contraction - the EXACT OPPOSITE OF JOBS AND GROWTH!

It will affect us as a small business as it’s hard enough with rebates in today economy to make ends meet.
The WET Rebate would not be claimable for our wine label if we were to consider the current requirement to either lease or own a winery. We own a vineyard and have our wine made at a contract facility. We have invested heavily in growing grapes to make a high quality wine, and we have invested heavily in the promotion and development of our label. The loss of the rebate would price us out of the market, would deprive another winery of income from their heavily funded wine making facility, and would cause the loss of income for our families and the loss of work for numerous contractors and suppliers. We do not claim the full rebate, and we never will. But we influence directly the health of the community through the hiring of numerous locals, and the purchasing of all our vineyard supplies locally. Our preference is that alcohol be taxed on a "standard glass" value for every wine product. Every winery would have the capacity to claim back a volume of alcohol in the same vein that we claim back the WET. This immediately makes cheap and volume wines more expensive, and quality wines more available - and addressing our responsibility in regards to being pro-active to supporting drinking in moderation.
Less Profit = Less Investment and Lower business Resale Values
We will most likely have to close our cellar door, and exit the industry. Our youngest generation who have just joined the business would have to leave this region and seek work elsewhere. We have value added produce from our land for the past 30 years. This would have to change.
They won't affect us.
No affect
Is dependent on corporate directive....
It hardly seems necessary to say the disruption to our cash flow as a result of the proposed changes to the WET rebate will be very serious for us. We'll have to try and replace it with a combination of cost savings and additional sales. Without other changes to the tax structure for wine, such as the one suggested in the question above, this puts our business in a very difficult position.
We would contemplate ceasing production of wine.
My business is too small to afford to own a winery or to lease a winery on an exclusive basis. This criteria is completely irrational and will damage many small producers who are in the same position as me. I assist other wine businesses to make more efficient use of their infrastructure by having my wines made under contract. If I lose the rebate but others who have a winery keep it, then my business which is currently breaking even becomes completely uncompetitive and I will be forced to stop making wine and sack my full time cellar door manager and part time casual staff. Not to mention my part time book keeper and the staff that my vineyard contractor is able to employ to work on my vineyard. The region will be poorer as a tourism destination as there will be one less interesting small organic wine producer to visit. I will then be an uneconomic grape grower as I have only 9 ha of grapes, albeit high quality. I will probably rip up the vines and get a mob of sheep.
In contrast to most of the public statements from the leaders of the wine industry we believe the proposed changes are positive in abolishing the free ride which wine traders without any true long term commitment or major investment in the wine industry have enjoyed with their generous wet rebates. The negative tone of the above opinion questions suggest that this questionnaire is also biased in favour of these short term operators who should not be supported with a rebate of their wet. We believe the beneficial wet changes are overdue and support those with long term investment in winery and vineyards and the slight reduction in

the wet rebate threshold is a small price to pay for clearing the industry of those optimists who are taking advantage of the current glut of fruit and bulk wine.
This is a positive move for the whole industry. Will allow a more level playing field for bottled wine sales. Removal of WET rebate on Cleanskin wines and Bulk is a positive.
less likely need to grow above wet rebate threshold/growth will pause once reaching limit/limit has been lowered so no incentive to grow as much.
No affect as we are under the rebate cap
We are not aware at this stage of the impacts that the WET tax will be having on our operations. We are a partnership and will continue to run the business as such until it is necessary to employ staff. Our main concern is the penalty rate for weekend wages as this is the time when we are open to cater for tourists. There are other ways of increasing tourism throughout the region that are relatively inexpensive. We don't support the reduction in the WET Rebate Cap because after the raising of $50M the WET Rebate Cap will remain the same and have ongoing effect on some business. If it were a one of capital raising and had a time line, it might be a different matter.
Still trying to see how the Tax /Rebate system will affect our very small winery business. Waiting to hear back from the accountant!
It's hard enough to make ends meet now as it is, so most likely this will start an exit strategy for our involvement in this industry.
It should have no effect based on turnover
Reduced cash flow but support the qualification of assets to assess the WET rebate. Too many brands established from people with little invested in hard assets
Andrew Caillard MW, co-owner of the Caillard wine label, could not have been clearer in his opposition. "The Idea of owning or leasing a winery to access the rebate, is anti-competition, anti-small business, anti-entrepreneurship, anti-new entrants, pro protectionism, and pro industry stagnation. “One of the great things about the Australian wine industry is that it has allowed people with vision, skill and determination to build a life in wine without having to find or borrow huge capital to start. (Nonetheless the outlay is still considerable - for instance we have to finance three vintages at any one time). Initially a fledgling micro business buys fruit, pays for labour and technical input, barrels, storage etc. It helps producers with wineries to pay their way, by a substitute sub-leasing type arrangement. Overtime with capital available, vineyards and wineries are purchased or leased. A squatter producer like myself still pays levies and taxes. We are still committed to making very high quality wine and collaborate and invest in building reputation for the industry (and our label). By imposing this proposed change it will stop or hinder grass roots innovation and visions. I think it is an appalling and unnecessary change. It is counterintuitive, passionless and utterly obtuse. There is no sense of history or ambition."
Will make profitability even tighter, if that is possible. Prices will have to rise, but that will most likely result in lower sales. Will have to consider export markets. Consider an earlier retirement, but check my pension eligibility first...
loss of contract winemaking clients. This is an important component of our overall business. Expect to see many small wine business exit industry, but worse still medium sized businesses exiting wholesaling. This gap in the market will be filled by the large corporate wineries. Reduction in WET rebate will mean wine businesses stay small and focus on direct sales - this area will become more competitive - and large

