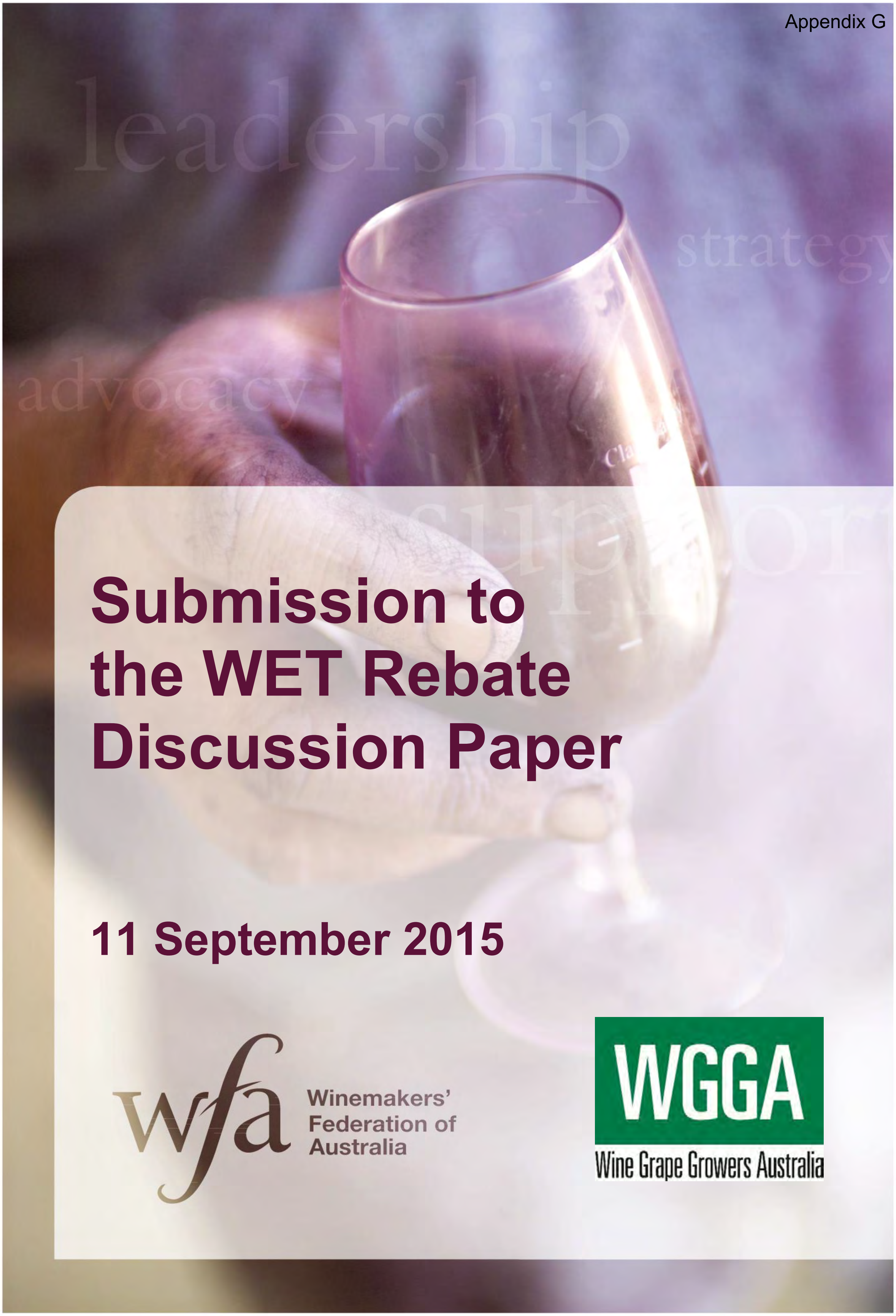
Appendix G



Submission to the WET Rebate Discussion Paper

11 September 2015

Winemakers' Federation of Australia

WGGA
Wine Grape Growers Australia

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1. Introduction

The Winemakers' Federation of Australia (WFA) and Wine Grape Growers Australia (WGGA) are pleased to make this joint submission to the Federal Government's discussion paper on the future of the Wine Equalisation Tax (WET) rebate. As the two national peak bodies representing winemakers and grape growers, we are proposing that the WET rebate be retained and that certain reforms are undertaken to restore its integrity and deliver its original policy intent.

Our proposals detailed in this submission have been developed over 2 years and are backed by extensive analysis, industry-wide consultation, independent modelling, expert legal advice and consensus decision-making. We believe they have majority support in the industry as evidenced by the backing from the memberships of the two national peak wine organisations and the letters of support for this submission from all state wine organisations which are attached.

The WET rebate remains an important revenue source for wine producers in both the fine wine and commercial segments which are struggling with a decline in export sales and intense competition in the domestic market. Similarly, it is important for some grape growing businesses who, due to the loss of supply contracts, have chosen to make wine. It is clear that a significant number of grape and wine businesses would be severely impacted financially without access to the rebate. Whether originally intended or not, the rebate has been factored into business models and pricing strategies at all points in the supply chain.

There are also widespread concerns that the WET rebate has evolved beyond its original intent of supporting local employment and tourism in wine regions, and is being compromised on three fronts:

1) The ability of brokers, intermediaries and uncommercial arrangements to access the entitlement;

2) The role of the rebate in delaying the correction to the supply/demand imbalance by underpinning the conversion of uncommercial grapes into bulk wine and ultimately low-equity cleanskins and home brands; and

3) The ability of New Zealand entities to access the entitlement on unfair and preferential terms.

WFA and WGGA, with the support of all state wine industry associations, are backing reforms to the rebate. The proposals outlined in this submission will better align the rebate's originally intended purpose and benefits with the future sustainability of the wine industry. In summary, we believe that the Government should;

- Stop the WET rebate going to unintended recipients and shut down the schemes;

- Keep the WET rebate within the original policy intent of delivering long-term benefits to industry and tourism in regional Australia;

- Phase out the WET rebate on bulk and unbranded wine over four years because we need strong brands to command margin and loyalty from consumers and retailers and to generate the profits that can be reinvested back into regional Australia;

- Abolish the separate New Zealand rebate scheme and its preferential treatment of NZ producers and replace with a 'level playing field' for all rebate claimants regardless of nationality;

- Encourage consolidation by introducing transitional rebate measures to allow the second rebate on a merger of two businesses entitled to the rebate to remain with the new entity but be phased out at 25% per year over 4 years.

The details of each of these reform measures and what the Government must do to deliver them are in this submission. Each can be introduced and implemented quickly and we request the Government make these changes urgently at MYEFO 2015.

Once implemented, WFA and WGGA will, in consultation with industry, analyse the impact of reform and continue to assess the WET rebate and whether further policy reforms are required including those options raised in the Discussion Paper. Our shared focus remains on facilitating a return to sustainable profitability for the industry and any further reform measures that emerge in the future to help deliver this outcome will be considered closely. Improving the level of data and analysis on WET rebate claimants by the ATO, and sharing this with industry, will also play a critical role in enabling informed policy development.

In proposing our reforms to the WET rebate, global accounting firm PwC have conservatively estimated $278million over four years in potential savings to the Commonwealth. We are seeking $44m of these savings to be returned by the Government to the industry's statutory authority – the *Australian Grape and Wine Authority* (AGWA) – to supplement their marketing budget for the promotion of Australian wine in key overseas markets. The timing for this measure is now, given the growth opportunities afforded by an improvement in the AUD/US exchange rate and early signs of strengthening consumer interest in the prized North American market.

Boosting the promotional activities of AGWA as outlined in this submission will also maximise the potential export opportunities created by the Government's signing of recent Asian Free Trade Agreements that are critical to the cost competitiveness of Australian wine. This would serve as an important demonstration of the Government and industry working hand-in-glove for the global success of an iconic, regionally-based and globally competitive Australian industry.

Companies have always assumed a prominent role in promoting Australian wine overseas. Their contribution to raising the perception of Australian wine as a category, through their own example, has been weakened by low profitability. Boosting contributions to, and making eligibility for the Government's Export Market Development Grants more flexible, will also help kick-start company promotions and activity in overseas markets.

Notwithstanding the importance of a demand-led recovery, continued adjustment in supply will also contribute to improved market prospects of Australian wine by accelerating the transition and improving the supply-demand balance.

Moreover, WFA and WGGA recognise that some support will be required for grape and wine businesses that will be adversely impacted by the reform measures proposed in this submission.

Provisionally, the support may include transition programs when WET rebate access is removed or adjustment programs that facilitate uptake of more suitable business models, initiatives to address barriers to vineyards exits, to facilitate quicker turn-over in vineyards, capability building among vineyard operators, improving market operations that hasten market forces to bring about adjustment or innovation in vineyard management.

WFA and WGGA will develop such proposals further in consultation with AGWA and the Government.

WFA has undertaken over two years of industry-wide consultation and detailed analysis in preparing the proposals outlined in this submission. They are supported by the two national peak wine industry associations because they will help deliver an uplift in demand and adjustment in the supply-demand imbalance. The resulting improvement in prices, wine company and grape grower margins, and investment in regional winegrowing communities will be timely and urgent given the lengthy downturn the industry has already endured.

We look forward to working closely with the Government on the recovery of the wine sector and on delivering the outcomes of the Discussion Paper at MYEFO 2015.

Paul Evans
Chief Executive Officer
Winemakers' Federation of Australia

Lawrie Stanford
Executive Director
Wine Grape Growers Australia

2. The Recovery of the Australian Wine Industry and the Case for Increased Funding for Marketing and Growing Demand

The Winemakers' Federation of Australia (WFA) has developed a comprehensive plan to restore profitability to our wine businesses and secure the futures of those regional communities and jobs that depend on their success. This blueprint for recovery entitled *"Actions for Industry Profitability 2014-2016" (referred to as the 'Actions')* was developed following extensive industry consultation and has the majority support of the Australian wine industry. It was publicly released in December 2013 and incorporated the findings of an independent expert review on the profitability and dynamics of the Australian wine industry, completed in August 2013.

While implementing the WFA Actions for the industry's recovery continues to be led and predominantly financed by industry, it also requires Government support to:

1. Provide finite funding of $43.4m[1] over four years to the Australian Grape and Wine Authority (AGWA) to grow the demand opportunity for our wine and multiply the benefits of recent FTAs; and

2. Retain the rebate but make limited legislative changes to the eligibility for the Wine Equalisation Tax (WET) producer rebate to restore integrity and return the rebate to its original policy intent and to ensure it is financially sustainable.

These two initiatives stand on their own and should both be progressed by the Government. As a package they will also enable Government to:

3. Use the significant savings from WET rebate reform to fully offset the $43.4m in proposed new spending to AGWA and to deliver a conservatively estimated net savings to the Commonwealth of at least $234m over the Forward Estimates.

WFA's proposals are underpinned by detailed legal advice on what specific reforms are needed and the basis for those changes. Our recommended saving measures are fully costed with supporting economic modelling provided by PwC..

1. Provide finite funding of $43.4m over four years to AGWA to grow the demand opportunity for our wine

Background

The Australian wine industry enjoyed considerable success from 1991 to 2007. It more than tripled in size from less than 400 million litres to 1.2 billion litres and achieved total revenues of $5 billion in 2007. The value of exports grew from $212 million to $3,004 million. The industry and many of its participants built an enviable global reputation for producing quality wine and created strong export markets particularly in the UK, US and Canada.

However, from 2007 a confluence of events confronted the sector with a number of challenges that are on-going:

- The global financial crisis hit world markets starting in August 2007 and accelerated through 2008—coinciding with a significant fall in Australian wine exports. Export volumes recovered

[1] In WFA's Pre-Budget Submission, the figure of $25million was proposed. Subsequent further consultation with AGWA has confirmed the need for an increase to this figure, in large part owing to the poor performance of Australian wines in the North American market in spite of the recent turn around in the AUD/US exchange rate and to maximise the export opportuntiies created by the recent Asian FTAs.

through 2009, only to fall again in 2010 and 2011 including a fall in demand for Australian wine in key markets, especially the US, UK and Canada, from 2007 to 2012.
- From 2004 the Australian dollar rose steadily to almost parity in July 2008. A sharp fall to 62 cents in August 2008 preceded a steady climb to parity in November 2010 and beyond.
- Domestic retail consolidation which has resulted in approximately 77% of all off-premise wine sales now being controlled by the two national grocery chains.
- Flat domestic demand growth and an increase in imports.
- A supply-demand imbalance resulting from excess planting and wine making capacity given the 'unexpected' fall in export demand and rise in the Australian dollar.

The priority Actions for the sector's recovery are those aimed at rebuilding global demand for Australian wine by boosting the marketing and promotion of our offering. Australian wine at all price points continues to be a globally competitive product and our Actions focus on securing the necessary funding required by AGWA to market and promote our wine to the world.

The need to secure $43.4m of government funding over four years for AGWA is urgent and has strong backing from industry. The recent decline in the Australian dollar and some early signs of strengthening consumer demand (particularly in the key U.S. market) opens a limited window of opportunity for Australian wine to recapture the attention of our traditional markets. The recent signing of important FTA's in key Asian markets also provides an opportunity to multiply the benefits generated by the reduction in tariffs with in-market promotional campaigns. The newly appointed Board of AGWA has developed its 5-Year Plan in response to these developments and the time to provide additional funding is now.

If adequate resources are not secured to seize the potential created by this positive confluence of events, Australia will continue to struggle to remain competitive against lower cost New World wine producers and Old World wine producers who enjoy substantial government subsidies[2]. In comparison since 2005/06 the industry-sourced annual revenue base of the Wine Australia Corporation (now AGWA) has been steadily eroded by around $4m, reducing both core operating capability (including staffing and offices in key overseas markets) and the reach and impact of our promotional activities aimed at influencing wine buyers. Total AGWA expenditure on marketing activities is estimated to decline to $5.6m in 2014/15. This decline in the capacity to spend on marketing Australian wine has led to the Australian category losing support among some traditional distributors and importers and potentially we are not well placed to capture the full opportunity presented by the 'Asian Century' and emerging markets such as China.

Following consultations with AGWA and the broader industry, we recommend a minimum of an additional $2m per annum is required over the next three years to supplement AGWA's current operating budget. This short-term assistance will provide AGWA with the means to restore our core global marketing capabilities and an appropriate level of global representation. To enable AGWA to also undertake the specific in-market activities we believe are required, a further $10.9m in Year One, $12m in Year Two and $10m in Year Three and $4.5m in Year Four will also be needed. While this support will see the annual budget for AGWA exceeding previous levels, we believe this investment, along with the implementation of the other Actions by industry, will deliver uplift in performance and profitability. In turn, this will restore levels of industry contributions and enable the sector to once again meet its own marketing needs by the end of the Forward Estimates. That is why all the proposed spending proposals in this submission are short-term or one-offs.

By making this investment, WFA and WGGA believe we can increase the market share, support regional economies and employment and grow the tourism spend. In time, this will enable the level of industry contributions to AGWA to recover.

