



Riverina
WINE GRAPES
MARKETING BOARD

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Submission to the

Wine equalisation tax rebate – discussion paper

September 2015

Introduction

The Wine Grapes Marketing Board (WGMB) is the largest representative body of independent winegrape growers in the state of New South Wales. It represents independent producers in the NSW Riverina region, centred on the City of Griffith and the Local Government Areas of Leeton, Carrathool and Murrumbidgee. The region growers produce approximately 20% of the national crush and supply winegrapes to wineries based predominately in the Riverina region.

In 2015 the production of winegrapes in the region was in excess of 320,000 tonnes which includes winegrapes produced on winery owned properties. The majority of the regions production of wine is exported with an estimated value of close to \$1 billion dollars FOB.

The WGMB is constituted in accordance with the *NSW Agricultural Industry Services (Regulation) 2009* and it provides industry services as prescribed within the regulation. WGMB derives the majority of its income from a service fee levied on its constituents at a current rate of \$3.90 per tonne in accordance with the legislation.

Please accept the following in response to the questions set out in the *Wine equalisation tax rebate discussion paper August 2015*.

1. Is the WET rebate delivering benefits to the wine industry and/or contributing to distortions in the wine industry? How?

The WET Rebate is funding the operation of many processing facilities as growers in large numbers opt to process grapes into wine rather than sell winegrapes directly to wineries. This has primarily been prompted by low winegrape prices in the market and the ease of access to the WET rebate.

The benefits of the rebate in this instance are being felt predominately by the wineries whom are able in most instances to maximise their infrastructure efficiency through higher throughput and charge a market rate for the act of processing, manufacture and storage of wine.

Low winegrape prices are a symptom of a market in oversupply and increasing competition in the domestic and export markets. It has long been known that the winegrape industry has had serious supply issues and these have been noted in public industry documents such as the Wine Restructure Action Agenda and the recent Grape and Wine Summit 2015 that sought to work towards ways to return the industry to profitability.

Low grape prices have led many winegrape growers to look at other mechanisms to increase profitability. The claiming of the WET Rebate has enabled many producers to access up to \$500,000 of rebate to counter declining grape prices. These growers have been able to calculate

that the costs of processing and marketing their bulk and or packaged wine products has enabled them to remain somewhat profitable within the industry.

It is important to note that through the process of growers entering the wine market a number of growers are now serious brand owners that supply major retail chains and restaurants while the remainder simply sell bulk wine and unbranded product into the market to recoup production costs and endeavour to make a profit.

If these routes to market and the possibility of receiving up to \$500,000 in a rebate were not available many of these grower producers would have exited the industry due to sustained low profitability over many years. WET Rebate schemes have flourished in areas while winegrape prices have remained low and in most cases well below the costs of production.

2. Is the future sustainability of the Australian wine industry linked to the production of high quality wine? How?

The future of the Australian wine industry is linked to the profitable sales of wine at all price points not just the so called "high quality" wines. If we cannot return a viable profit through the supply chain at all category points then the industry will suffer. There is no sense producing wines that are not viable, however within the current policy conditions the production of wine at all price points in being impacted by the subsidy of the rebate. The market is being distorted by the WET rebate as evidenced by the increasing number of business that are joining the industry to try and access this.

Sustainability equals profitability for all sectors of the industry. Since the year 2000 the price of wine has not altered greatly, in fact for some major brands the retail price has declined, while being excellent for consumers it has been detrimental to the industry. Consolidation of the retail market domestically and the fluctuations in the dollar internationally have not provided for a stable market platform. As an example a wine that was retailing at \$12 per bottle in the year 2000 can now be purchased at around \$9 per bottle through the major retail chains. The manufacturing costs of wine production over that time may have declined through efficiency gains and technology advancements but the on farm inputs such as labour and chemicals have increased in costs. The \$12 per bottle wine should be worth greater than \$15 per bottle in today's terms but consumers are extremely price sensitive and the availability of WET rebate subsidised wine in the market is creating a false market.