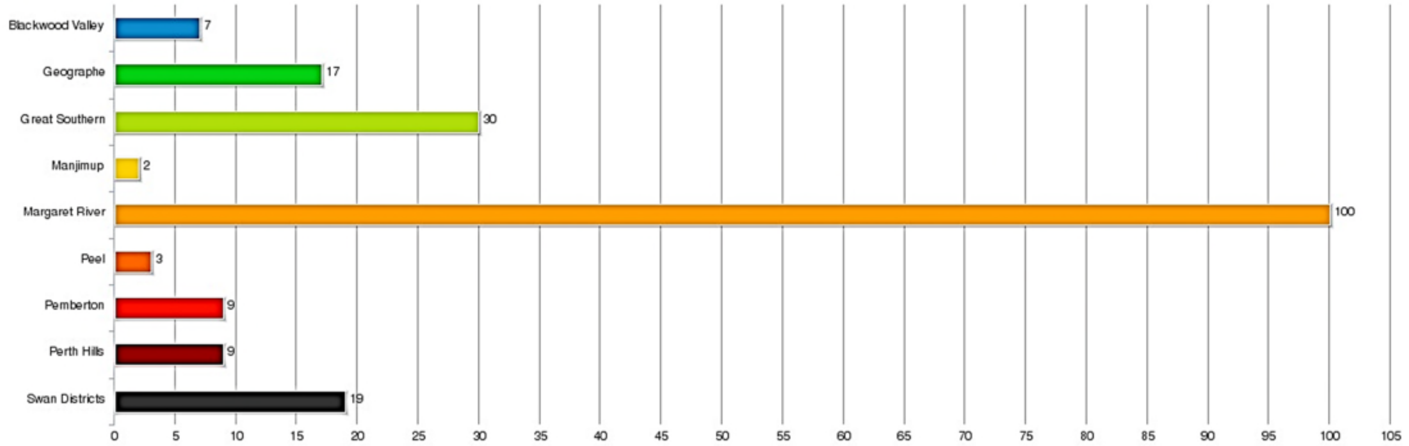
corporate wineries will rule in retail. I think the only winners here will be the large wineries with economies of scale to make profit at wholesale prices
There are too many working parts to this. We need to deal with the real issues. Why we are not profitable and need this support to keep business afloat. More than 80% of the industry is not profitable. We have a good opportunity to level the playing field with real reform. The small end of twin don't have the resources to lobby.
Increased prices on wine would result in decreased purchases from customers - the introduction of the proposed new tax would be very detrimental to the whole of the Margaret River Wine Region.
Like most wineries in Margaret River - our business relies on the WET Producer Rebate to helps offset the cost of the Cellar Door promotional channel. It is a major contributor to our cash flow and profitability. With its removal with no compensatory offset or any wholesale change in wine taxation it will place significant stress on the business and will mean potential loss of jobs and lower funds available to invest in our business in either people, capital or R&D/innovation.
Our WET Producer Rebate is grouped so the overall loss of the $500k per annum would be material not just for the individual entities but the Group as a whole. Materially impact on profitability, cash flow and likely make life even more difficult with our banking partners. It would likely mean a loss of jobs or certainly no expansion and make an already demanding requirement for continued capital investment even harder. The returns on capital are already very low and likely unsustainable so it's another nail in the coffin for smaller/medium sized producers who provide significant employment and income into rural communities. If there is to be WET reform it needs to be a well-considered holistic solution and not pander to the interests of the major/larger wine companies for which the WET Producer Rebate is not important.
Due to my scale, the potential reduction of the total claimable rebate down to $290,000 would have no effect at all, however, as I do not own a winery or a vineyard the way that a 'producer' is defined in the current draft of the legislation would exclude me from the rebate entirely. This would greatly impact my ability to draw any meaningful profit from my annual sales, thus hampering my ability to grow my brand, and indeed my ability to eventually buy land, plant and vinify onsite independently.
Not at all ,we are too small
1)Shutting down own vineyards - buying small amount of grapes just enough for very small operation 2)Cutting down on staff 3)If 1 & 2 are not feasible - closing down of business
A reduction of WET rebate will have a huge impact on our business due to the reduced income for our cash flow, hence will affect day to day running and building the business for the future.
I will give you an example of how the income from wine sales has declined over a period of time. 1999 $496277.00 2006 $428320.00 2014 $319167.00 We have had to reduce our production drastically & also our staff. Many factors have led to this state of affairs; Federal Govt incentive of tax reductions for planting of new vineyards without qualifying how this would affect the market of wine. This led to a serious surplus of grapes/hence wine. This small producers in the position of having to compete for sales against large companies, some with large international connections. The following downturn in the wine market The explosion in the local market of boutique breweries, who do not have the costs, commitments which small wine productions bear.ie their products can be quickly changed to follow the fickle demand. Wineries do not have this ability. New grape varieties take a few years to become productive. Labour for a vineyard/winery is more costly, extensive & ongoing. Due to age the initial owners needed to retire & pass the vineyard, winery to the children. Unfortunately despite pursuing every avenue to prevent a LAND TAX, it was imposed. The put the new owners in a very bad financial position. Father to son rural LAND TAX exemption

was not allowed to this family. This resulted in funds which had been set aside for development had to go to the government to pay an unexpected LAND TAX. It can be seen that this government has not been very helpful to authentic small wine producers and whatever help can now be given it is urgently needed.
The reduction would seriously affect cash flow. Isn't it time the wine industry was treated like any other business. Why do we need a special tax (WET) on the industry?