[2] Under the Common Agriculture Policy, the EU spent approximately €143 million in 2012, and another €228 million in 2013, on promoting the wine exports of countries such as France, Italy and Spain

Recommended Measures

AGWA should be adequately funded to rebuild its core operational capability.

As noted above, AGWA has faced declining levy-based budgets and increasing fixed costs, and therefore has significantly reduced operating costs, restructured its operations and made difficult decisions about where to focus limited resources. Indeed, additional cuts will be required if alternate revenue sources cannot be found, including further reductions to in-market representation and the withdrawal from some markets altogether. It is estimated that to reach the desired level of operating capability, AGWA will require an additional $2m per annum over the next three years.

Recommendation 1.1

Measure: Government to assist in rebuilding AGWA's core operating budget

Budget Implication: $2m from 2015/16 for three years.

	Year 1	Year 2	Year 3	Year 4
1.1 Government to assist in rebuilding AGWA's core operating budget	($2m)	($2m)	($2m)	

Global Marketing Activities

In recognising the critical importance of category-level marketing to growing demand for Australian wine and shaping appreciation for our diversity and quality, we believe there are a number of existing and potential AGWA programmes that will re-engage international and domestic consumers beyond price and convenience.

The key will be to change perceptions and raise awareness of the value presented by the category across all price points, bringing into the consumer conversation the breadth of styles, the characters and the places that give our wines their distinctive personalities and make them uniquely Australian.

WFA believes we need to reposition Australia's best wines as being second to none, and also promote the quality, diversity and value of the wider Australian branded category. The overall aim is to restore "excitement" in the Australian category, and provide a strong basis for a more concerted industry effort to compete for sales against our competitors, return better margin to producers and anticipate and shape emerging consumer trends. The specific programme initiatives are:

1. *Establishing a much stronger presence at key trade shows*

   Developing appropriate branding of larger scale pavilions and making a greater statement at these key shows is important, particularly in Asia, where face and image are vital considerations. Australia's presence at these shows is currently fragmented and understated in comparison to competitors, and this needs to be addressed. Target shows would include ProWein (Germany and China), the Hong Kong International Wine and Spirits Fair, London International Wine Fair, and Vinexpo.

2. *Implementing the Food and Wine Strategy*

   Under its MOU with AGWA, Tourism Australia will invest dollar for dollar in activities developed from a jointly created food and wine strategy. The underlying consumer facing campaign (currently in development) seeks to establish a more premium perception of Australian wine and make our food and wine offering more compelling for travellers to and within Australia.

Additional market development investment needs to be channelled to this campaign in order to effectively target consumers in China, the US and the UK.

3. *Greater investment in education in key markets*

The education of trade, key influencers and other gatekeepers is crucial in building a stronger perception of the quality and diversity of our wine offer. We believe AGWA's education programs, delivered under the name of *A+ Australian Wine*, are achieving cut through. However, extending this to reach more supply chain participants and facilitate consumer facing education programs would accelerate the development of our premium offer in key markets. Partnerships could be further developed between AGWA and key global wine education providers such as the Court of Master Sommeliers and Wine and Spirit Education Trust to improve Australian wine related content and delivery in their syllabi.

4. *Visitors Program*

The Visitors Program is important for changing the attitudes of international trade and media, and establishing a greater understanding of the diversity of Australian wine regions, the quality of our wines and the people who make them. Greater investment in this program would allow us to reach more key influencers and provide a deeper immersion into our wine regions and better overall experiences. In addition, funds could be invested to support regions in up-skilling, and improving visitor experiences.

5. *Domestic wine tourism, social media and regionally-based initiatives*

WFA also supports increased investment in domestic marketplace initiatives and the development with the trade of consumer events and activities in capital cities and regional centres. Building the Australian wine category in the domestic market and raising the awareness of wines and regional experiences available from our own backyard must remain a priority if we are to recover share from imports. Such programs could potentially link with other industries, including food and tourism and take full advantage of the recent decline in the Australian dollar against the currencies of importing countries.

We are also seeking support for AGWA to develop and execute two new industry wide initiatives:

- A social media-based platform to promote Australian wine: While many cellar door operators already have successful web-based sales formats, research on the potential of social media and web-based sales platforms can provide AGWA with a better understanding of the opportunity for the sector and how best to leverage the category offering online.
- Regional promotions: In partnership with progressive regions, AGWA with the support of the Australian Government to undertake regional promotions in key markets and with key channel customers. This would include getting wine into the hands of consumers with in-store tastings, by the glass promotions, strong branding and in store/on premise collateral.

6. *Savour Australia 2016*

The benefits of government support for staging key events has been evidenced by the success of the Savour Australia 2013 event which has already had a significant impact on demand for Australian wine internationally. The event was a major success that leveraged a government grant for the benefit of the industry and the country as a whole.

Savour galvanised the Australian wine industry and restored some much needed confidence. The industry has fed off the excitement generated by the event and is continuing to maintain the momentum. The industry's focus over the next 12 months will be to build on the Savour momentum and growing that positive sentiment to get more quality Australian wines on the world's retail shelves and wine lists.

AGWA is building on the overwhelmingly positive feedback from Savour Australia 2013 through a global program of industry-funded educational initiatives, tastings, masterclasses, trade and consumer events and retail promotions in all our markets over the coming months.

These include the Australia Day tasting in the UK, ProWein in Germany, Aussie Wine Month in Australia, the China National Food, Wine and Spirits Fair, the AGWA Trade Roadshow in the US and the in-store tastings with various liquor boards in Canada.

Delegate feedback suggests the Australian wine industry and the global wine trade generally see great value in Savour and would like it to become a regular event on the world's wine calendar with a strong link to Australian food also benefiting the broader agricultural industry.

<u>Recommendation 1.2</u>

Measure: AGWA to be funded to:

- Increase our presence at international trade shows - $1m in Year Two and Year Three
- Enhance the partnership opportunities with Tourism Australia - $2.5m in Year Two and Year Three
- Invest in education programmes in key markets - $0.5m in Year Two and Year Three
- Expand the Visitors Program - $0.5m in Year Two and Year Three
- Support domestic wine tourism, social media and regionally-based initiatives - $1m in Year Two and Year Three
- Host Savour Australia in May 2016 - $2m in Year One

Budget Implication:

	Year 1	Year 2	Year 3	Year 4
1.2 AGWA to be funded to undertake various promotional and marketing activities	($2m)	($5.5m)	($5.5m)	

Re-launching Australian Wine in the U.S.A.

WFA is aware that AGWA has written to the Australian government seeking funding to support Savour Australia in 2016 and a significant marketing campaign in the United States. In the *Actions for Industry Profitability 2014-16 Report,* WFA identified the key importance of the United States market and rebuilding the image of Australian wine in that market.

The United States is the world's biggest wine market with sales of 3 billion litres valued at US$40 billion in 2013. It has also been Australia's second biggest export market in volume behind the United Kingdom for the last 15 years and number one in value for the last five years.

In 2013-14, 6.5 million cases of wines (domestic and imported) were sold in the US off-trade at over US$15 per bottle, up 7% on the previous year. However, Australia is significantly under-represented in this segment.

Research undertaken by Wine Intelligence suggests that Australia is losing its reach in the US with the number of Australian wine drinkers falling from 42% of the wine drinking population in 2008 to 27% in 2013. Furthermore, the quality perception of Australian wines among consumers is the lowest among the seven key imported wine suppliers to the market and has not changed since 2010. This is mainly due to the fact that 93% of Australia's sales in the US are at under US$8 per bottle while only 62% of the market is in this segment. Feedback from US distributers suggests that the best opportunity for Australia lies at $US15-$25 segment. Unlocking this opportunity is paramount and requires significant investment.

Feedback also suggests that there are also opportunities at the higher value end of the market. In 2014, Australian wine exports to the US at above A$67.50 per case were valued at A$51million compared to A$210 million in 2007 and a peak of A$303 million in 2003. Restoring Australia's premium wine exports in the US to the level of seven years ago would return A$159 million per annum to the Australian wine sector.

To realise these benefits, it is important to boost Australian wine's efforts in the USA. This would in turn continue to expand the impact of Savour Australia as a global event.

The proposed AGWA campaign is supported by WFA and WGGA and is directionally consistent with the recommendations of the WFA 'Actions' document. Key initiatives include:

- A multi-targeted program to engage gatekeepers large and small, including a focused distributor outreach effort via trade-only, business events and media partnerships in trade-only beverage business publications.
- An engaging outreach campaign to target retailers and restaurateurs across the US, with long 'Savour' lunches and compelling Australian visits.
- For consumers, a guerrilla PR campaign across 10-12 US cities, complete with a tour-vehicle 'pop-up' themed wine truck. A media-partnership with Food & Wine Magazine and Events to layer in lead sponsorship of their top five large-scale consumer (and VIP trade) events of the year.
- Two comprehensive Visitor Programs (VP): one for distributors and national accounts – with strong business and logistics focus sessions and engaging trend spotting activities; the other for media, independent retail and the restaurant community focused more on engaging, inspiring education and perception shifting activities.
- Throughout all programs, AGWA will overlay the Restaurant Australia themes, through Tourism Australia's campaign, as well as regional/premium messaging.

Since WFA lodged its Pre-Budget Submission with the Government, Australian wine has continued to struggle against its competitors in the prized North American market. As such, WFA has worked with AGWA to identify what additional programmes are required to support a demand-led recovery in this key market. These programs are as follows:

1. *USA Roadshow*

The purpose of this program is to expand the opportunity for North American wine trade across all offerings – entry level, premium and luxury. The USA Roadshow would take the major in-country markets centred around the cities of Los Angeles (California), Chicago (Illinois), New York (NY), Austin (Texas) and Miami (Florida).

2. Restaurant Australia USA Roadshow

This program is about expanding the perception of Australian food and wine across North America, with Tourism Australia as a driving partner. This program is focussed on an Australian premium message on food and wine.

3. G'DAY USA

This would involve sponsorship of G'Day Australia in the USA and the promotion of Australian wine being aligned with all G'Day Australia fashion and key media activity. This program allows expansion of messaging to both trade media and to consumers in the USA to change the perception of Australian wine and amplify the "premium" Australia message.

4. USA Ambassador Investment

Australian celebrities with a positive profile in the USA have the potential to influence and change the perception of Australian wine among North American consumers. Messaging will promote wine's "fashion status".

Recommendation 1.3

Measure: Re-launching Australian Wine in the USA

Budget Implication: $12.6m over four years

	Year 1	Year 2	Year 3	Year 4
1.3 Re-launching Australian Wine in the USA •USA Roadshows •Restaurant Australia USA Roadshow •G'Day USA •Ambassador Investment	($6m)	(3.4)	(1.6)	(1.6)

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Maximising the Asian Free Trade Agreements

Since WFA submitted its Pre-Budget Submission it has held further discussions with AGWA on how to grow the demand for Australian wine in Asia and specifically how to maximise the export growth benefits that can be realised from the signing of the Free Trade Agreements (FTAs) with China, Japan and Korea. An additional $11.8million over four years is sought to support the development and delivery of the following activities:

1. *Roadshows across China, Korea and Japan*

   The roadshow program is about expanding the trade opportunities for Australian wine in China, Korea and Japan to help grow the momentum in all markets, following the Free Trade Agreements. Regional ambassadors would play a role in leading master classes and debates on Australian wine styles and perceptions. One focus would be to target opportunities for 'new-to-market' wineries to enable these wineries to develop in-country contacts.

2. *China Wine Showcase*

   This program would capitalise on the growing momentum in China for the Australian category and support the anticipated Free Trade Agreement with China. The aim is to increase the penetration of Australian wine across the China market, developing market entry opportunities and reinforcing existing distributors and importers in the market. As part of the program, five to six major cities would be toured by a minimum of 50 Australian wineries up to a maximum of 100. Ambassadors would be leveraged to help sell the story of Australian wine.

3. *Japan Wine Showcase*

   Investment in this program would increase opportunities for 'new-to-market' wineries as well support for current importers and distributors. A series of masterclasses and branded wine dinners would form part of the activities and wine ambassadors would help to tell the story of Australian wine's history, evolution and revolution.

4. *Market Entry Programmes (China)*

   Increased investment into Market Entry opportunities to place Australian wineries with new distribution.

5. *Ambassador Investment*

   This program is about developing a network of industry key influencers (on paid retainers) who can change the perception of Australia wine in their key home markets. This will enable Wine Australia to expand critical messaging, tastings and media development on a significant scale.

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Recommendation 1.4

Measure: Maximise Asian FTAs

Budget Implication: $11.8 over four years

	Year 1	Year 2	Year 3	Year 4
1.4 Maximise Asian FTAs •China, Japan and Korea Roadshows •China Wine Showcase •Japan Wine Showcase •Market Entry Programmes (China) •Ambassador Investment	($2.9m)	(3.1)	(2.9)	(2.9)

3. Retaining the WET Rebate with Reforms

Retain the Rebate

It is important to restate that WFA recognises that the WET rebate continues to play a critical role in supporting many grape and wine businesses during a prolonged period of difficult trading conditions. It is clear that without the rebate a significant number of grape and wine businesses would be severely impacted financially. Whether originally intended or not, the rebate has been factored into business models and pricing strategies at all points in the supply chain.

The rebate also indirectly benefits many regional communities reliant on winemaking and wine grape growing. Reforms are required, however, to ensure the WET rebate continues to deliver these outcomes in a manner that is in keeping with the rebate's original policy intent and without unintended consequences.

Support on-going Compliance Activities

The industry is concerned that in recent years the number of uncommercial claims on the rebate has increased as speculators and other intermediaries with no long-term interest in the sector enter into business arrangements with the sole purpose of accessing the rebate. The Discussion Paper outlines many of the arrangements. WFA strongly supports the compliance and policing actions of the ATO to stamp these practices out and notes that in 2013/14 some $47m was recovered by the ATO in fines and adjustments to WET payments.

In relation to compliance and enforcement, WFA and WGGA will continue to work with the ATO to identify changes that can be made to the interpretation and application of the existing provisions so that eligibility remains in line with the original intent. For example, we believe WFA can assist the ATO in identifying and assessing claim accessibility for uncommercial arrangements. This may occur, for instance, when the ATO forms the view that claimants have split their activities or have colluded in the establishment of business activities with the substantial purpose of claiming multiple rebates. Similarly, there may be occasions where schemes have been established with the sole or dominant purpose of accessing the rebate contrary to the anti-avoidance provisions.

Recommendation 2.1

Measure:	On-going support for ATO and Treasury to continue work with WFA on identifying any changes that can be made to the interpretation and application of the existing WET Rebate provisions so that eligibility is consistent with the original intent of supporting local wine businesses and wine regions.
Budget Implication:	The ATO has stated that its compliance activities into WET rebate claims have already recovered over $47m in penalties and adjustments in 2013/14. For the purposes of this submission, we have conservatively estimated no ongoing savings to the Commonwealth from on-going compliance activity but it is likely to be substantial.

