Riverina
WINE GRAPES
MARKETING BOARD

Riverina

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Submission in response to the National Alcohol Strategy Consultation Draft

February 2017

Introduction

The Wine Grapes Marketing Board (the Board) is the largest representative body of independent winegrape growers within New South Wales. It currently represents 325 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 grows approximately 20% of the national winegrape crush.

In 2017 the production of winegrapes in the region was in excess of 360,000 tonnes which includes winegrapes produced on winery owned vineyards (growers make up approximately 75% of the total tonnes produced in the region). All wine grapes produced are processed into wine, wine concentrate and wine spirit.

Finished products are sold by the regions wineries domestically and into major export markets across the world. Products are manufactured into many formats, bottles, casks and sold as bulk wines.

The WGMB is a 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. The current rate of $3.90 per tonne applies and this the amount is approved by our member base annually in accordance with the regulations.

The Board is also a member of the New South Wales Wine Industry Assocaition.

The Board's position is to ensure that any proposed changes to the taxation treatment of wine will not have a deleterious effect on the regions growers and therefore the local economy.

National Alcohol Strategy

The Board acknowledges that alcohol can play a negative role in the society if not consumed correctly or in moderation and that appropriate steps need to be taken to ensure harm minimisation of consumers and to the protect vulnerable members within our national community.

The consultation draft draws from many reference documents and the Board notes that the draft makes numerous references to the National Drug Strategy Household Survey 2016. Upon reviewing this document in its entirety it is interesting to note that there have been many improvements within Australia in the areas of drug and alcohol consumption that need to be monitored and surveyed in coming years. Perhaps more persons surveyed to obtain a better benchmark rather than simply using of small sample size of only approximately 20,000 persons.

With regard to alcohol consumption within Australia it is acknowledged that it is widespread and deeply entwined with many of our sporting, social and cultural activities.

When addressing the issue of use and trends it is important to note that there are changes occurring within this landscape (as stated in the National Drug Strategy Household Survey 2016).

- Compared to 2013, people were drinking less frequently.
- Younger people are drinking less.
- Drinking in excess of recommended lifetime guidelines continued to decline.
- Abstainers to drinking continued to increase.

The survey is a good benchmark that indicates that change can and is occurring within Australia that has been brought about by changes to better government programs on education on alcohol, reductions and restrictions on advertising and regulations around packaging. Changes to the access to alcohol, availability to mid-strength and lighter content options for consumers and even lock out laws have attributed.

The 2016 survey shows that Australia is on the correct path in terms of reducing the harmful effects that can be associated with the inappropriate consumption of alcohol. These slight adjustments need to be targeted and recognised as the first step in the process of change. Changing the cultural identity of the nation through education of the youth and programs to assist and inform is highly appropriate.

The introduction of regulatory measures such as the compulsory training for workers serving alcohol "Responsible Service of Alcohol" have had an impact not only in licenced premises where certification and training are required prior to employment but at private venues where educated persons are making better informed decisions about alcohol due to the higher proportion of the community with some level of training and knowledge of the effects.

Perhaps the government should also look to address cultural change through education if it is felt that the home environment is not providing sufficient guidance in this area. Perhaps look at making a course with a similar structure as the Responsible Service of Alcohol a compulsory unit for all persons under the age of 18 and delivered during their high school education would have better outcomes than applying a blunt instrument such as taxation which punishes all consumers by applying a cost burden to society which in turn works to build resentment.

Wine is different and its taxation treatment should remain different

The Australian wine industry is a growing success story and it has cultural and economic benefits to the regions that grow and process winegrapes. Grape producers are generally family enterprises that toil to produce winegrapes to exacting standards set by wineries so that the resulting wine meets consumer requirements within the domestic and export markets. These family enterprises make up the social fabric of the wine regions in Australia and in the Riverina region of New South Wales the 325 family enterprises invest back into the region economy at a significant level. The same would occur across all of the countries wine regions which has seen many of these winegrape regions in Australia become significant cultural identities and tourist attractions in their own right. This isn't the case with other producers of other forms of alcohol (with the exception of meads and ciders). There is no romance in harvesting barley for use in the manufacture of beer or distilled spirits.

From when a grape is crushed it could take as little as 2 months before the wine is ready for consumption up to a number of years depending on the style of the wine, the variety and the region. It is a transformative process of taking that year's crop and making something that can improve as it ages in the right conditions.

The Board is very concerned that the consultation draft refers to taxation as a means of reducing consumption by making all forms of alcohol level in their taxation treatment. There has been a lot of work undertaken by the wine industry in relation to this that shows that a change to a volumetric wine tax system will have a deleterious effect on the economy in this region and those other regions particularly that service the entry level segment of the wine industry.

A change in the taxation treatment it will have economic benefits to regions that charge a higher price for their wines making these more affordable to the consumer. It could be said that such a tax change would benefit the wealthy and impact negatively on the poorer segments and the most vulnerable within our community.

If the proposed changes where to occur to the taxation treatment of wine the vast majority of supply contracts in the NSW Riverina region would be terminated as per a clause that has included within these which will allow them to remove themselves from the .

The threat of a taxation change has been apparent for a long time and to counter this wineries have included a termination clause in any contract signed with growers that would allow them to terminate the agreement to purchase winegrapes. Wineries acknowledge that changes such as those proposed in the Draft Consultation paper would impact wine sales volumes and they are prepared for this and will seek to walk away from the contractual agreements with the regions winegrape producers.

Growers would be left with no option or ability to sell their winegrapes and likely foreclosures of many family business would result.

The Wine Grapes Marketing Board urges caution on any change or amendment to taxation as it will have unintended consequence that go far beyond the purpose of the proposed strategy to reduce the harm associated with alcohol consumption.

Government intervention a cause for better planning

In the past within Australian viticulture the federal government provided taxation incentives such as a mechanism that allowed for the accelerated depreciation of vine plantings to entice entrants into the industry. These incentives led to an increase of vineyard plantings and therefore increases in wine production above that which the market was capable of profitably selling. This intervention caused major upheaval within the industry with an oversupply of winegrapes came a reduction in returns to growers which in turn led to many winegrape producers not being able to meet costs and having to exit the industry.

The incentive was designed to assist the processing industry in meeting its market growth prospects but it severely overheated the production base of the industry and led to massive loses for growers across many years until vines were removed from production and in some cases market growth absorbed the extra production.

Following the introduction of the Goods and Services Tax (GST) and the removal of the Wholesale Sales Tax (WST) that was applied to wine, the industry had the Wine Equalisation Tax (WET) imposed upon it in an effort to provide consistency in the taxation yield to government by equalising the amount they collected after the GST was introduced. The WST yielded a greater amount of taxation than the 10% GST being introduced and it would have resulted in cheaper wines being available to consumers.

Resulting from successful lobbying by the wine processing industry a WET rebate scheme was developed that is still in operation today albeit in a reduced capacity. The rebate scheme was touted to assist in the development of regional business and tourism and in most parts it did. The scheme was so successful that many within the industry developed means of claiming the rebate for the sole purpose of financial windfall.

The WET rebate scheme allowed for wine companies to claim back WET paid up to $500,000 per annum provided certain conditions were met. The rebate continues today in a reduced return format and it still allows wine to enter the domestic market at low prices.

Prior to altering the tax treatment of wine as is being proposed in the draft strategy it would be best if the Government looked at all subsidies that are applying to wine within the domestic market and review their impacts on the price of bulk format wines and how this allows wine companies to offer into market low price wines to consumers.

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