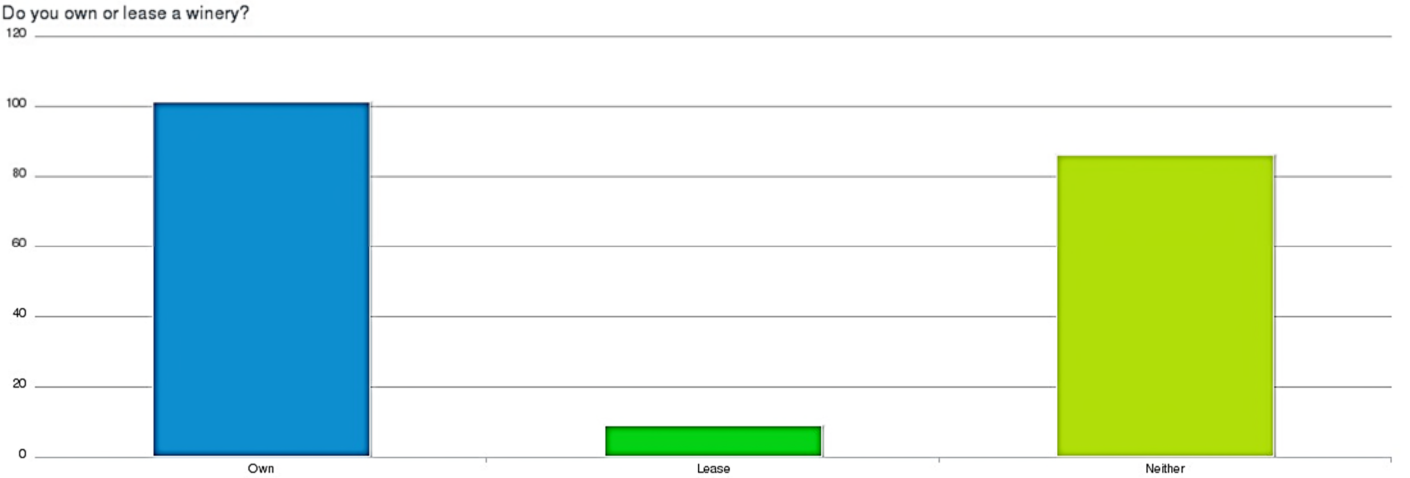
APPENDIX 3 – CHARTS FOR EACH SURVEY QUESTIONS

Note – The survey review was completed on 194 respondents. A further two reponses were received prior to these charts being downloaded.

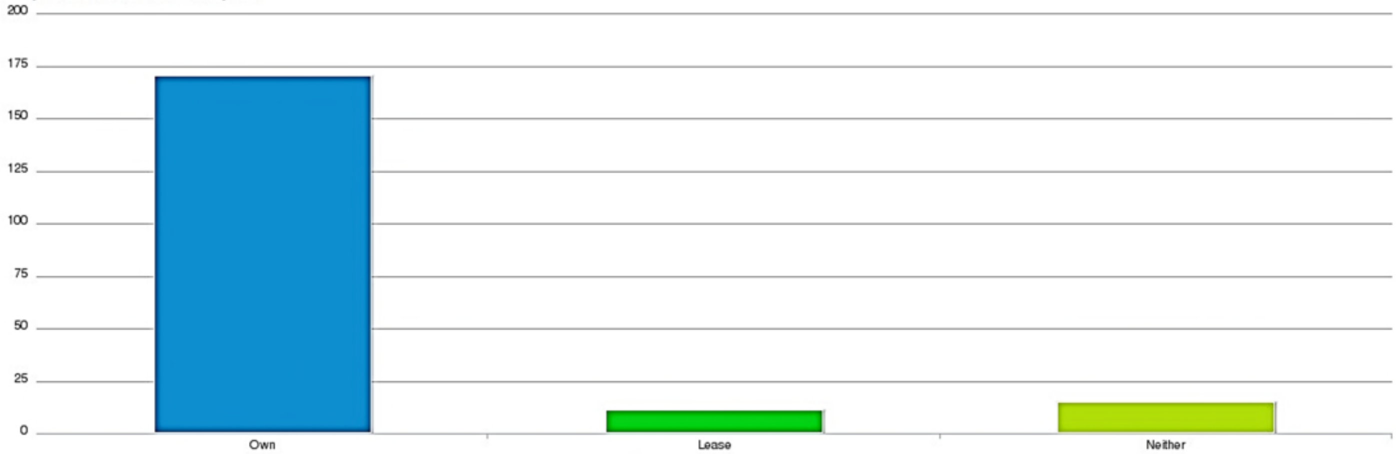
GI Location of your business



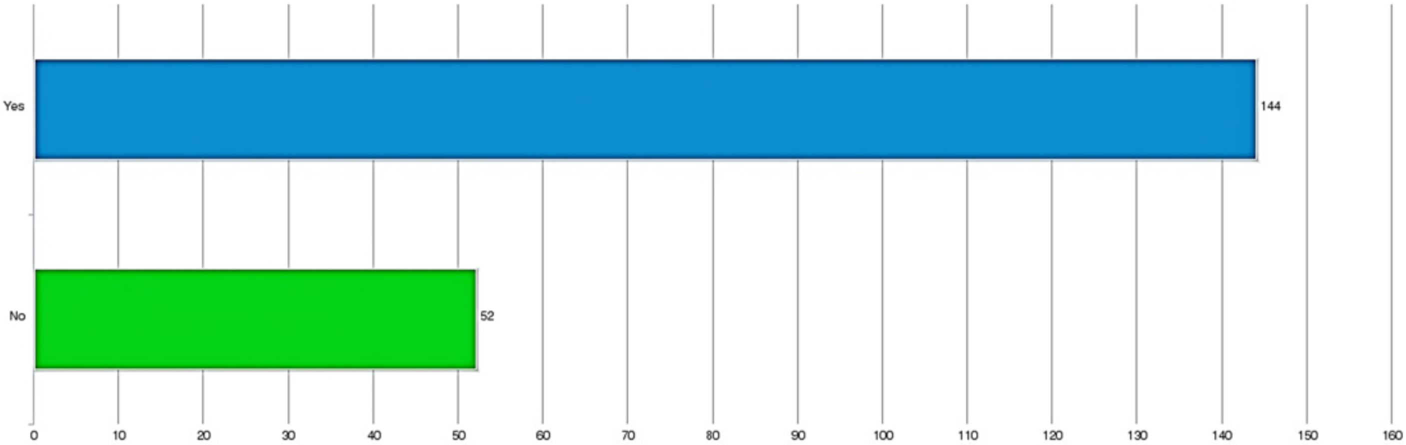
Do you own or lease a winery?