		Year 1	Year 2	Year 3	Year 4
2.1	On-going support for ATO and Treasury to continue work with WFA on identifying any changes that can be made to the interpretation and application of the existing WET Rebate provisions so that eligibility is consistent with the original intent of supporting local wine businesses and wine regions.	Nil			

Reform Rebate Eligibility

WFA has identified certain legislative changes that are required to further ensure the WET rebate continues to deliver its original policy intent, namely to support local grape and wine businesses and wine regions. The consequences of our proposals will be to restrict future rebate eligibility to those grape and wine businesses (regardless of nationality) with an investment in regional Australia and who have a long-term commitment to the industry in supporting branded wine product. This approach will ensure the rebate continues to support rural and regional Australia.

In regards to the specific legislative changes required to ensure the WET rebate continues to deliver the original policy intent, WFA believes the Government should restrict future rebate eligibility to producers who:

- have business premises in Australia (potentially, in a designated wine region in Australia); and
- hold a licence, issued by the Government of a state or territory in Australia, to sell liquor in that state or territory; and
- are self-employed or engage one or more employees (including associates of the winemaker) to perform work for the winemaker; and
- sell their wine either:
    - by retail sale, or under quotation, from the business premises referred to above; or
    - by internet or mail order sales (in which case the sales would be deemed to take place at the above premises).

These changes will ensure that all future recipients of the rebate have an investment in regional Australia and must continue to reinvest in local communities. These changes, in concert with the recommendation below to abolish the separate New Zealand producers' WET rebate arrangement, have the additional benefit of creating a level playing field for all claimants regardless of nationality. Wine businesses producing branded product will not need physical production assets to claim the rebate.

Recommendation 2.2

Measure:

Government to retain the WET rebate but undertake legislative reform as soon as possible so it is claimed in accordance with its original policy intent to support local wine businesses and regional communities. The legislative changes sought from Government would see the WET rebate only available to wine businesses that:

- manufacture and sell wine in a form fit for retail sale, where the finished product is identifiably theirs; and
- have business premises in Australia (potentially, in a designated wine region in Australia); and
- hold a licence to sell liquor in an Australian state or territory; and
- are self-employed or engage one or more employees; and
- sell their wine either: (i) by retail sale, or under quotation, from the business premises referred to above; or (ii) by internet or mail order sales.

Budget Implication:

While there are no savings estimated for this measure, it should be noted that introducing the proposed eligibility criteria outlined above will ensure future claims are reduced from potential claimants, regardless of nationality, who do not have investments in regional Australia. This will ensure the WET rebate continues to deliver its original policy intent and that it is returned to a more sustainable fiscal base. Combined with the abolition of the separate New Zealand rebate arrangement as proposed below, it will also ensure that all future claimants are on a level playing field in regards to the cost of compliance.

	Year 1	**Year 2**	**Year 3**	**Year 4**
2.2 Government to retain the WET rebate but undertake legislative reform as soon as possible so it is claimed in accordance with its original policy intent to support regional communities. The legislative changes sought from Government would see the WET rebate only available to wine businesses that: • manufacture and sell wine in a form fit for retail sale, where the finished product is identifiably theirs; and • have business premises in Australia (potentially, in a designated wine region in Australia); and • hold a licence to sell liquor in an Australian state or territory; and • are self-employed or engage one or more employees; and • sell their wine either: (i) by retail sale, or under quotation, from the business premises referred to above; or (ii) by internet or mail order sales.	Nil	Nil	Nil	Nil

WFA and WGGA believe that bulk, unpackaged, unbranded wine that is only facilitated by artificially low on-sell prices and topped up by WET rebate receipts both impoverishes winegrape growers and diminishes the ability of winemakers to build brand equity and margins with retailers and consumers. Therefore, the Commonwealth should phase out WET rebate eligibility for bulk and unbranded wine at 25% per year starting at 75% of the rebate rate from implementation.

This can be achieved by changing the legislative definition of rebatable wine for the WET rebate to:

> *'rebatable wine means *grape wine, *grape wine products, *fruit or vegetable wine, *cider or perry, *mead or *sake, that is packaged in a single container with a capacity not exceeding 5 litres at the time of the dealing, and which is labelled with a brand on the primary packaging that is wholly owned by, or licensed exclusively to, the producer of the wine.'*

This proposal would continue to support the industry consistent with the original intent of the rebate discussed above. By way of example, it would enable the following activities to continue to claim the rebate:

1. Winemaking and grape growing businesses that produce their own branded and packaged wine;
2. Winemakers and grape growers who lease their production assets or contract out the making of their wine and produce their own branded and packaged wine; and
3. Businesses that purchase grapes or lease vineyards and produce their own branded and packaged wine.

These legislative changes are expected to deliver significant budget savings as summarised below.

Recognising an impact of this reform on bulk and unbranded wine traders, WFA and WGGA proposes to phase out the WET rebate on bulk and unbranded wine at the rate of 25% per annum, starting at 75%. These reforms will encourage the re-emergence of 'brand power' and equity which is critical to capturing above inflation retail price increases, increased margin share with retailers, higher grape prices and reinvestment back into rural communities.

'Cleanskins' and unbranded wine work against these objectives and therefore do not play a long-term role in encouraging sustained regional investment or development. They crowd the domestic market with low equity offerings sourced from contract-made wine made from grapes which are uncommercial and sold at prices below market value due to the ability of the producer to claim the rebate and defer the WET liability to the retailer utilising the quoting provisions available within the WET arrangements. This includes the supply of bulk wine for the home brands of wine retailers. This not only pulls down the pricing for both grapes and wine, it also delays the correction to the supply-demand imbalance.

Recommendation 2.3

Measure: Government to retain the WET rebate but undertake legislative reform as soon as possible so it is claimed in accordance with its original policy intent to support local wine businesses and regional communities. The specific legislative changes sought from Government are:

1. Remove eligibility from bulk, unpackaged and unbranded wine to be phased out at 25% over 4 years (costings exclude New Zealand wine).

Budget Implication: Significant savings estimated for the Commonwealth.

	Year 1	Year 2	Year 3	Year 4
2.3.1 Remove eligibility from bulk, unpackaged and unbranded wine to be phased out at 25% over 4 years (excluding New Zealand)	$29m	$43m	$57m	$73m

To further ensure the WET rebate continues to deliver its original policy intent of supporting local grape and wine businesses and wine regions, WFA and WGGA also recommend that the amendments to the *WET Act* in 2005, which established the New Zealand WET rebate system on preferential terms that are unfair to local claimants, be repealed. To be clear, WFA and WGGA are not seeking to exclude New Zealand producers from claiming the rebate. We are instead seeking to ensure all claimants have access to the rebate under the same conditions irrespective of nationality.

Currently, the separate New Zealand rebate scheme provides New Zealand producers with an unfair commercial advantage over local and other foreign claimants as they are not required to be registered for Australian GST and are not subject to compliance costs associated with lodging an Australian income tax return. As outlined in the attached legal advice…

> *…foreign winemakers who receive the WET rebate are: (1) treated as having derived Australian income; and (2) therefore required to lodge Australian income tax returns.*
>
> *However, NZ winemakers are not required to lodge Australian income tax returns, as the WET producer rebate is considered to be assessable in NZ and not Australia.*
>
> *In addition, NZ winemakers are not required to be registered for Australian GST purposes and hold a state or territory liquor license, unlike Australian wine producers and other foreign wine producers.*
>
> *NZ winemakers are therefore not subject to the compliance costs associated with lodging Australian income tax returns, Business Activity Statements (BAS), or with ongoing state or territory liquor licensing requirements.*
>
> *Further, the ATO allows the NZ Inland Revenue to administer the WET rebate for NZ winemakers. The ability for NZ winemakers to deal with their local revenue authority is not available to other foreign wine producers.*
>
> *These preferential conditions make it easier and cheaper for NZ winemakers to access to the WET rebate, than for other foreign wine producers.*
>
> *The following table summarises the requirements to claim the producer rebate, and the benefits afforded to NZ wine producers that are not available to other foreign wine producers.*

Appendix G

Claim requirements under the current WET producer rebate schemes			
	Australian wine producers	New Zealand participants	Other foreign wine producers
GST registration required	✓	✗	✓
Wine tax must be paid	✗	✓	✗
Australian income tax obligations	✓	✗	✓
In-country administrative assistance provided	✓	✓	✗
Entity required to be exporter of wine	N/A	✗	✓
Required to hold a State/Territory Liquor License	✓	✗	✓

While some $25m per annum is currently rebated to New Zealand producers, the abolition of the separate New Zealand scheme plus the proposed changes to future rebate eligibility including the requirement to hold local liquor licences and business premises and the removal of the rebate from bulk and unbranded wine from New Zealand will deliver a net savings to the Commonwealth of $44.9m over four years.

Applying the proposed changes would look like:

Claim requirements under the recommended reforms to create a level playing field for all claimants			
	Australian wine producers	New Zealand participants	Other foreign wine producers
GST registration required	✓	✓	✓
Wine tax must be paid	✗	✗	✗
Australian income tax obligations	✓	✓	✓
In-country administrative assistance provided	✓	✓	✗
Entity required to be exporter of wine	N/A	✓	✓
Required to hold a State/Territory Liquor License	✓	✓	✓

There is a compelling case to immediately abolish this separate New Zealand entitlement and WFA has supporting legal advice on how this can be achieved in a manner without impacting Australia's trading obligations and bilateral commitments. This advice is attached.

This recommendation has widespread industry support. Some $25m per annum is currently rebated to New Zealand wine producers and the abolition of the separate New Zealand rebate scheme along with the other reforms to rebate eligibility proposed above will see a net saving of almost $15m per annum to the Commonwealth and a level playing field created for all future claimants regardless of nationality (meaning New Zealand producers could continue to claim the WET rebate but on the *same terms* as Australian and other foreign country claimants). This approach is consistent with Australia's bilateral and multi-lateral trading commitments.

Recommendation 2.3

Measure: Government to retain the WET rebate but undertake legislative reform as soon as possible so it is claimed in accordance with its original policy intent to support local wine businesses and regional communities. The specific legislative changes sought from the Government are:

2a. Abolition of the separate New Zealand producers' WET rebate scheme.
2b. Create a level playing field for all WET rebate claimants regardless of nationality to ensure the rebate continues to support local wine businesses and wine regions (see 2.2) and phase out of rebate for New Zealand bulk and unbranded wine (see 2.3.1).

Budget Implication: Significant savings estimated for the Commonwealth

	Year 1	**Year 2**	**Year 3**	**Year 4**
2.3.2a. Abolition of the separate New Zealand producers' WET rebate scheme 2.3.2b. Create a level playing field for all WET rebate claimants regardless of nationality to ensure the rebate continues to support local wine businesses and wine regions (see 2.2) and removal of rebate from NZ bulk and unbranded wine (see 2.3.1).	$7.9m	$10.1m	$12.3m	$14.6m

WFA and WGGA also believe that current rebate arrangements may be inhibiting industry consolidation at a time when there is considerable pressure to rationalise and capture efficiencies and economies of scale. Grape and wine businesses that believe their future lies in consolidation should not be stymied by the unintended consequence of a tax measure. Government should introduce transitional rebate measures to allow the second rebate on a merger of two businesses which are entitled to the rebate to remain with the new entity but be phased out at 25% per year over 4 years. These transitional arrangements will be made available to the industry for up to 5 years from the date of implementation.

Recommendation 2.4

Measure: Introduce transitional rebate measures so that, following a merger of two businesses which are both entitled to the rebate, the merged entity can continue to claim the second rebate but be phased out at 25% per year over 4 years.

These transitional arrangements will be made available to the industry for up to 5 years from the date of implementation.

Budget Implication: Significant savings estimated for the Commonwealth.

	Year 1	Year 2	Year 3	Year 4
2.4 Introduce transitional rebate measures so that, following a merger of two businesses which are both entitled to the rebate, the merged entity can continue to claim the second rebate but be phased out at 25% per year over 4 years.	$3m	$6m	$9m	$13m

WFA and WGGA recognise that some support will be required for grape and wine businesses that will be adversely impacted by the reform measures proposed in this submission.

Provisionally, the support may include transition programs when WET rebate access is removed or adjustment programs that facilitate uptake of more suitable business models, initiatives to address barriers to vineyards exits, to facilitate quicker turn-over in vineyards, capability building among vineyard operators, improving market operations that hasten market forces to bring about adjustment or innovation in vineyard management.

WFA and WGGA will develop such proposals further in consultation with AGWA and Government.

Recommendation 2.5

Measure: WFA and WGGA in consultation with Government will develop industry assistance for grape and wine businesses impacted by WET rebate reform

Budget Implication: To be developed and costed

	Year 1	Year 2	Year 3	Year 4
2.5 WFA and WGGA in consultation with Government will develop industry assistance for grape and wine businesses impacted by WET rebate reform	To be advised	To be advised	To be advised	To be advised

**Please note that all the estimates used in this submission used for the proposed savings measures outlined above are detailed in the economic modelling advice from PwC found attached. In all cases the most conservative costings as advised by PwC have been used.*

4. Summary of Recommendations and Budget Impacts

The $43.4m of new Commonwealth spending over four years proposed for AGWA's marketing activities can be fully offset by the significant savings generated by the WET rebate reforms proposed in this submission of some $278m. These savings will also continue beyond the Forward Estimates. There is no better plan to secure additional funding for our global marketing efforts and to improve the export performance and profitability of Australian winemakers and grape growers.

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Total**
Recommended Spending Measures	($12.9m)	($14m)	($12m)	($4.5)	**($43.4)**
Recommended Savings Measures	$39.9m	$59.1m	$78.3m	$100.6m	**$277.9m**

An explicit commitment to the Australian wine industry made by Government, WGGA and WFA as a condition for the merger of the two statutory authorities to create AGWA, was to quarantine R&D levies and the supporting co-contributions from the Government for R&D projects. This was reflected in the enabling legislation for the merger. It is unlikely therefore that industry would support a redistribution of levy funding into the marketing activities outlined in this submission. Any change would require significant industry consultation and legislative reform as required under the Act. WFA and the majority of industry strongly believe the shortfall for marketing of our wine would be better and more expeditiously met over the Forward Estimates by the savings generated by reform to the WET rebate. However, industry acknowledges that once the proposed finite Commonwealth funding commitment ends industry will need to have sourced alternate funding from within the sector.

WFA and WGGA do not believe the funding shortfall for AGWA's marketing activities can be met by increasing existing compulsory industry levies given the low levels of wine business profitability. Even if there was capacity within the industry to increase levies, the potential sums are insufficient to support the marketing capability and projects we believe are necessary and as detailed in this submission. Doubling of the mandatory export charge, for example, would only increase AGWA funding by $2.2m per annum.

WFA and WGGA strongly recommends the Government supports the sector as proposed above at MYEFO 2015.