3. Is there a policy case to be made for the WET rebate continuing to operate in its current form?

The Rebate is open to rorting by related business entities as noted in the Discussion Paper multiple claims are a growing problem unless more stringent restrictions are put in place. Unless the rebate is completely removed proposed fixes such as minor amendments to definitions will easily be countered by clever schemes to undertake claims.

As it presently stands only one sector of the industry is eligible to receive the rebate, those selling wine and not all producers of winegrapes are able to become sellers of wine as there doesn't exist sufficient processing capacity and storage facilities within the market to undertake increased growth in this area. Also the current system allows for business that do not even need to own a processing facility, a vineyard or even purchase winegrapes in the market to buy and sell wine. The act of buying and selling of wine alone triggers the rebate without any major infrastructure investment or undertaking of agricultural risk by the claimant.

As the rebate is supposed to provide benefits to the wine industry shouldn't the policy case be made that the rebate must benefit all the industry from growers to the processors? There is no evidence to suggest that this current policy is benefiting the entire industry but anecdotal evidence to suggest that it is damaging the industry viability and profitability.

4. How could the WET rebate be redesigned to better support the wine industry?

If the WET rebate was removed from industry and the current amount of tax take was channelled back into targeted marketing for the industry the Australian wine industry could benefit enormously from this.

The flow on effects of a larger monetary spend in promotion would assist the domestic market problems facing the industry and help focus our export market promotions and penetration. It would enable the industry to really announce to the world market what a wonderful product that we have in terms of the quality and range available to meet all consumer price points.

The potential savings to Government from the removal of the rebate would also allow for grower focused programs that be aimed at allowing the industry to restructure which could see a reduction in the supply of winegrapes.

5. Should the purpose of the WET rebate be to support rural and regional winemakers only? How could this be achieved?

The WET Rebate should benefit the entire industry equitably or not at all. Presently only those that sell wine are recipients of the rebate but beneficiaries include winegrape processors and bottlers, sellers of packaging and labels. Growers that produce winegrapes for sale to

processors do not benefit from having to compete against Government subsidised winegrapes in the market.

6. What other policy goals should the WET rebate pursue? Why?

The rebate should not be available to sellers of imported bulk and packaged wines. There is no economic rationale or regional economic or tourism benefit to warrant a return at any level to foreign owned entities regardless of their registration for taxation within Australia.

Again it is important to remember that the growers within the industry are in urgent need of assistance, a policy goal would be developing mechanisms to assist these business once the rebate is closed as many of them are only viable with the rebate calculated into their business.

7. Should the WET rebate be abolished? Why?

The entire rebate scheme should be removed as it favours one sector of the industry to the detriment of the entire industry. As described previously if it remains it should benefit regional communities and develop tourism activities within wine production regions solely and not impact on the wine market by providing subsidised wine into the retail market.

The effects on the industry are continuing to increase therefore the removal of the rebate is critical and it should occur prior to the end of the current calendar year.

8. If the WET rebate was removed, what would be the likely effects for the wine industry?

If the rebate was removed in its entirety some business that have been propped up by its existence would be forced out of the industry. This could include many small to medium wineries and growers (of all sizes) that are surviving on the rebate to supplement the low returns currently being obtained from just selling grapes into a crowded competitive market.

Without the existence of unviable business models within the industry those winegrape producers that have efficient operations will likely thrive as will wineries that have undertaken massive investments in infrastructure efficiency gains over the past years.

The existence of bulk wine that is offered for prices below the nominal costs of production will reduce and provide a relieving effect on the overall market price for wine in Australia. With a large number of WET rebate claimants arising in recent years retailers and wineries have had access to bulk wine deals that:

(a) subsidised their own business operation by enabling more efficient usage of processing equipment and

(b) allowed them to continue to access wine at discount rates.