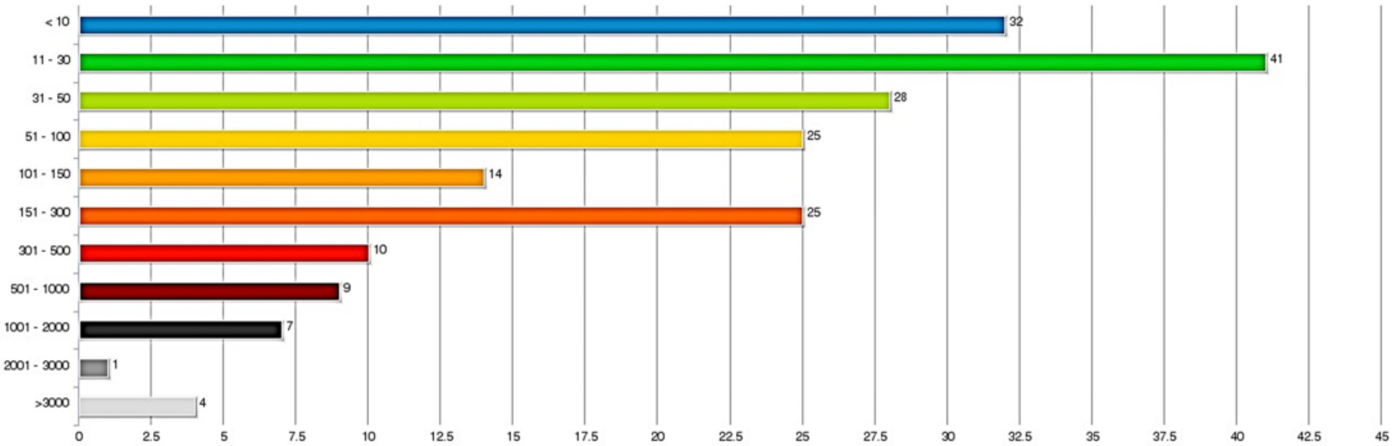
Do you own or lease a vineyard?



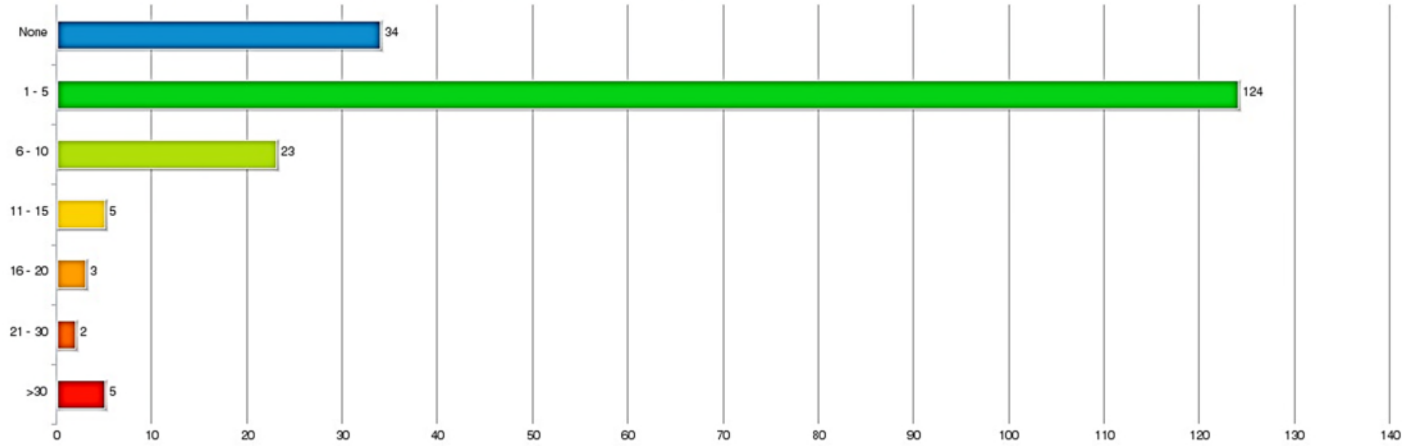
Do you have a Cellar Door Sales Outlet?