Appendix G

Commonwealth Spending ($m)

Recommended Measure	Year 1	Year 2	Year 3	Year 4	Total
1. Grow the demand Opportunity					
1.1 Government to assist in rebuilding AGWA's core operating budget.	**(2)**	**(2)**	**(2)**		**(6)**
1.2 AGWA to be funded to: • Increase our presence at international trade shows • Enhance the partnership opportunities with Tourism Australia • Invest in education programmes in key markets • Expand the Visitors Program • Support domestic wine tourism, social media and regionally-based initiatives • Host Savour Australia in 2016 •	**(2)**	**(5.5)**	**(5.5)**		**(13)**
1.3 Re-launching Australian Wine in USA • USA Roadshows • Restaurant Australia USA Roadshow • G'Day USA • Ambassador Investment	**(6)**	**(3.4)**	**(1.6)**	**(1.6)**	**(12.6)**
1.4 Maximise Asian FTAs • China, Japan and Korea Roadshows • China Wine Showcase • Japan Wine Showcase • Market Entry Programmes (China) • Ambassador Investment	**(2.9)**	**(3.1)**	**(2.9)**	**(2.9)**	**(11.8)**
Industry Assistance 2.5 WFA and WGGA in consultation with Government will develop industry assistance for grape and wine businesses impacted by WET rebate reform	**tba**	**tba**	**tba**	**tba**	
Total	**(12.9)**	**(14)**	**(12)**	**(4.5)**	**(43.4)**

Appendix G

Commonwealth Savings ($m)

Please note that all the estimates used in this submission for the proposed savings measures are detailed in the economic modelling advice from PwC. In all cases the most conservative costings as advised by PwC have been used.

Recommended Measure	Year 1	Year 2	Year 3	Year 4	Total
2. Retain with changes to the WET Rebate					
2.1 On-going support for ATO and Treasury to continue work with WFA on identifying any changes that can be made to the interpretation and application of the existing WET Rebate provisions so that eligibility is consistent with the original intent of supporting wine regions.	**Nil**				**Nil**
2.2 Introduce a requirement in the legislation that the WET rebate would be only available to producers who: • have business premises in Australia (potentially, in a designated wine region in Australia); and • hold a licence, issued by the Government of a state or territory in Australia, to sell liquor in that state or territory; and • are self-employed or engage one or more employees (including associates of the winemaker) to perform work for the winemaker; and • sell their wine either by retail sale, or under quotation, from the business premises referred to above; or by internet or mail order sales (in which case the sales would be deemed to take place at the above premises	**Nil**				**Nil**
2.3.1 Remove eligibility from bulk, unpackaged and unbranded wine to be phased out at 25% over 4 years (excluding New Zealand).	**29**	**43**	**57**	**73**	**202**
2.3.2a Abolition of the separate New Zealand producers' WET rebate scheme. 2.3.2b Create a level playing field for all WET rebate claimants regardless of nationality to ensure the rebate continues to support local wine businesses and wine regions (see 2.2) and phase out rebate eligibility for NZ bulk and unbranded wine (see 2.3.1).	**7.9**	**10.1**	**12.3**	**14.6**	**44.9**
2.4 Introduce transitional rebate measures so that, following a merger of two businesses which are both entitled to the rebate, the merged entity can continue to claim the second rebate but be phased out at 25% per year over 4 years.	**3**	**6**	**9**	**13**	**31**
Total	**39.9**	**59.1**	**78.3**	**100.6**	**277.9**

5. Background on the State of the Industry, Economic Contributions and Challenges

- The Australian wine industry continues to experience low levels of profitability and tough trading conditions.
- Australian wine producers play a critical role in the socio-economic fabric of regional communities, particularly in regards to tourism and regional employment.
- The wine industry is the least consolidated sector within alcohol manufacturing which reduces its ability to leverage economies of scale and command margin from a highly consolidated wine retail sector.

In recent years a range of factors have challenged the Australian wine industry. An independent expert review of the industry dynamics commissioned by WFA in 2013, which can be found in Appendix 2, concluded:

1. The Australian wine industry has a structural mismatch of supply and demand. As a consequence, seasonal improvements such as the Australian dollar depreciation will not address this imbalance in the long-run. If the industry does not undertake structural reforms, the mismatch of supply and demand will persist.

2. The Australian wine industry tripled in size from less than 400 million litres to 1.2 billion litres and achieved total revenues of $5 billion in 2007, and was very successful at building export markets.

3. Since 2007 the profitability of the Australian wine industry has declined significantly:

   - The global financial crisis hit world markets starting in August 2007 and accelerated through 2008—coinciding with a significant fall in Australian wine exports.
   - From 2004 the Australian dollar rose steadily to almost parity in July 2008. A sharp fall to 62 cents in August 2008 preceded a steady climb back to parity in November 2010 and beyond.
   - Domestic demand growth during the same period has been flat and there has been an increase in wine imports.
   - A supply-demand imbalance has ensued resulting from excess planting and wine making capacity given the ‘unexpected’ fall in export demand and rise in the Australian dollar.

4. This decline in profitability has intensified:

   - Export returns have declined sharply. Export volumes recovered through 2009, only to fall again in 2010 and 2011 including a fall in demand for Australian wine in key markets, especially the US, UK and Canada, from 2007 to 2012. From 2012 to 2013, export volume decreased by 6%, while export value decreased by 5%.
   - Total industry gross margin has declined by 38% to $1,107 million in 2012, from $1,787 million in 2007.This was driven by a $747 million decline in export gross margin. In 2013, using 13 representative companies, average profit margin in the sector was 1.6% compared to -1.4% in 2012.

- Domestic margins have been squeezed by retailers, low demand growth, and increased imports. Domestic retail consolidation which has resulted in approximately 77% of all off-premise wine sales now being controlled by the two national grocery chains.
- The decline and shift in export demand has created and “oversupply/under-demand” of grapes and wine in certain quality segments. It is estimated that up to 70% of total 2012 wine grape production may be uneconomic with the most significant profitability issues concentrated in lower grade grapes. For 2014, the estimated unprofitable production is 84% of total production assuming cost of production has increased by 3%.

5. Efforts to improve profitability have, in many cases, only reduced the extent of the decline.

6. There are foreseeable circumstances that would put further pressure on profitability.

7. The other side of this ‘perfect storm’ is that no single lever will ‘fix’ the problem.

   - Australian Grape and Wine Authority’s scenarios for global demand growth indicate that even under their optimistic scenario (in which growth returns to pre-GFC levels) the US and the UK will not return to their 2007 value by 2017.

8. The industry is not being impacted equally—some players/segments are more affected than others; there are a number of success models.

Since these findings of the expert review were released in 2013, industry fundamentals have not changed. The 2015 Vintage Report found an average crush of 1.67 million tonne, marginally lower than the “average” and while average grape prices have strengthened, this is off a low base.

Below is an extract from the 2015 WFA Vintage Report, see Appendix F for full report.

> *The 2012 Expert Review analysis on production profitability has been further expanded to include 2015 data. Increasing 2012 cost of production by 1.5%, profitable production across 15 representative regions decreased from 7% in 2014 to 6% this reporting period. Low profitability and breakeven during this time were unchanged, while unprofitable production increased to 85%.*
>
> *Favourable changes in seasonal market conditions and the macro-economic environment will not be enough to restore the Australian wine sector’s lost share and margin. We need to take pro-active steps with the support of government to boost demand and our resourcing of promotional activities.*
>
> *The 2016 vintage will continue to present challenges to the industry since we have not seen significant structural shifts.*

Contribution to the national economy

The wine industry contributes to the national economy in the following ways:

- The wine industry contributed around $1.77 billion to the national economy in 2013-14 and this is expected to increase at an annualised rate of 4.3% (vs. annualised GDP growth of 2.5%)
- The wine industry directly employs 16,122 in 1,867 businesses

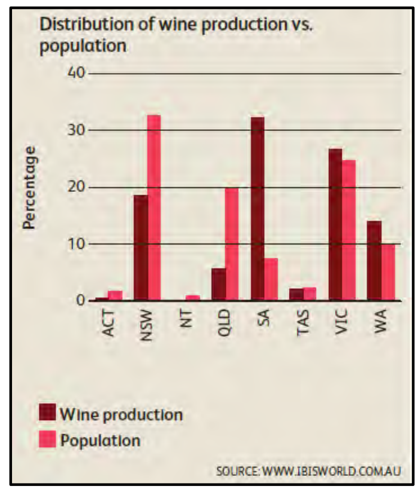
Wine tourism[3]

- International wine visitors (for the year ending September 2014):
  - Account for 696,602 visitors to Australia or 11% of the total visitors to Australia
  - Number of wine visitors increased by 1% from last year
  - Winery visitors account for 40 million nights within Australia or 18% of the market. This represents an average annual growth of 1% since the year ending September 2009
  - Contribute $4.9 billion to the overall visitor expenditure to Australia

- Domestic Overnight Wine Visitors[4]
  - Account for 3.1 million trips, a 7% increase
  - Contribute 15.7 million visitor nights (5.2% of total)
  - Contribute $3.3 billion in visitor expenditure to the domestic market

Regional benefits and challenges

The wine industry contributes the highest value to regional economies by generating employment and economic activity. The Productivity Commission's report in April 2014 on Geographic Labour Mobility highlighted the challenges facing regional growth, and agricultural manufacturing sectors such as wine grape production and winemaking play a vital role in the socio-economic fabric of many non-metropolitan regions. While the industry's proximity to vineyards limits transport costs to source raw materials, the long distances from vineyards to metropolitan areas and distribution centres results in significantly higher transport costs to markets and end-consumers.



Wine industry business locations

The geographic spread of wine production is closely correlated with the distribution of wine grape production.

Wine production facilities are often located at or near vineyards to limit transport costs and ensure the freshest grapes are crushed. Of those employed in the industry, just 29% work in metropolitan areas, with nearly 62% in inland regional areas. This reflects the location of grape growing and wine production facilities.

The competitive disadvantages of wine manufacturing

Despite this impressive economic contribution to the Australian economy and to regional Australia in particular, there are several commercial and structural factors unique to the winemaking industry which make it distinctive in the alcohol sector.

Profitability

Of the alcohol manufacturing sectors, wine has the highest cost structures and highest level of revenue volatility, making its profit margins smallest.

- Profits in the wine industry are only 5.3% of total revenue

[3] Figures for year ending September 2014, Tourism Australia
[4] Overnight trips In the NVS, overnight trips are defined as trips involving a stay away from home for at least one night, at a place at least 40 kilometres from home. Only those trips where the respondent is away from home for less than 12 months are in scope. The trip is the basic collection unit used in the NVS to obtain information about overnight travel undertaken by Australians.

  - Profits in the spirit industry are 11.8% of total revenue
  - Profits in the beer industry are 16.1% of total revenue and known to be one of the most profitable manufacturing industries in the world

- Wine industry purchases accounted for an estimated 62.8% of revenue, while labour costs account for an estimated 17.2% of revenue. Depreciation is about 4.5% of revenue.

  - Purchases costs include containers and other packaging materials; wine for blending, fortification or distillation; grape juice and grape spirit; sugar; and other purchases. Grapes, the most important production input, are predominantly grown and harvested specifically by wineries and grape growers for the purpose of wine production and is subject to significant seasonal volatility in both pricing and supply.
  - Wages in the wine sector are expected to have grown as a proportion of total revenue in 2013-14. This growth was mostly due to falling revenue, but also because of the labour intensiveness of various functions in wine production, such as the upkeep and maintenance of vineyards and manufacturing processes. Analysts believe that wages are expected to fall as a proportion of revenue over the next five years due to increasing investment in modern technologies, thereby making the industry's production process more highly capital intensive.
  - Depreciation in the wine sector remains at about 4.5% of revenue. This is a little higher than other beverage industries such as beer, mainly due to greater costs involved in wine maturation equipment and storage.

- The wine industry has the highest revenue volatility. Production and prices are affected by the supply of grapes, which is affected by weather and soil conditions, disease and plagues.

  - Earnings fluctuate due to changing input prices, changes in supply of grapes and restructuring costs.
  - Strong competition within a highly consolidated wine retail market continues to place significant downward pressure on wholesale pricing and margins. The retail price increases of wine has lagged CPI for over five years unlike the above-CPI price rises experienced by beer and spirits.
  - Unpredictable fluctuations in exchange rates also disproportionately impact the wine sector's exposure to imports in comparison to beer and spirits products.

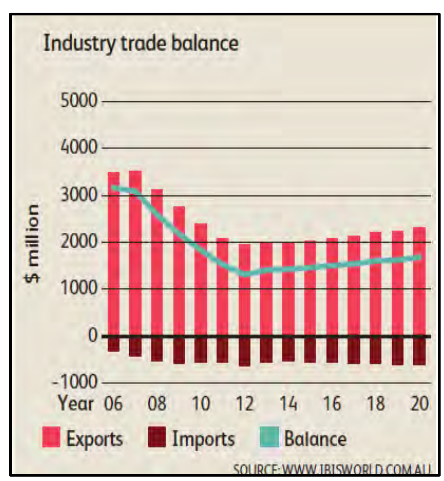
- The spirit and beer industries exhibit far lower levels of revenue volatility. Due to higher profit margins, volatile prices for commodity inputs such as packaging, ethanol, aluminium and barley have only a moderate effect on beer and spirit pricing and revenue.

Industry trade balance

- The wine industry is a net exporter and therefore more vulnerable to global market issues such as exchange rate fluctuations and global supply/demand imbalance compared to other alcohol manufacturing industries.

- Export revenues for the wine industry are $2 billion p.a.

- Wine exports have fallen sharply over the past 5 years, declining at an annualised rate of 6.5% to account for a 34.5% share of revenue.



Wine Industry trade balance

- Increased competition in the global wine market and global economic downturn have weighed down industry exports and intensified competition between winemakers on the domestic market.
- Wine producing countries such as Chile and South Africa have emerged to challenge Australian wine in its key export markets especially in the commercial wine segment.