The effects were likely more pronounced by the involvement of the major retailers in Australia, Coles, Woolworths and Aldi etc. These retailers offered access to markets and could “shop around” for the right variety, style and price that included the WET Rebate as a negotiated discount. Whereas existing wineries that were required to sell via a major retailer for a majority of their production could only claim a rebate once across their entire business the retailers could benefit by seeking discounted rates on purchases from smaller players in the industry as it shopped around, even if the wine was destined to be labelled as buyers own branded product.

If this market distortion was removed the price for wine would increase commensurately, the WET take (income received) by the Government would rise and the potential return to the producer would not be impacted by the ongoing depressive effects of the rebate.

9. Should the WET rebate be replaced with a grant scheme that would phase out over a defined period of time? Why/not?

A grant scheme that applied to export market development and growth would be beneficial to the industry and allow the market participants incentives to look to the international markets for sales.

The domestic market is very crowded with increasing imports at competitive price points. New Zealand wine currently is also being subsidised in its sales into Australia via the rebate. If assistance could be provided to existing and new wine sellers in the market to export their product into export markets it would be of benefit to all.

Grants should also be offered to existing growers to look at on farm restructure redevelopment such as removing vines or altering production types, i.e. getting out of the winegrape industry. The Small Farm Exit Grants that were in operation in 2010 should be reviewed and made available for larger farm holdings to have a major beneficial impact.

10. Over what period of time should the grant phase out? What transitional arrangements should apply?

The wine grant process should be ongoing while the government charge a WET. It should be available on an annual basis to each individual ABN holder that holds a valid wine licence in the event they seek to develop export markets. As a scheme to increase export market sales would aim to benefit the country's balance of trade it could continue in perpetuity.

It is time that Australia started in earnest selling its wines overseas instead of waiting for the buyers to seek out our products we need to make a concerted effort in meeting with them regularly and developing relationships, particularly in countries and cultures where “having a face and growing a relationship” is important.

In relation to grower focused grants for exiting the industry these should last around 5 years. This will provide sufficient time for the industry to correct itself and refocus it's in ground varietal mix to align with a sustained export marketing program.

11. Are there other ways that the wine industry could be supported to restructure? What are they?

The government could look at assistance to redevelop vineyards into other emerging commodities. Low or zero interest loans to assist growers facilitate this would be appreciated. As it stands, a barrier to exit are the high costs of vineyard removal and the irrigation structures that are existing that are worth a great deal of money. Growers are reluctant to remove these without some form of compensation or incentive being made available.

Many of the wine grape producers are on small farm holdings of approximately 20 hectares in size. These are no longer considered by many to be viable. If the Government would focus some funding on assisting growers to amalgamate vineyards to reduce the overall running costs that are associated with irrigation districts, multiple inlet and drainage points these could be redeveloped as more sustainable sized holdings.

12. Should eligibility to the WET rebate be restricted by excluding bulk, unpackaged and unbranded wine?

The WET rebate should be removed in its entirety.

13. Should the definition of 'producer of wine' be amended to restrict claims for the rebate?

No removing the WET rebate in its entirety would suffice.

14. Should the WET rebate only be allowed for wine on which WET has been paid? Why?

The WET Rebate should be removed in its entirety.

15. If the cap was reduced, what should the maximum WET rebate be?

Zero.

16. If the rebate was only available for a proportion of the WET, what should that proportion be?

The WET Rebate should be removed in its entirety.

17. Should New Zealand producers' access to the rebate be changed? If so, how?

The WET Rebate should be removed in its entirety.

18. Should the WET rebate be replaced by a small rebate for independent Australian alcohol producers such as wineries, distilleries and breweries?

The WET Rebate should be removed in its entirety.

19. Would any significant changes to the rebate require transitional arrangements to help the wine industry restructure? How should transitional arrangements be designed?

The industry should be concerned that the rebate system in its current form has created unsustainable business models and continues to distort the market. It should ideally be removed prior to the commencement of the forthcoming vintage 2016.

Written by: Brian Simpson CEO
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