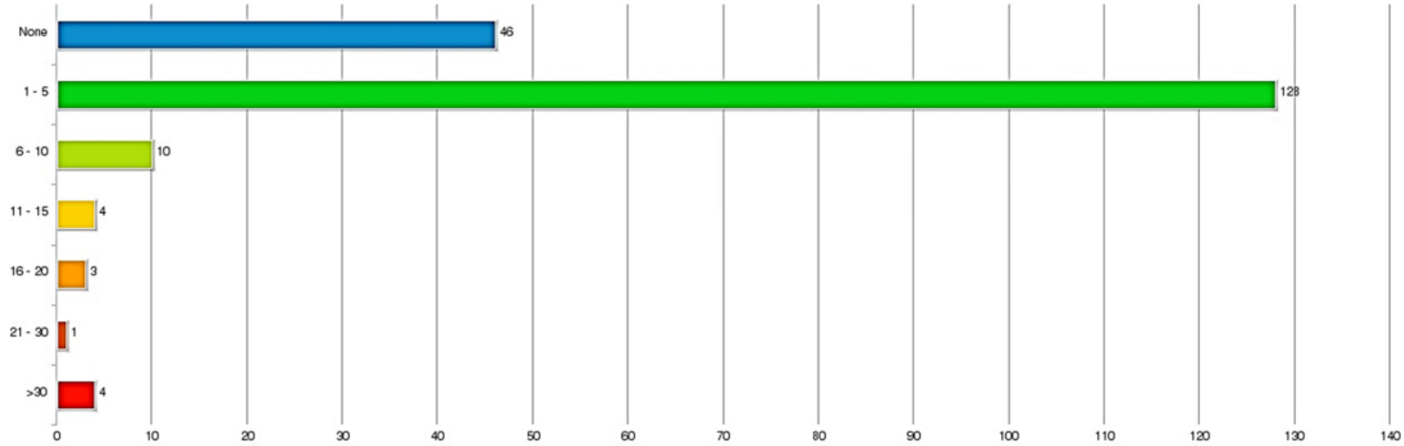
Tonnes processed for brands you own



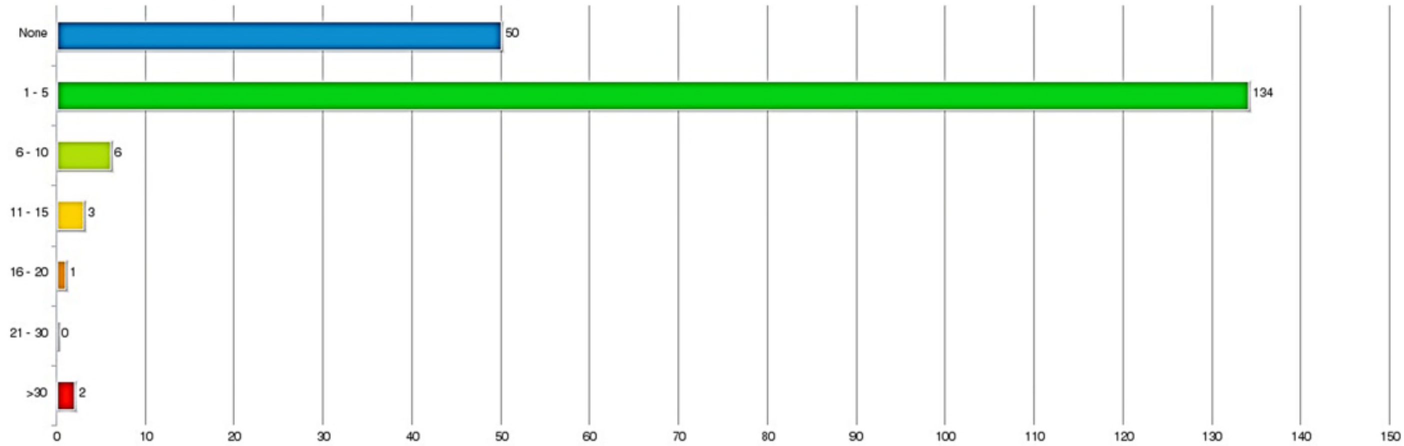
How many people do you employ full time in production (growing grapes and making wine)?



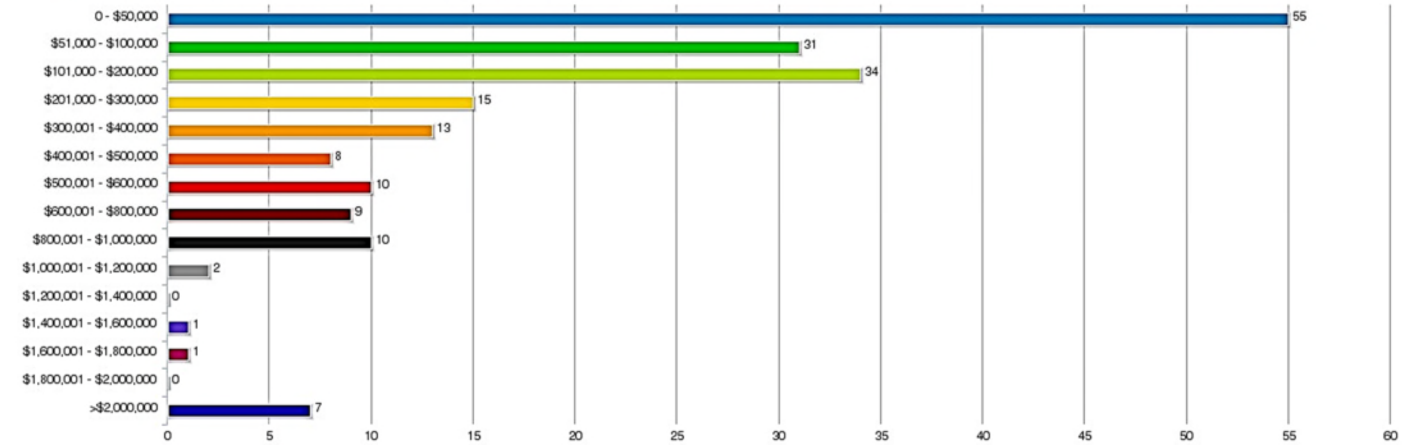
How many people do you employ full time in sales and marketing, including cellar door sales?