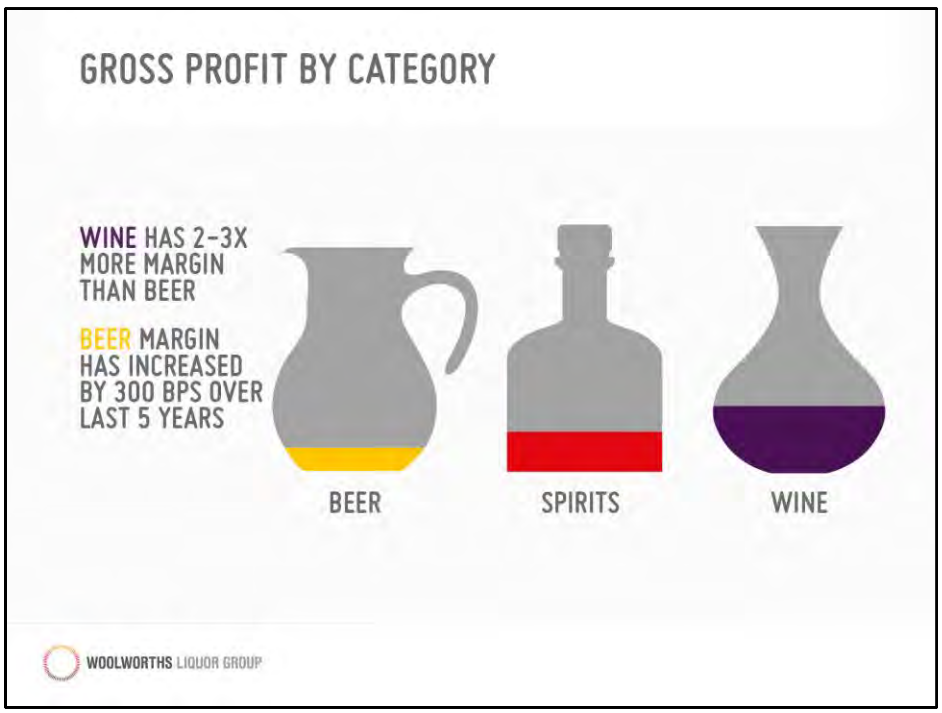
Competitive landscape

The wine industry is the least consolidated sector within alcohol manufacturing which reduces its ability to leverage economies of scale and command margin from a highly consolidated wine retail sector.

- The four largest Australian wine producers account for 40.8% of industry revenue.
- The top four players in the spirits industry are estimated to account for about 65% of industry revenue.
- The market share of top two major beer manufacturers is 82.7% of industry revenue

Retailer margins

Retailers generate greater margins on wine sales than sales from beer and spirits. Wine sales provide two to three times more margin than beer. This has been confirmed by Woolworths Liquor Group as shown in a presentation slide below. The ability of retailers to extract greater margins from wine can be seen as a reflection of the highly fragmented industry structure and ease of transferring costs to wine producers.



Compulsory levies

There are currently three levies/charges on wine/grapes. The grape research levy; the wine export charge; and the wine grapes levy. These industry levies/charges fund marketing, research and development and plant health programs for the grape and wine industry. As of 2012/13, the total levy receipts from the grape research levy, wine grapes levy and wine export charge amounted to $17.12 million.

Capital intensity

Wine is very capital intensive (more than beer in most stages in the supply chain):

- Wine's fermentation equipment/machinery are used two to six cycles a year while beer's fermentation equipment is used 50 cycles a year in a commercial brewery.
- Wine's maturation stage can range from 2.6 months to 16 months while storage of beer can be from one to six weeks (commercially produced typically one to two weeks).
- Between bottling and selling, wine needs to be stored before it gets ready for sale from one to three years in a cool storage, while beer is sold after bottling.
- Wine's supply chain is also less flexible than beer since it only has a once-a-year production that needs to be crushed in six to eight weeks. On the other hand, barley can be stored and converted to malt throughout the year as needed and only takes one week to process.

Nature of capital[5]

A typical Australian wine producer is likely to have more difficulty accessing capital due to the small scale of operations, lack of diversity and level of risk associated with fluctuating industry earnings from season to season. In general, capital requirements for the wine industry are widely described as being greater, relative to the beer and spirit industries, due to vertically-integrated wine producers requiring the use of vineyards and winemaking facilities. Furthermore, the industry has a longer stockholding period than the beer industry, increasing requirements for working capital. Returns for winemakers on capital have been declining over the past four years, due to the lower levels of profitability and higher levels of capital required.

Access to capital

Access to capital for any business is impacted by a wide range of factors such as:
a) the scale and diversity of the business (geography and product range)
b) age and maturity of the business
c) strength of the brand
d) market share and position
e) distribution channels to market
f) current level of interest bearing debt
g) variability/consistency of return, and
h) management strength and capability.

The scale of a business' operation is a critical factor to the accessibility of debt or equity capital. Larger businesses with a high degree of product and geographic diversification may find accessing capital easier.

Access to capital is a significant challenge for winemakers in Australia as they tend to be small in scale and lack diversity relative to global beer and spirit operations. Smaller, privately held companies may typically source equity capital from private investors (e.g. friends and family)

[5] This section on the comparative analysis of the nature of capital in the beer and spirits was provided by PwC.

and may source debt financing in the form of small trade loans from banks and financing lease arrangements for plant and machinery.

Wine businesses in the early stage of the lifecycle are likely to be purely equity funded with only the more established businesses able to attract a limited amount of bank debt. This debt would tend to be short term in nature with annually renewable debt most likely, although funding of up to three years is possible for the stronger, more established businesses. This contrasts with a beer and spirits multinational that could potentially access long-dated debt (i.e. 7-10 years). For an Australian winemaker, equity would typically come from private investors and be limited in volume.

Small businesses within the wine industry do not typically lend themselves to being operated as public corporations (which enable easier access to equity capital), and are mainly run as small scale, privately owned businesses for the following reasons:

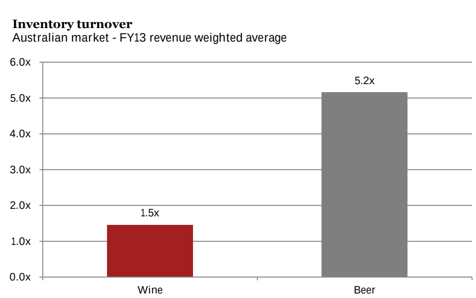
a) the high capital intensity of the industry
b) the high level of agricultural risk
c) wine producers only have one production opportunity per year which increases risk
d) wine producers have a high inventory holding requirement which requires capital, and
e) the industry has historically generated low returns on invested capital.[6]

Capital requirements

Capital requirements for the wine industry are widely described as being greater, relative to the beer and spirit industries. In general, wine producers are vertically integrated and therefore require the use of vineyards and winemaking facilities.

Furthermore, given the longer holding period of inventory in the wine industry relative to beer and other beverage producers, a higher level of working capital is required. As set out in the chart below, the wine industry in Australia has an inventory turnover of approximately 1.5 times (implying that on average, a business holds enough inventory to satisfy 65% of total sales for the year), whereas the Australian beer industry has an inventory turnover of approximately 5 times (implying on average, 20% of total annual sales could be satisfied with inventory on hand).

Fig. 1. Chart of weighted average inventory turnover across the Australian wine and beer industries



Note:
1. Inventory turnover is calculated using the formula: cost of goods sold/inventory
2. Based on the average of inventory turnover from financial year 2011 (FY11) to FY13
3. The weighted averages have been calculated based on the FY13 revenue of each company
4. Based on the analysis of 16 Australian wine companies (3 public and 13 private) and 3 Australian beer companies (2 public and 1 private)
Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

[6] John Angove, the Managing Director of Angove Family Winemakers, L. Lockshin, Future opportunities and challenges for the South Australian wine industry: An interview with John Angove, Wine Economics and Policy 2 (2013) 50-54, 5 May 2013

The demerger of Treasury Wine Estates (TWE) from the Foster's Group Limited in 2011, also highlights the different (and higher) requirements for capital in the wine industry relative to the beer industry. The key benefits from the demerger were stated to:

a) "allow the beer business to pursue growth opportunities and invest…without the potential constraints of competing capital demands of the wine business"

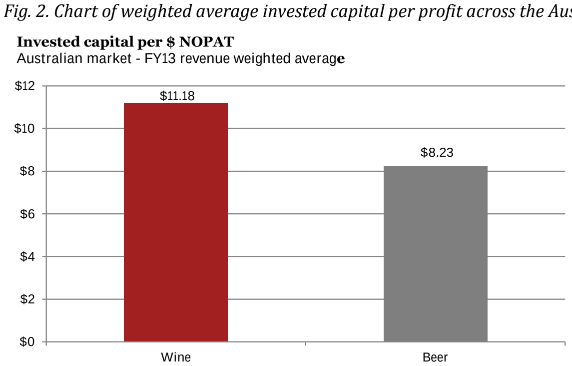
b) "allow the beer and wine businesses to establish a more appropriate capital structure… TWE would require a more conservative capital structure than Fosters, given agricultural and cyclical risks and its high asset intensity"

A more conservative capital structure would be a consequence of less predictable cash flows[7] and more risky returns, thereby increasing the cost of capital.

More uncertain and higher risk cash flows reduce the amount of debt that could be serviced in the capital structure of the original Foster's Group. As such, following the demerger, Fosters was able to sustain a higher level of gearing, relative to the wine business, given the more stable, more predictable cash flows of the beer business.[8] Fosters was expected to have a pro-forma leverage ratio of 2.0x (net borrowings divided by earnings before interest, tax, depreciation and amortisation (EBITDA)) and TWE a lower leverage ratio of 0.5x post demerger.[9]

Based on available financial data for respective wine and beer companies in Australia, at a high level, the amount of invested capital required to generate a dollar of net operating profit after tax (NOPAT, or profit) appears to be higher in the Australian wine industry than in the Australian beer industry. Over the last three years, the average level of invested capital required to generate a dollar of profit is approximately \$11 in the wine industry, whereas the amount of invested capital required to generate a dollar of profit in the beer industry is approximately \$8. Given a considerable portion of the smaller brewers across the Australian beer industry are privately held, there is a limited amount of financial information that can be used to draw conclusions. Conclusions and figures presented here should therefore be considered in light of this limitation.

Fig. 2. Chart of weighted average invested capital per profit across the Australian wine and beer industries



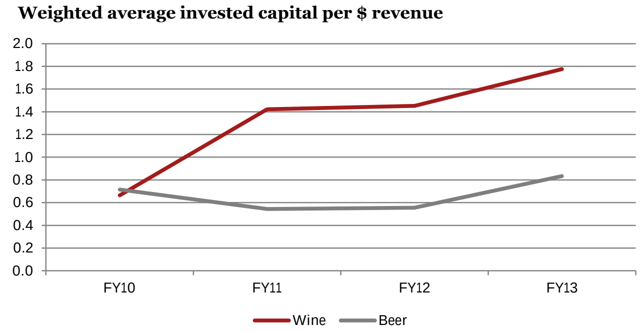
Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

Note:
1. Invested capital per $ NOPAT is calculated using the formula: Invested capital/NOPAT
2. Invested capital = Long term debt + Equity (Book value of equity for private companies and market capitalisation at the end of each financial year for public companies)
3. NOPAT = EBIT*(1 – Tax). Tax is assumed to be 30%, in line with the Australian statutory company tax rate
4. Based on the average invested capital per NOPAT from FY11 to FY13
5. The weighted averages have been calculated based on the FY13 revenue of each company
6. Companies with negative NOPAT are assumed to have zero invested capital per $ NOPAT
7. Based on the analysis of 16 Australian wine companies (3 public and 13 private) and 3 Australian beer companies (2 public and 1 private)

[7] Grant Samuel Independent Expert Report, page 135
[8] Proposed Demerger of Treasury Wine Estates Limited from Foster's Group Limited, Concise Independent Expert's Report, Grant Samuel, 17 March 2011
[9] Ibid

The level of capital used in the Australian wine industry has increased over the past four years and by a higher amount than the beer industry. The charts below illustrate the average level of invested capital that was required to generate one dollar of revenue, gross profit and net income respectively. Each chart illustrates the increasing level of required capital to generate a dollar of each metric.

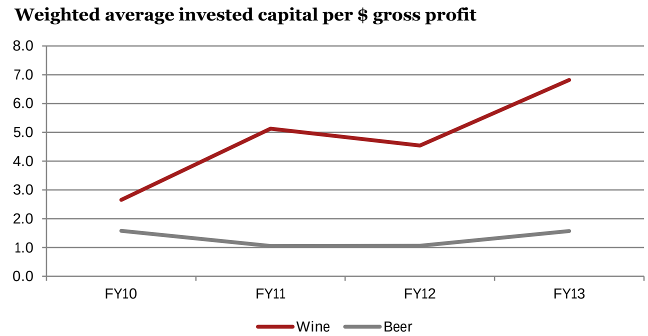
Fig. 3 Weighted average level of invested capital per dollar of revenue generated from FY10 through to FY13, based on a small sample of 14 Australian wine businesses and 3 Australian beer businesses



This chart illustrates that on average, capital invested in Australian wine businesses to generate a dollar of revenue has increased over the past four years from $0.66 in FY10 to $1.78 in FY13 compared to the average beer business, which has increased from $0.72 to $0.83 over the same period.

Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

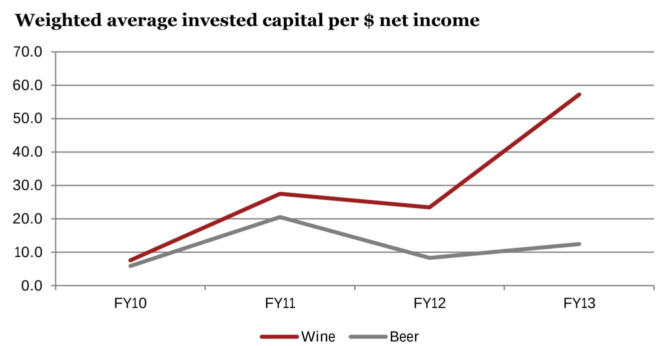
Fig. 4. Weighted average level of invested capital per dollar of gross profit generated from FY10 through to FY13, based on a small sample of 14 Australian wine businesses and 3 Australian beer businesses



On average, the level of capital invested in Australian wine businesses required to generate a dollar of gross profit has increased over the past four years from $2.66 in FY10 to $6.81 in FY13, relative to beer which has remained broadly flat over same time period.

Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

Fig. 5 Weighted average level of invested capital per dollar of net income generated from FY10 through to FY13, based on a small sample of 14 Australian wine businesses and 3 Australian beer businesses



Over the last four years, the amount of capital invested to generate a dollar of net income for a wine business has increased from $7.56 in FY10 to $57.19 in FY13, relative to a beer business which has increased from $5.88 in FY10 to $12.43 in FY13.

Source: S&P Capital IQ, ASIC, IBIS World, PwC analysis

Note:
1. Companies with negative net income are assumed to have zero invested capital per $ net income for the purpose of this analysis

Return on capital

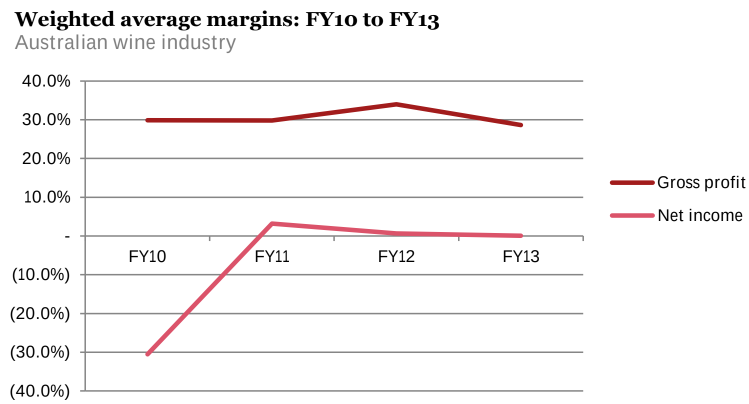
The ability for a business to generate the appropriate level of return (relative to the level of risk) is influenced by specific industry dynamics such as the:

a) level of competition within the market (e.g. level of fragmentation or consolidation)
b) level of supply and demand for the product
c) bargaining power of buyers
d) level of capital intensity.

