



*Riverina*  
WINE GRAPES  
MARKETING BOARD

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Wine Grapes Marketing Board

Submission to the

Wine Equalisation Tax Rebate: Tightened Eligibility Criteria  
Implementation Paper

October 2016

## **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 Southern 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 supplying winegrapes to wineries based predominately in the Riverina region.

In 2016 the production of winegrapes in the region was in excess of 314,000 tonnes which includes winegrapes produced on winery owned properties (growers make up approximately 75% of these tonnes). The majority of the regions production of wine is exported with an estimated value of close to \$1 billion dollars FOB.

The WGMB is Statutory Authority 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 charged on its constituents at a current rate of \$3.90 per tonne, the amount is approved annually by a quorum of members.

## **Feedback to Implementation Paper**

The Wine Grapes Marketing Board does not support any reforms to the WET Rebate as proposed in the Implementation Paper. The Board supports in part many of the recommendations that have previously been made by the Senate Inquiry into the industry that recommended to phase the WET Rebate out and transition the industry toward a grants based scheme to encourage further export growth by the industry. If the WET Rebate were to be removed the Government could provide annually assistance of up to \$50 million to industry to undertake promotion based activities and the Government would financially be in a better position and ultimately so would the industry.

The entire WET Rebate system needs to be promptly removed to allow the industry to find its own way without Government financial support. If the Government is not prepared to consider doing this then it should look also to provide financial incentives to winegrape growers to remain viable. The Board is a lone voice in its view to remove the WET Rebate having in the past tried to convince the grape grower industry body that its removal was warranted and necessary. Furthermore it is generally disappointed that the industry's peak grower representative body is more focused on supporting winery financial benefits than looking out for growers' interests.

It is critical to note that no matter what product format (volume of container), definition of packaging, trademarking or winery leasing arrangement is ultimately deemed appropriate throughout this implementation process the wine industry will find ways and means of subverting the definition.

The entire context of this implementation paper has been subverted by industry in that it is not just the conversion of uncommercial grapes into bulk wine that is compromising profitability in the wine industry rather the insistence by industry that unprofitable business should be subsidised by the government on an annual basis. The continuance of such provisions allowable by the Government are prolonging the industry's ultimate return to profitability.

The industry view that is being espoused of preventing access to the rebate by persons that do not own or lease a winery (that is yet to be adequately defined) is seeking to prevent legitimate industry participants such as grape growers from taking up the opportunity that the rebate presents to industry, i.e. a subsidy. Growers are a major part of the industry and while the rebate remains they should be able to alter their business model to take advantage of the generous subsidy.

It is not appropriate to state that when a grower decides to process grapes into wine rather than sell grapes to a winery the product was or is uncommercial – this is falsehood and does not represent the actions of many business operators in this market. Many have taken the opportunity that the WET Rebate presents to increase their commercial benefit, in that they can still process and make a sale of the wine as a profitable endeavour and the WET Rebate provides a further financial incentive.

There are currently no opportunities for growers to obtain subsidies from the government to such an amount provided for in the WET Rebate. Only by applying for a wine licence and having their winegrapes processed at one of the many facilities in the country can growers hope to reap the financial benefits but at a level of risk.

The NSW State Government allows for almost anybody to apply for and receive a wine licence (producer/wholesaler licence) to manufacture and sell wine. In the past the volume of wine sold under this licence was limited but this has been removed completely and now no limits in terms of the sales volumes at cellar doors occurs. In fact many of the producer/wholesaler licences that have been provided in recent years state that the holder has a restricted hour's cellar door in operation when in fact these do not exist and it is believed that no checking of this occurs by the State based regulatory authority.

In the Riverina some of the people that hold a licence have no connection to the land or the processing industry, people from all walks of life, some are grape growers and employees of wineries even accountants hold licences to enable them to claim up to \$500,000 per annum on the trade of wine that they simply purchased and didn't manufacture from grapes that they produced in a vineyard.

In an action that is contrary to government commentary, i.e. if you are not financially viable you should look to exit the industry and undertake other activities, the government have allowed non-viable business models to prosper (under-performing wineries and now growers) via the ongoing rebate provision to the

industry. Many of these would not exist had it not been for the generosity of the governments rebate, many business would never have been created except for this rebate/subsidy.

Such inaction by successive governments has led to an industry that has not overly prospered and domestic consumers and allegedly in many instances export customers have become the major beneficiary via government subsidised wines being readily available in a cheaper format . The retail price of most wines in the market place domestically have not risen over time but the numbers of claimants to the WET Rebate have according to reports.

If the Federal Government was serious about the implications of this taxation rebate/subsidy to industry and its ongoing destabilising impacts it wouldn't be looking to tighten the eligibility of the structure, it would be looking to remove it to allow the Australian wine industry the ability and fortitude to survive in its own right and not via that of a rebate/subsidy.

### **Who benefits from the rebate?**

Wineries and consumers are the main beneficiaries.

- Wineries are able to process on behalf of claimants whom would otherwise may not process their grapes but rather sell them to a winery. Thus providing the wineries with throughput and improved economies of scale for their processing facilities.
- Consumers benefit as wines are heavily subsidised by the Government in their production (approximately \$300 million per annum and climbing) and make it to the domestic market cheaper.

Written by: Brian Simpson CEO  
Riverina Wine Grapes Marketing Board  
[bsimpson@wgmb.net.au](mailto:bsimpson@wgmb.net.au)  
Ph: 02 6962 3944 Mb: 0438 388 828