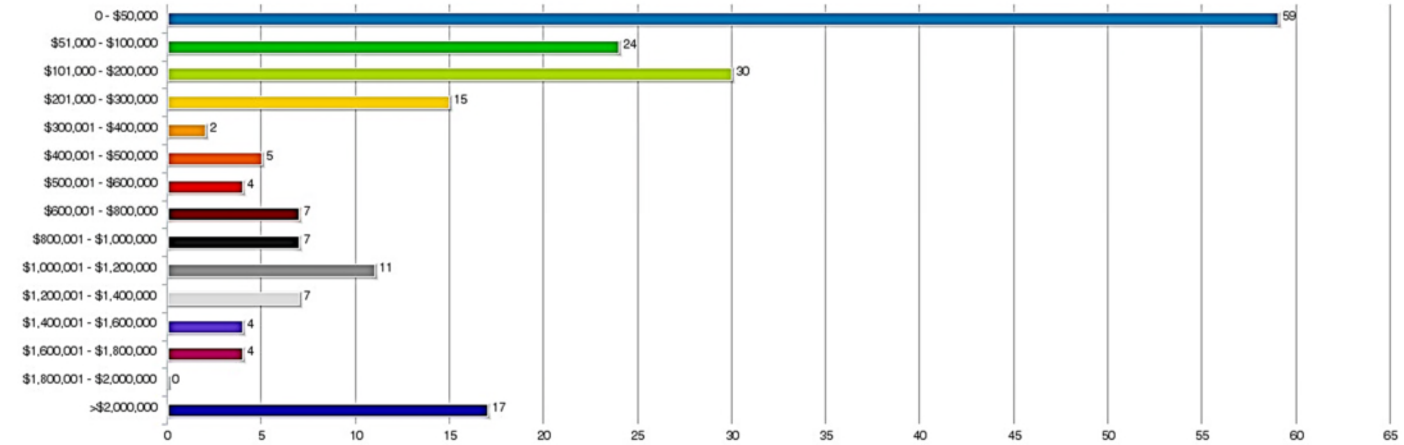
How many people do you employ full time in management and administration/accounts?



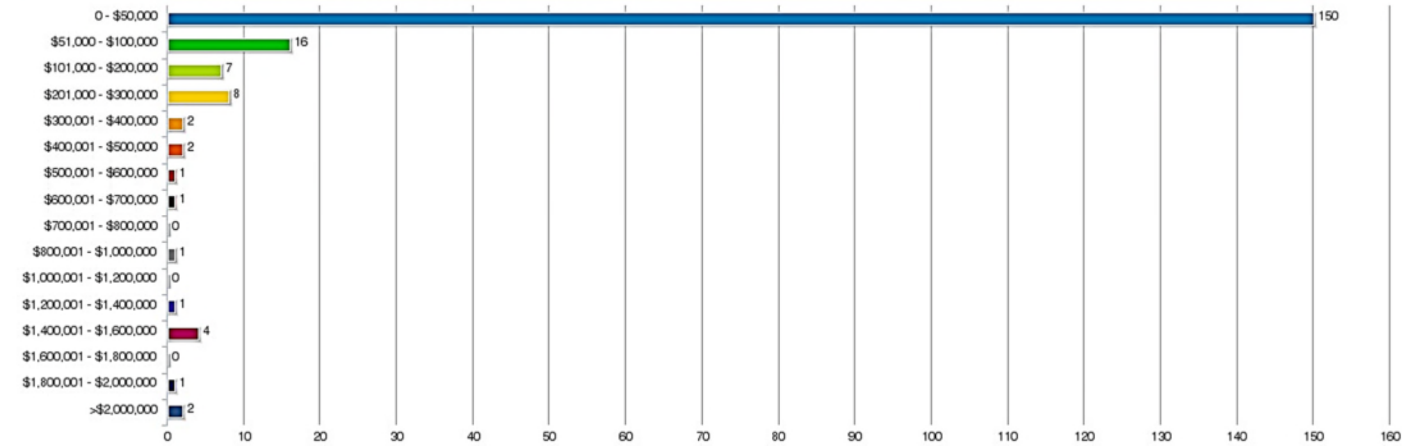
What is the dollar value of your annual cellar door/direct sales (excluding all taxes)?



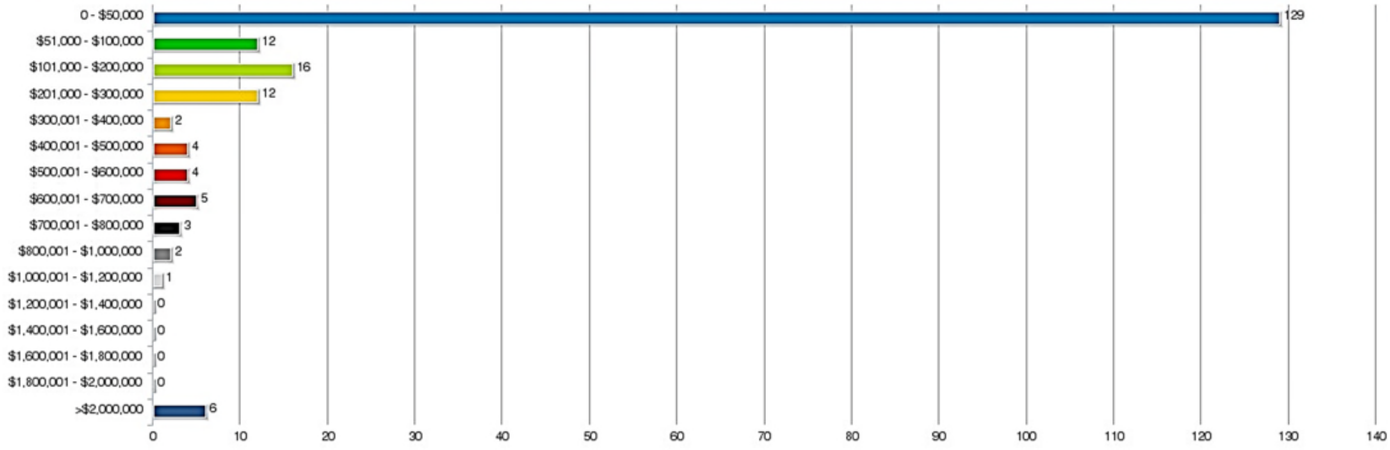
What is the dollar value of your annual domestic bottled wholesale sales (excluding all taxes)?