Each of these factors is likely to contribute to the low level of returns observed in the wine industry today.

As set out in the chart below, profit margins have been falling over the past three years in the Australian wine industry.

Fig. 6. Weighted average profit margins (gross margin and net income margin) from FY10 through to FY13, based on a small sample of 14 Australian wine businesses



Source: S&P Capital IQ, ASIC, PwC analysis

Declining profit margins are in part driven by the domestic oversupply of wine and heavy discounting throughout the supply chain. In addition the profitability of wine producers has been negatively impacted by:

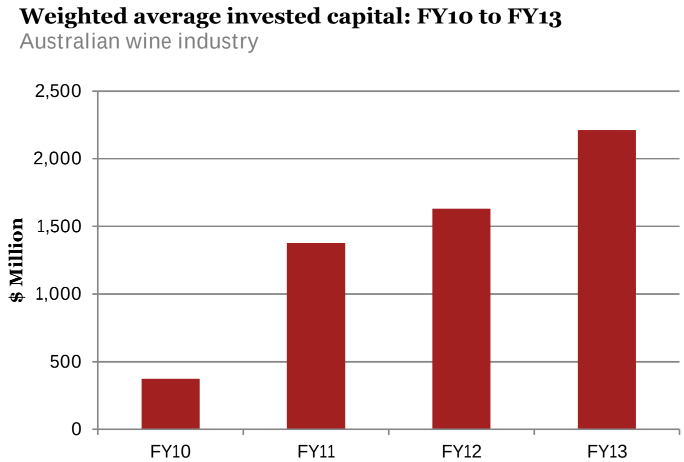
a) the increasing dominance and bargaining power of supermarket retailers
b) the high Australian dollar, reducing the competitiveness of Australian wine in foreign markets[10]
c) fragmentation of the industry leading to difficulties in pricing growth.[11]

Profit margins across the Australian wine industry are expected to be approximately 5.4% in 2014-15, being significantly lower than the average profit margin of the beer and the spirit manufacturing industry of 16.0% and 13% respectively.[12]

In comparison, as set out in the chart below, the average level of capital employed (long-term debt financing, plus equity) has increased over the comparable period.

[10] Wine Production in Australia, IBISWorld Industry Report, August 2014
[11] Treasury Wine Estates Limited, UBS Broker Report, 25 June 2014
[12] Wine Production in Australia, IBISWorld Industry Report, August 2014

Fig. 7. Weighted average level of invested capital from FY10 through to FY13, based on a small sample of 14 Australian wine businesses



The average amount of capital invested (debt and equity) in a wine business (based on a small sample of businesses in the wine industry) has increased from $375 million in FY10 to $2,214 million in FY13. However, this chart does not take into consideration the level of productivity or output generated by the increase in invested capital.

Source: S&P Capital IQ, ASIC, PwC analysis

Given these trends, the declining profit margins and increasing levels of invested capital, returns on capital for the wine industry have been reducing over the past 5 years.

Risk rating[13]

Risk component	Wine	Spirit	Beer
Structural risk (25%)	6.48	4.48	3.25
Growth risk (25%)	5.88	5.37	5.54
Sensitivity risk (50%)	6.37	6.4	6.7
Overall risk	**6.27**	**5.66**	**5.55**

The wine industry has the highest overall risk among alcohol producers at 6.27 (out of 9) which is due to high levels of structural and sensitivity risks. The wine industry's risk rating is higher than the average risk score for all Australian industries and the manufacturing sector. The main structural risk factors for the industry include high level of competition, decreasing exports and a high level of revenue volatility due to changes in grape supply and prices, in addition to the influence of intra-industry competition. Both spirit and beer industries have low volatility risks due to the ability to mitigate effects of market fluctuations, a steady consumer base and high profit margins.

[13] To calculate the overall risk score, IBISWorld assesses the risks pertaining to industry structure (structural risk), expected future performance (growth risk) and economic forces (sensitivity risk). Risk scores are based on a scale of 1 to 9, where 1 represents the lowest risk and 9 the highest. The three types of risk are scored separately, then weighted and combined to derive the overall risk score.

6. Conclusion

WFA and WGGA with the support of all state wine organisations agree that the WET rebate should be retained but reformed. Why and how this can be done are outlined in detail in this submission as is the case for returning $44m in savings back to the sector's global marketing efforts to help build export demand for our wine.

We now ask government to act with urgency. Our proposals represent the consensus majority view within industry and will play a significant supporting role in the recovery of the sector, an uplift in profitability and achieving a better supply-demand balance.

Australia continues to produce wine products that are among the world's best across all price points. With industry working together with government, we can help individual wine businesses succeed and take our product to the domestic and global consumer at prices that better reflect its intrinsic worth.

The time to act is now. The confluence of positive macro-economic developments in our industry's favour that have occurred recently will be cyclical and do provide an opportunity within the highly competitive global market to make the structural changes required for sustainable profitability into the future, whatever it may hold.

We look forward to your consideration of our submission and working with industry on recovery and growth.

7. Response to the 19 'Discussion Paper' questions

Q1. Is the WET rebate delivering benefits to the wine industry and/or contributing to distortions in the wine industry? How?

The WET rebate continues to deliver important support to wine producers as was its original policy intent. However, it is also contributing to distortions in the industry which are inconsistent with the aim of achieving sustainable profitability.

The rebate was originally intended to assist producers to remain in business, so that diversity in wine styles is maintained and to secure the positive economic impact of wine enterprises in regional communities. The Explanatory Memorandum to the relevant legislation that introduced the current producer rebate system in 2004 stated, "Around 90% of wine producers will be able to fully offset their WET liability by accessing the new rebate. In particular, small wine producers in rural and regional Australia will benefit significantly…". As summarised by the Australian National Audit Office, the rebate was introduced "in recognition of the substantial financial hardship being faced by small rural and regional wineries and aimed to support their viability and consequent capacity to generate employment and wealth in local communities."

The rebate remains an important revenue source for wine producers in both the fine wine and commercial segments which are struggling with a decline in export sales and intense competition in the domestic market. It is clear that without the rebate a significant number of wine producers would be severely impacted financially. Whether originally intended or not, the rebate has been factored into business models and pricing strategies at all points in the supply chain. The rebate is particularly important for the cash flow of grape and wine businesses and in dealing with on-going tough trading conditions and low levels of profitability.

While the rebate continues to play an important role in supporting regionally-based producers and the communities they operate in, it has evolved and changed over time, and it has introduced a number of distortions to the market.

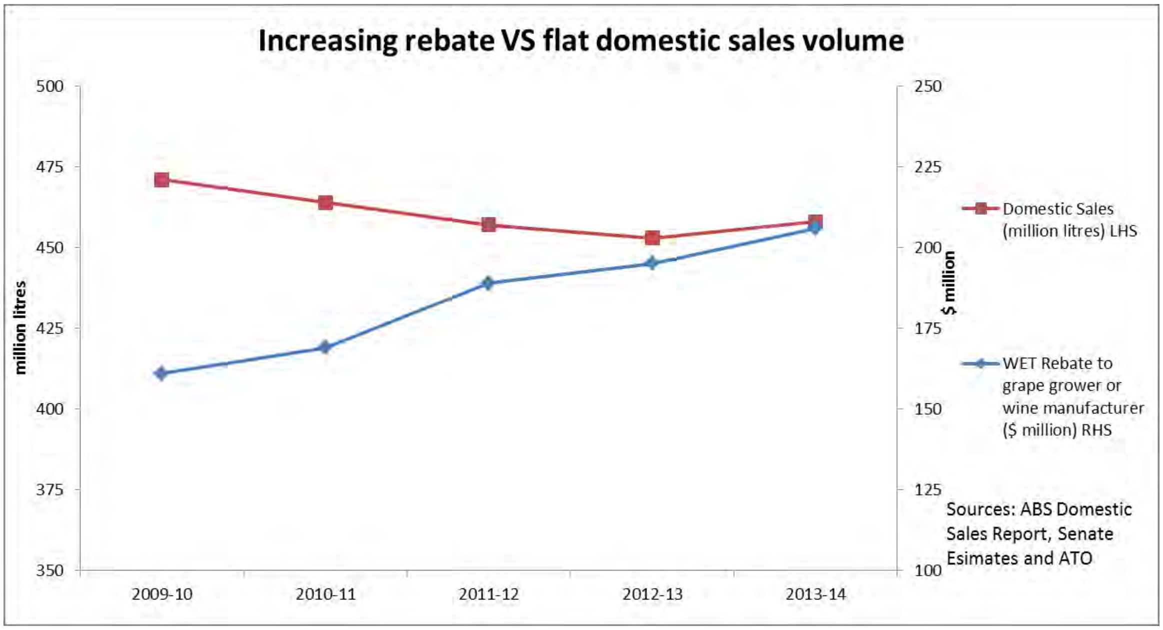
Specifically, there are widespread industry concerns that the WET rebate has evolved beyond its original intent of supporting local employment and tourism in wine regions, and is being compromised as follows:

1) The ability of brokers, intermediaries and uncommercial arrangements to access the entitlement; and

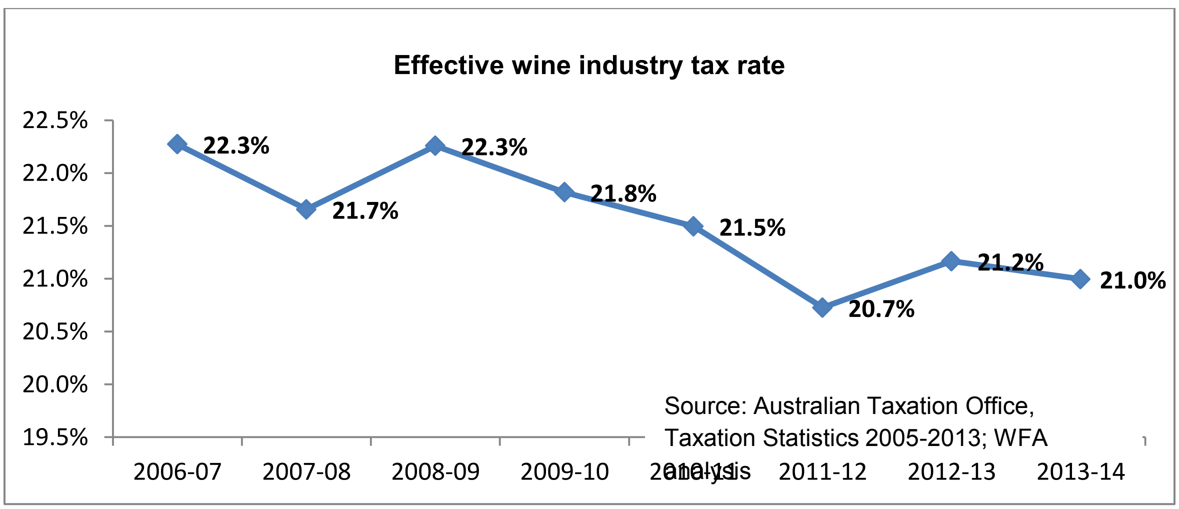
2) The role of the rebate in delaying the correction to the supply/demand imbalance by underpinning the conversion of uncommercial grapes into bulk wine and ultimately low equity cleanskins and home brands; and

Unintended Recipients

These concerns have been fueled by an increase in the amount of claimants on the rebate and the amount being claimed at a time when the industry has not grown.

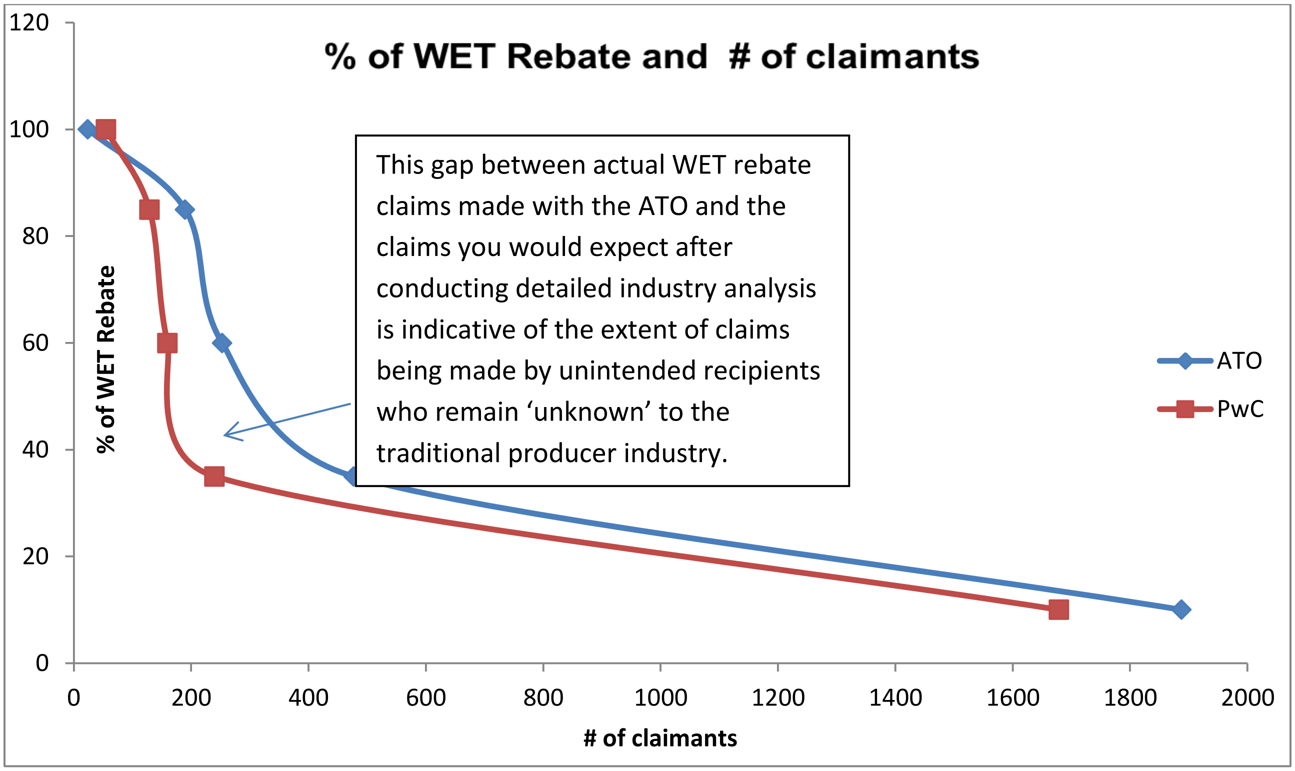


The total WET rebate to the industry has been in an upward trend since 2006-07, with an average annual increase of 12%. WET rebate for Australian producers (reflected in WET refundable – BAS 1D) started at $134 million in 2005-06, but have since increased to $308 million in 2013-14.[14] It is estimated that the Total WET Rebate and Refunds will increase to $333 million in 2013-14 and $340 million in 2014-15.[15] When we compare the trend of the WET Rebate to the Total WET over the last 7 years, the evidence of an unstainable financial platform underpinning current WET Rebate arrangements is even more apparent and threatens the future of the rebate for all claimants. Further evidence of this is the faster growth of total WET rebate compared to WET payable, has delivered a decrease in the effective wine industry tax rate.



As further evidence, analysis undertaken by PwC - which compares data from the ATO on the profile of rebate claims against what could be expected - shows a clear distortion in producer claims and a number of claimants near the rebate cap that are 'unknown' to the traditional wine producer industry. This work can be found in the attached PwC report.

[14] ATO correspondence
[15] Based on ATO correspondence; The Treasury, 2013. TAX EXPENDITURES STATEMENT, s.l.: The Treasury .



The severity of the situation has been further highlighted by the Australian Taxation Office with the Tax Commissioner rating the compliance risk associated with its administration of WET as 'high'. The ATO has issued a series of Tax Alerts to Industry on rebate compliance issues.[16] In addition, the Financial Review published an article in June 2014 titled "Tax office goes after wine rorts in $32m WET hit" with the following extract:

"The tax office is auditing people it believes may have claimed multiple rebates against the wine equalisation tax (WET). The amount includes $18.5 million in extra tax bills and penalties of more than $13 million, illustrating the size of the problem.

The tax office has been increasingly concerned about rorting of the system. There have been hundreds of artificial transactions between related corporate entities which claim to be blending or finishing off the winemaking process before the wine is sold. Companies have been set up for the purpose of claiming rebates. In some cases, there have been up to 10 claims each for $500,000 on the same wine."

WFA and WGGA strongly support the work of the ATO to improve compliance and restrict the ability of these uneconomic arrangements to access the rebate. Addressing this growing list of unintended rebate recipients and consequences has widespread industry support. Maintaining the integrity of the rebate system is important to safeguard its retention for those who are entitled to claim it.

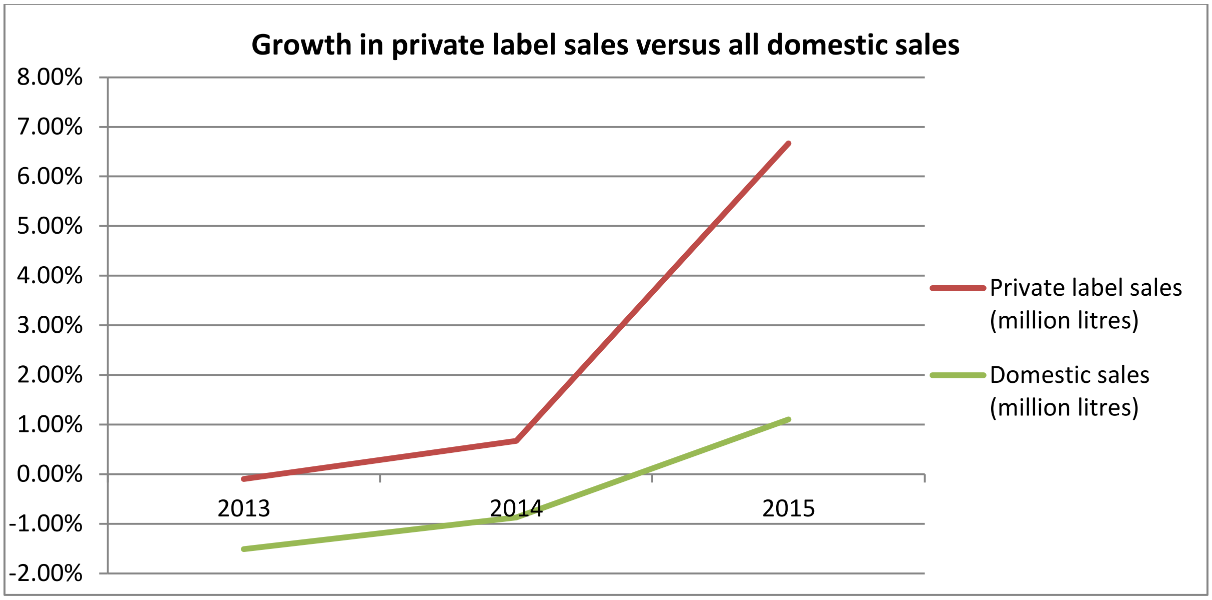
The rebate's role in supporting 'sticky supply' and low grape and wine prices

The rebate also underpins grape production that would otherwise be unprofitable and hence it delays the correction in the supply-demand imbalance and places downward pressure on grape and wine prices. This dynamic has helped drive the production of low equity brands and 'clean skins' and has seen many out-of-contract grape producers converting their grapes to finished wine (via contract winemaking) and this wine is highly likely to attract the WET rebate, with the

[16] http://law.ato.gov.au/atolaw/view.htm?DocID=TPA/TA20132/NAT/ATO/00001

deferral of the WET liability to the retailer (utilising 'quoting' provisions available within the WET arrangements). The lack of security of sale of wine grapes during the current difficult trading conditions is therefore increasing the number of WET rebate claims.

The availability of the rebate to growers and winemakers to convert unprofitable grapes into bulk wine has helped drive the proliferation of low equity brands in recent years which has in turn put downward pressure on the margins and profitability of traditional brand owners.

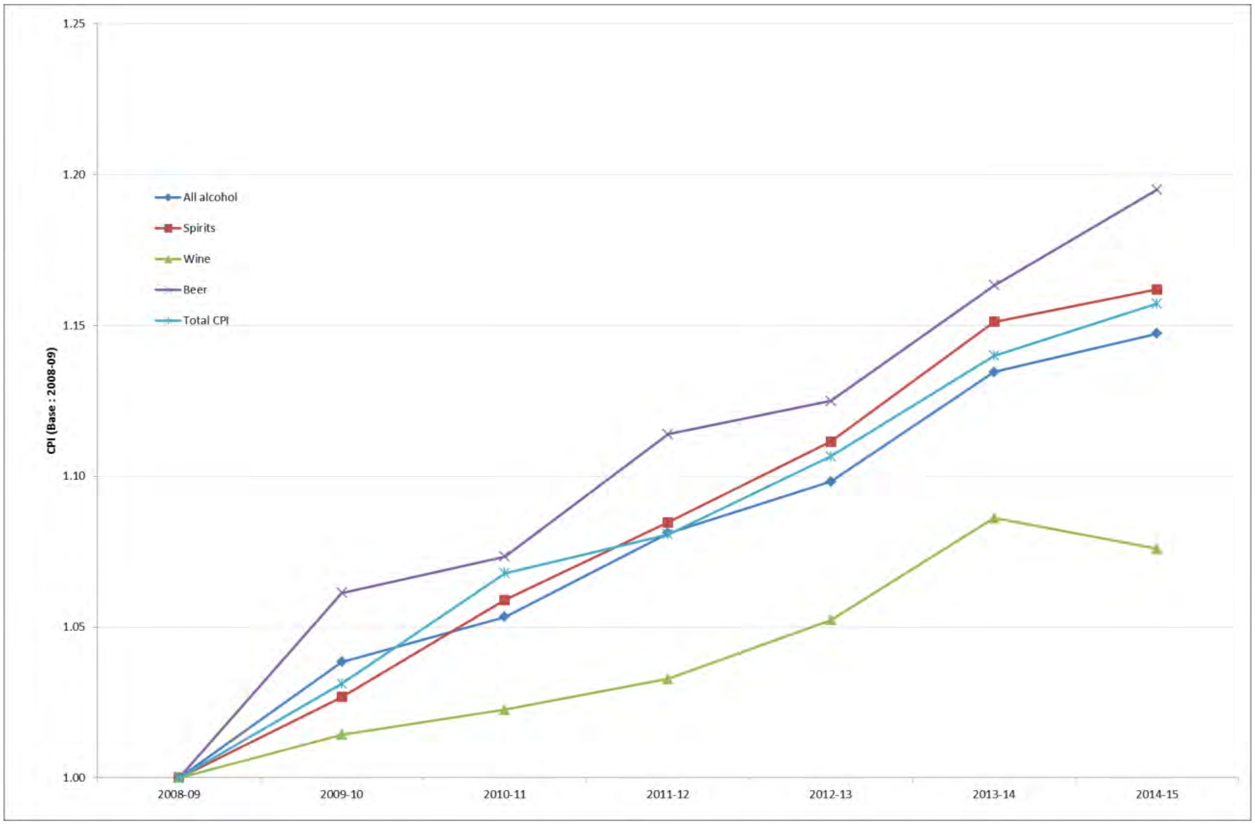


Source: ABS Domestic Sales and Wine Australia.

The ability of private label (home brand) sales (red line) to grow by 7% between 2013 and 2015 in a difficult economic environment compared to near flat growth in volume for ALL domestic sales (green line) is telling. This is attributable to the retailer's vertically integrated business models and the leverage the WET rebate gives them when negotiating the purchasing price for bulk wine for their home brands. The retailer as the purchaser is effectively able to access the rebate as many times as they have supplier agreements for bulk wine destined for their home brands.

The ability of suppliers of bulk and unbranded wine to claim the rebate and to underwrite the production of otherwise uncommercial grapes has the flow on impact of effectively setting a retail 'floor price' on all wine and a retail culture of endless 'discounting' in a crowded and oversupplied domestic market. Combined with the impacts of retail consolidation, this translates into poorer margins for all branded winemakers and grape producers. Retail pricing growth for wine has remained flat for many years compared to both CPI and other alcohol categories and is not sustainable. (See graph overleaf.)

Appendix G



Source: ABS Catalogue 6401.0 - Consumer Price Index, Australia, June 2015

Q2. Is the future sustainability of the Australian wine industry linked to the production of high quality wine? How?

Given we already produce high quality wine, the future sustainability of the industry is linked to growing demand for our wines at all price points profitably.

Australia continues to produce wine at a globally competitive standard but more must be done to expose global wine consumers to its diversity, value and consistency. This applies in both the fine wine and commercial wine segments.

A significant component of achieving this will be to grow our reputation as a producer of excellent wines by boosting the marketing funds of AGWA to promote our wine in a fiercely competitive marketplace. AGWA has a 5-Year Plan in place to develop the equity of the Australian category based on this approach with the aim of increasing demand for all Australian wine.

This submission provides a fully costed account of what finding and programmes are required to lift demand for Australian wine and cement our reputation as a producer of excellent wines.

Q3. Is there a policy case to be made for the WET rebate continuing to operate in its current form?

The WET rebate continues to deliver important support to regional wine businesses as was its original policy intent. However, it is also contributing to distortions in the industry which are inconsistent with the aim of achieving sustainable profitability. Reforms are required to ensure the future integrity of the rebate.

The rebate was originally intended to assist producers to remain in business, so that diversity in wine styles is maintained and to secure the positive economic impact of wine enterprises in regional communities. The Explanatory Memorandum to the relevant legislation that introduced the current producer rebate system in 2004 stated, "Around 90% of wine producers will be able to fully offset their WET liability by accessing the new rebate. In particular, small wine producers in rural and regional Australia will benefit significantly…". As summarised by the Australian National Audit Office, the rebate was introduced "in recognition of the substantial financial hardship being faced by small rural and regional wineries and aimed to support their viability and consequent capacity to generate employment and wealth in local communities."

The rebate remains an important revenue source for small and medium wine producers in both the fine wine and commercial segments which are struggling with a decline in export sales and intense competition in the domestic market. It is clear that without the rebate a significant number of wine businesses would be severely impacted financially. Whether originally intended or not, the rebate has been factored into business models and pricing strategies at all points in the supply chain. The rebate is particularly important for the cash flow of small and medium winemakers and in dealing with on-going tough trading conditions and low levels of profitability.

However, reforms are need to the rebate to ensure it delivers upon its original policy intent. WFA and WGGA, with the support of all the state wine industry associations, are backing the reforms outlined in this submission that will better align the rebate's originally intended purpose and benefits with the future sustainability of the wine industry. In summary, we believe that the Government should;

1. Stop the WET rebate going to unintended recipients and shut down the schemes.

2. Keep the WET rebate within the original policy intent of delivering long term benefits to industry and tourism in regional Australia.

3. Phase out the WET rebate on bulk and unbranded wine over four years because we need strong brands to command margin and loyalty from consumers and retailers and to generate the profits that can be reinvested back into regional Australia.

4. Abolish the separate New Zealand rebate scheme and its preferential treatment of NZ producers and replace with a 'level playing field' for all rebate claimants regardless of nationality.

5. Encourage consolidation by introducing transitional rebate measures to allow the second rebate on a merger of two businesses which are entitled to the rebate to remain with the new entity but be phased out at 25% per year over four years.

6. Work with WFA and WGGA to develop industry assistance for grape and wine businesses impacted by reform.

The details of each of these reform measures and what the Government must do are in this submission. Each can be introduced and implemented quickly and we request the Government to make these changes urgently at MYEFO 2015.

Once implemented, WFA and WGGA will in consultation with industry analyse the impact of reform and continue to assess the WET rebate and whether further policy reform is required including those options raised in the Discussion Paper that fall outside our proposals.

Q4. How could WET rebate be redesigned to better support the wine industry?

WFA have a comprehensive fully costed plan to reform the WET rebate which we believe has the majority industry support.

Following over two years of analysis, extensive industry consultation and consensus decision-making, WFA has proposed a package of limited reforms to the WET rebate to restore its integrity, place it on a sustainable financial footing and to ensure it continues to deliver its original policy intent. These are outlined in detail in our submission.

Keep and Return the WET Rebate to Fairness and the Original Policy Intent

In regards to legislative changes required to ensure the WET rebate continues to deliver the original policy intent, WFA believes the Government should restrict future rebate eligibility to producers who:

- have business premises in Australia (potentially, in a designated wine region in Australia); and
- hold a licence, issued by the Government of a state or territory in Australia, to sell liquor in that state or territory; and
- are self-employed or engage one or more employees (including associates of the winemaker) to perform work for the winemaker; and
- sell their wine either:
  - by retail sale, or under quotation, from the business premises referred to above; or
  - by internet or mail order sales (in which case the sales would be deemed to take place at the above premises).

These changes will ensure that all future recipients of the rebate have an investment in regional Australia and must continue to reinvest in local communities. These changes, in concert with the recommendation below to abolish the separate New Zealand producers' WET rebate arrangements, have the additional benefit of creating a level playing field for all claimants regardless of nationality. Grape and wine businesses producing branded product will not need physical production assets to claim the rebate.

WFA does not believe that bulk, unpackaged and unbranded wine should be eligible for the rebate as, over the long-term, they do not support the building of brand equity and margins with retailers and consumers. Therefore, the Commonwealth should phase out WET rebate eligibility for bulk and unbranded wine at 25% per year starting at 75% of the rebate rate from implementation.