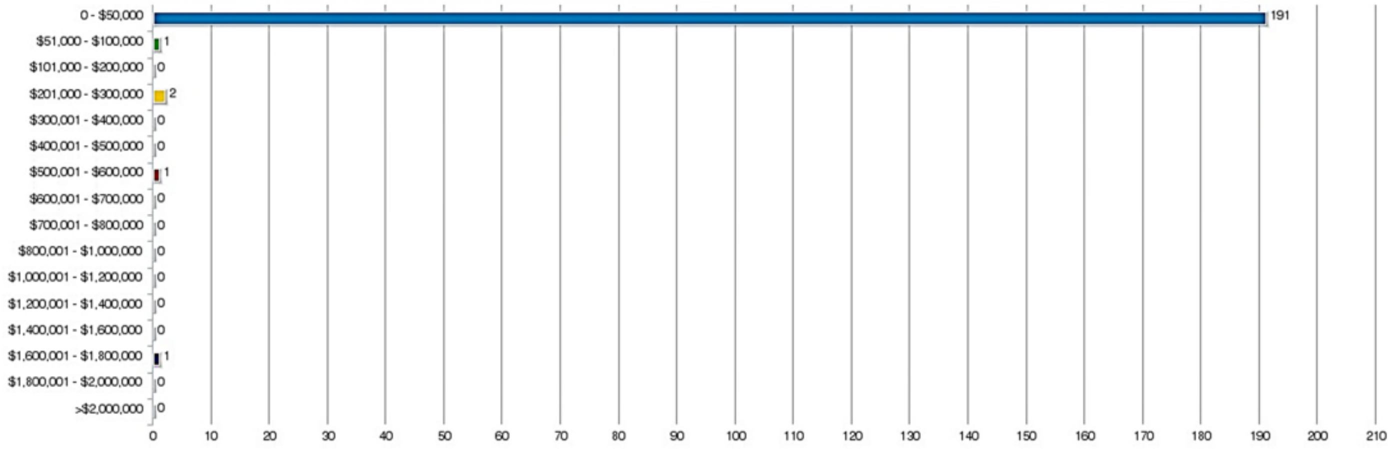
What is the dollar value of your annual domestic bulk sales (excluding all taxes)?



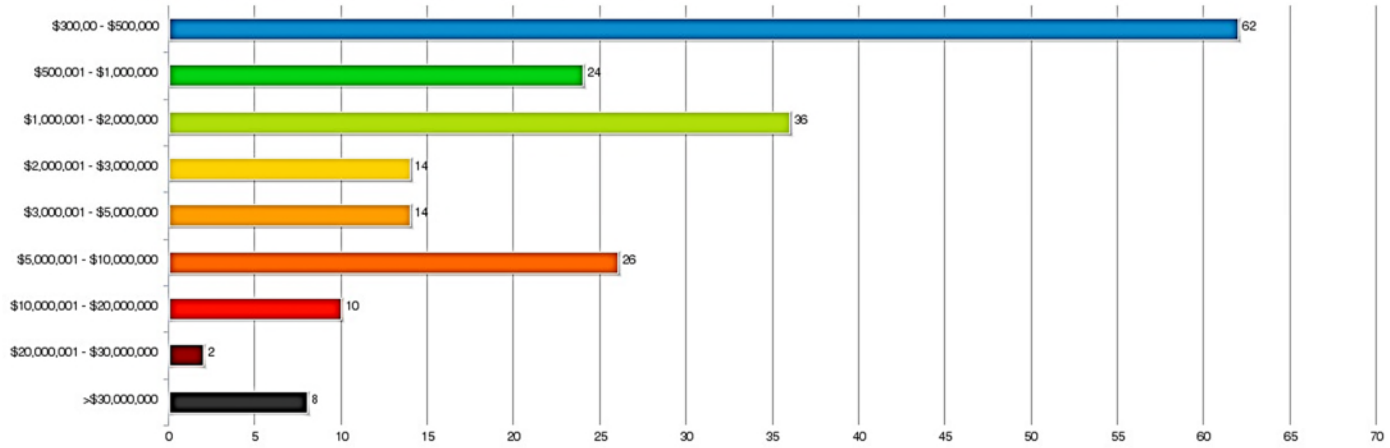
What is the dollar value of your annual export sales?



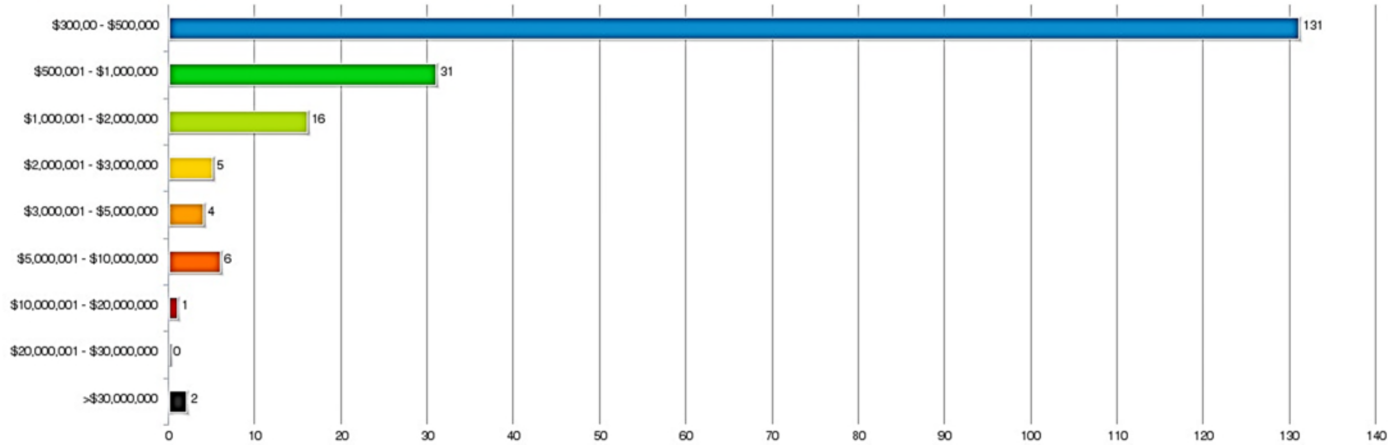
What is the dollar value of your annual bulk export sales?



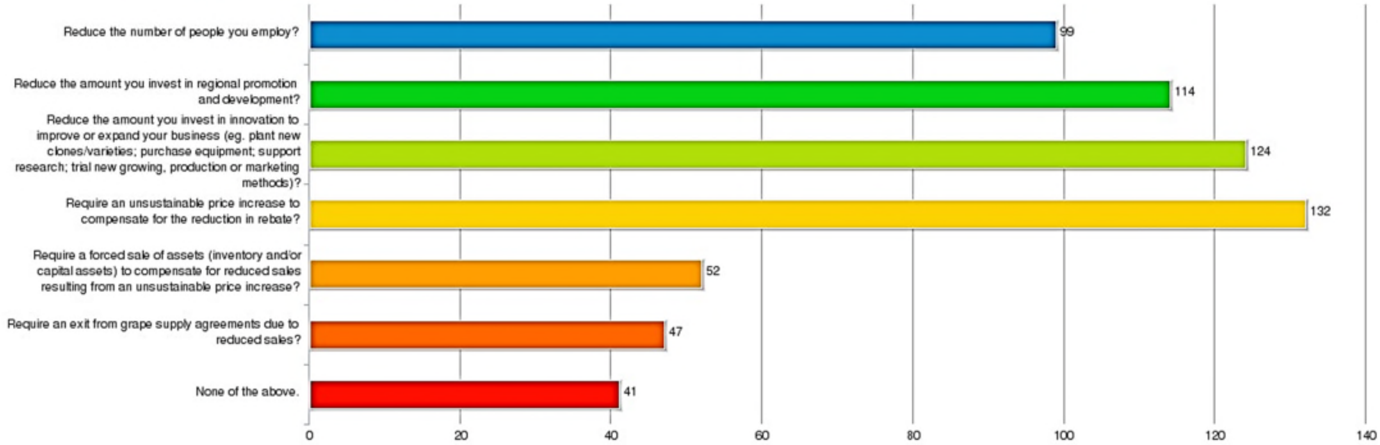
What is the dollar value of your investment in production (including vineyard and winery)



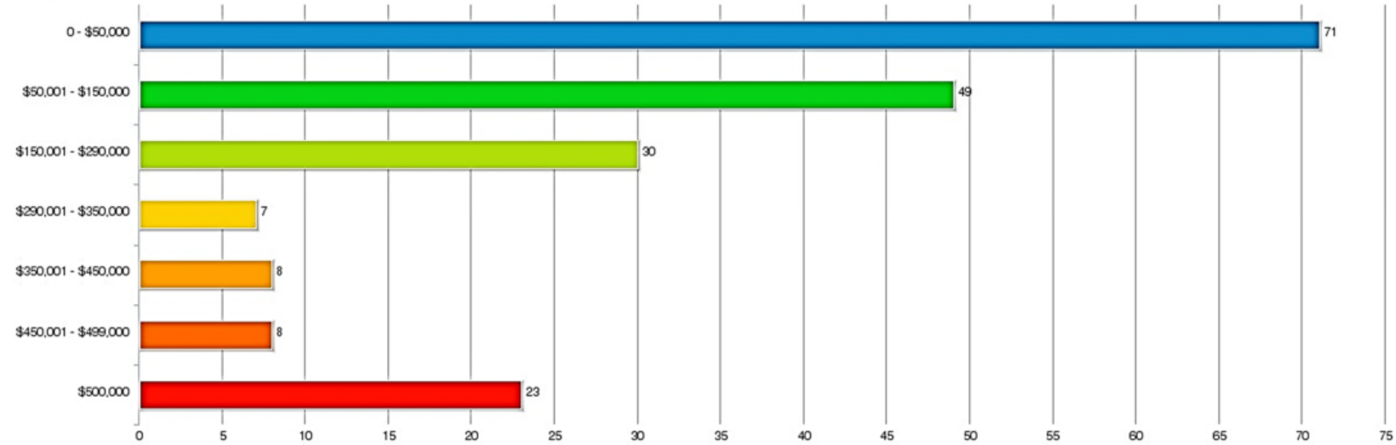
What is the dollar value of your investment in cellardoor/wine tourism?



Would a reduction in the WET Rebate available to your business:



What is the dollar value of your annual WET Rebate claim?



Would you support a simpler and fairer taxation mechanism such as a per litre, category based (taxed differently to beer and spirits) under the WET legislation that is revenue ne