This can be achieved by changing the legislative definition of rebatable wine for the WET rebate to:

> *'rebatable wine means *grape wine, *grape wine products, *fruit or vegetable wine, *cider or perry, *mead or *sake, that is packaged in a single container with a capacity not exceeding 5 litres at the time of the dealing, and which is labelled with a brand on the primary packaging that is wholly owned by, or licensed exclusively to, the producer of the wine.'*

This proposal would continue to support the industry consistent with the original intent of the rebate discussed above. By way of example, it would enable the following activities to continue to claim the rebate:

1. Winemaking and grape growing businesses that produce their own branded and packaged wine;

2. Winemakers and grape growers who lease their production assets or contract out the making of their wine and produce their own branded and packaged wine; and
3. Businesses that purchase grapes or leases vineyards and produce their own branded and packaged wine.

WFA also believes that current rebate arrangements may be inhibiting industry consolidation at a time when there is considerable pressure to rationalise and capture efficiencies and economies of scale. Wineries that believe their future lies in consolidation should not be stymied by the unintended consequence of a tax measure. Government should introduce transitional rebate measures to allow the second rebate on a merger of two businesses which are entitled to the rebate to remain with the new entity but be phased out at 25% per year over four years. These transitional arrangements will be made available to the industry for up to five years from the date of implementation.

Abolition of the separate New Zealand producers' WET rebate scheme and replacing it with a level playing field for all claimants

While all foreign entities are currently eligible to access the rebate, it is New Zealand winemakers that have particularly benefited from the rebate. In recent years, we have seen New Zealand imports increase from 21 million litres in 2007 to over 52 million litres in 2014 resulting in a 30% of the total value of the leading 20 SKUs sold in Australia.

The separate New Zealand producers' rebate scheme provides New Zealand producers a commercial advantage over other local and foreign claimants as outlined in the supporting legal advice (attached to this submission);

> *…foreign winemakers who receive the WET rebate are: (1) treated as having derived Australian income; and (2) therefore required to lodge Australian income tax returns.*
>
> *However, NZ winemakers are not required to lodge Australian income tax returns, as the WET producer rebate is considered to be assessable in NZ and not Australia.*
>
> *In addition, NZ winemakers are not required to be registered for Australian GST purposes and hold a state or territory liquor license, unlike Australian wine producers and other foreign wine producers.*
>
> *NZ winemakers are therefore not subject to the compliance costs associated with lodging Australian income tax returns, Business Activity Statements (BAS), or with ongoing state or territory liquor licensing requirements.*
>
> *Further, the ATO allows the NZ Inland Revenue to administer the WET rebate for NZ winemakers. The ability for NZ winemakers to deal with their local revenue authority is not available to other foreign wine producers.*
>
> *These preferential conditions make it easier and cheaper for NZ winemakers to access to the WET rebate, than for other foreign wine producers.*
>
> *The following table summarises the requirements to claim the producer rebate, and the benefits afforded to NZ wine producers that are not available to other foreign wine producers.*

Appendix G

Claim requirements under the current WET producer rebate schemes			
	Australian wine producers	*New Zealand participants*	*Other foreign wine producers*
GST registration required	✓	✗	✓
Wine tax must be paid	✗	✓	✗
Australian income tax obligations	✓	✗	✓
In-country administrative assistance provided	✓	✓	✗
Entity required to be exporter of wine	N/A	✗	✓
Required to hold a State/Territory Liquor License	✓	✗	✓

The supporting legal advice attached to this document outlines what changes are required and how they can be implemented without compromising our bilateral or international trading obligations.

These legislative changes are expected to deliver significant budget savings as outlined in this submission. The requirements for claimants under our proposals are summarised below:

Claim requirements under the proposed changes for accessing the WET producer rebate			
	Australian wine producers	*New Zealand participants*	*Other foreign wine producers*
GST registration required	✓	✓	✓
Wine tax must be paid	✗	✗	✗
Australian income tax obligations	✓	✓	✓
In-country administrative assistance provided	✓	✓	✗
Entity required to be exporter of wine	N/A	✓	✓
Required to hold a State/Territory Liquor License	✓	✓	✓

While some $25m per annum is currently rebated to New Zealand producers, the abolition of the separate New Zealand arrangements together with the proposed changes to future rebate eligibility including the requirement to hold local liquor licences and business premises and the removal of the rebate from bulk and unbranded wine from New Zealand, will deliver a net savings to the Commonwealth of $44.9m over four years.

Ongoing review

WFA and WGGA will continue to monitor the implementation and impacts of any reforms introduced by government and remain open-minded regarding the need for further reform to the rebate and what specific changes may be required. Our shared focus remains on facilitating a return to sustainable profitability for the industry and any further reform measures that emerge in the future that can help deliver this outcome will be considered closely.

Q5. Should the purpose of the WET rebate be to support rural and regional winemakers only? How could this be achieved?

The original policy intent of the WET rebate, to support regional wine producers and the communities they support by helping deliver sustainable profits, should remain its primary policy focus.

In our response to the previous question, we have identified a number of reforms that are about ensuring the rebate is returned to its original intent of supporting winemakers and grape growers in regional Australia. Please refer to our response to Question 4 for further details.

Taxation arrangements for the Australian wine industry play a critical role in shaping industry structure, performance and competitiveness. The Wine Equalisation Tax (WET) has been in place for well over a decade but has undergone a number of changes particularly in regards to the WET rebate.

The WET at a rate of 29% of the last wholesale sale price came into being in the context of the broader GST changes made in 2000 to replace wholesale sales taxes. In order to obtain the support of the Australian Democrats for its GST reform package in 2000, the Government *'undertook to ensure that arrangements were established which provided a tax exemption for cellar door and mail order sales up to a wholesale value of $300,000 per annum'*.[17]

This rebate was intended to assist small and medium sized winemakers and to promote tourism in regional areas.[18] The Explanatory Memorandum to the relevant legislation that introduced the current producer rebate system in 2004 stated, *"Around 90% of wine producers will be able to fully offset their WET liability by accessing the new rebate. In particular, small wine producers in rural and regional Australia will benefit significantly…."* As summarised by the Australian National Audit Office, the rebate was introduced *"in recognition of the substantial financial hardship being faced by small rural and regional wineries and aimed to support their viability and consequent capacity to generate employment and wealth in local communities."*

The WET arrangements were given statutory force by the Indirect Tax Legislation Amendment Act 2000, which in turn amended the A New Tax System (Wine Equalisation Tax) Act 1999 (WET Act). The *Indirect Tax Legislation Amendment Act* provided a 14% WET rebate from 1 July 2000 on cellar door and mail order sales (and applications to own use) up to a maximum of $300,000 of sales per annum.[19] The rebate tapered down to zero for sales between $300,000 and $580,000 per annum.[20] The WET rebate applied in conjunction with the applicable 15% State Government cellar door subsidy. The combination of the 14% WET rebate and the 15% State subsidy meant that cellar door and mail order sales up to $300,000 per annum were effectively WET-free.[21] It should be noted that the majority of these state government-based cellar door rebate schemes have now been abolished.

To be eligible to claim the WET rebate, the producer was required to hold a licence issued under a State law to make retail sales of wine from particular premises as a wine producer or a vigneron (i.e. a producer's license under State liquor licensing laws).[22] Hence, the WET rebate was limited to wine and did not include other products captured under the WET Act such as cider, perry and sake.

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[17] Supplementary Explanatory Memorandum, Indirect Tax Legislation Amendment Bill 2000, [2.27]
[18] Supplementary Explanatory Memorandum, Indirect Tax Legislation Amendment Bill 2000, [2.38-2.39].
[19] Ibid [2.29];[2.46]
[20] Ibid
[21] Ibid[2.29]
[22] See sections 19-10 and 33-1 of the WET Act, as inserted by the Indirect Tax Legislation Amendment Act 2000.

The WET rebate was introduced to primarily provide assistance to winemakers and to promote tourism in regional areas through increased incentives to open cellar doors.[23]

WFA and WGGA and the majority of the industry believes the WET rebate should be reformed to be better aligned with the original policy intent of supporting regional businesses.

[23] Supplementary Explanatory Memorandum, Indirect Tax Legislation Amendment Bill 2000, [2.38-2.39].

Q6. What other policy goals should the WET rebate pursue? Why?

WFA and WGGA support the WET rebate being better aligned with its original intent and for reform measures to specifically support the following policy goals:

WFA and WGGA, with the support of all the state wine industry associations, are backing the reforms outlined in this submission that will better align the rebate's originally intended purpose and benefits with the future sustainability of the wine industry. In summary, we believe that the Government should:

1. Stop the WET rebate going to unintended recipients and shut down the schemes.

2. Keep the WET rebate within the original policy intent of delivering long term benefits to industry and tourism in regional Australia.

3. Phase out the WET rebate on bulk and unbranded wine over four years because we need strong brands to command margin and loyalty from consumers and retailers and to generate the profits that can be reinvested back into regional Australia.

4. Abolish the separate New Zealand rebate scheme and its preferential treatment of NZ producers and replace with a 'level playing field' for all rebate claimants regardless of nationality.

5. Encourage consolidation by introducing transitional rebate measures to allow the second rebate on a merger of two businesses which are entitled to the rebate to remain with the new entity but be phased out at 25% per year over 4 years.

6. Work with WFA and WGGA to develop industry assistance for grape and wine businesses impacted by reform.

The details of each of these reform measures and what government must do are in the submission. Each can be introduced and implemented quickly and we request government make these changes urgently at MYEFO 2015. If reform is not expedited and delayed beyond 2015, it may be that the proposed phase-in periods for the recommended measures are shortened by industry to help deliver change in a timely manner.

Once implemented, WFA and WGGA will in consultation with industry analyse the impact of reform and continue to assess the WET rebate and whether further policy reform is required including those options raised in the Discussion Paper that fall outside our proposals.

Q7. Should the WET rebate be abolished? Why?

The WET rebate should not be abolished, because it is providing benefits to the very industry participants it was designed to encourage. It is supporting employment and tourism in regional Australia. In this way, the WET rebate is fulfilling its original intent.

The WET Rebate is providing an important benefit to wine and grape businesses and the regions in which they operate. The benefits the WET rebate delivers can best be expressed by the comments of industry as follows:

"O'Leary Walker Wines are small South Australian winemakers, sourcing grapes from vineyards in the Adelaide Hills, Clare Valley to produce premium cool-climate wines, spanning 12 varietals for export and domestic sale. Our cellar door in Clare Valley has been an important development in our 15 year history, helping to grow our brand and expand our customer base. This decision was taken in a tough trading environment but was seen as critical to growing our market share in a fiercely competitive environment. Our cellar door is also helping to grow regional tourism, attracting approximately 5200 visitors per year since it opened in 2001. When we started our business our commitment was to make great wines. The W.E.T. rebate was a great benefit in the startup of our business as the costs were significant. It gave us the confidence to take our wines into the international markets and employ more people within our business. On inception we had one employee, now we are employing over 12 staff. This would not have been possible without WET assistance. More recently the WET rebate has helped sustain our operations through the tough trading period of the last few years."

- ***David O'Leary, Winemaker and Co-Owner, O'Leary Walker Wines***

"Wirra Wirra is a small to medium-sized winery operating out of McLaren Vale, employing in excess of 45 full-time, part-time and casual staff and crushing around 2500 tonnes of fruit each year. Our cellar door is one of the most popular in the region, attracting thousands of visitors on an annual basis as we have become a key regional player in the wine tourism market. Over the past decade, we have seen very challenging times for the Australian wine industry. The growth of the domestic retail duopoly, the high AUD and the decline in demand for Australian wine in export markets have seen continual erosion of margin for wine producers. Wirra Wirra has managed to remain a sound, competitive business by continuing to invest in our brand and people during this difficult period. That investment can be firmly attributed to the WET rebate, without which we and many others would struggle to retain our relevance and position on the domestic and international stage."

- ***Andrew Kay, Managing Director and CEO, Wirra Wirra***

"Ballandean Estate Wines is a family business situated in the emerging wine growing area of the Granite Belt in Queensland. Over four generations the Puglisi family has created wines that truly reflect the unique essence of the region and shared them with our customers. As with the majority of wineries in the region (over 40) our cellar door has been our main market, with approximately 75% of our wine sales being attributed here and in the order of 40,000 visitors to the winery each year.

The WET rebate has contributed to our growth over the years by allowing us to complete improvements to our cellar door including an award winning restaurant and a Food Gallery. With this growth we have contributed to the growth of tourism generally in our region and as a result employ 18 local people. Tourism is one of the largest industries in the Granite Belt and is therefore hugely significant for the sustainability of this region and the employment of the local population. With over 40 employers in the wine industry, the WET rebate is a significant benefit to regional Queensland. A healthy wine tourism industry attracts and benefits numerous other industries resulting in more visitors and more jobs.

Ballandean Estate has recently been named Queensland Winery & Cellar Door of the year and without the WET rebate and our continued development, these accolades would have been more difficult to achieve.

- ***Angelo Puglisi, Owner, Ballandean Estate Wines***

"Snake + Herring" is a small winemaker brand that selects unique parcels of fruit from the South West of Western Australia. These niche fruit parcels provide strong returns to the growers we purchase from across Margaret River, Blackwood Valley, Pemberton and Great Southern regions. We contract process the majority of our fruit in Margaret River, with some small parcels still being processed in the Great Southern region. These wineries need us to keep their operating cost per tonne down. We also own our own tanks, fermenters and barrels with an investment of $1.5m in stock since 2011.

We sell 80% nationally through restaurants and export 5%. We will grow exports organically (re-investing profits slowly into export development). Considering our cost of goods are high and we have to send the goods across the Nullabor, without the WET rebate we wouldn't be competitive. I doubt we would have a business that could sustain the infrastructure (wages and lease commitments).

We recently secured a restaurant site in the Margaret River region (Dunsborough) and by March 2016 will have financed $2m to see this into a reality. It will employ 20 locals and a payroll estimated to be $700,000. A wine tourism business is extremely expensive to run in the country (costs are higher) and the WET rebate significantly contributes to regional development and jobs."

- ***Redmond Sweeney CA, Director, Snake & Herring***

"Crittenden Estate has been a family-owned and run small winemaking business on Victoria's Mornington Peninsula for over thirty years. Our business enterprise includes vineyards as well as on-site winemaking with a capacity of 300 tonnes throughput [approximately 20,000 cases]. Our recently built and nationally acclaimed second generation or new concept "Crittenden Wine Centre" has contributed significantly to the growth of local tourism for the Mornington Peninsula , attracting around 7,500 visitors each year. Across our vineyard, winery and sales operations we directly employ the equivalent of12 full time staff. Most of these staff are local to the region and see themselves as part of a farming business with strong ties to the land, tourism and our local community. In the absence of the WET rebate scheme I expect our business would cease to operate. Unsustainable lack of profitability but also trends showing flat

or declining sales have many in our industry worried about the future of winemaking in this country."

- ***Garry Crittenden, Founder and Director, Crittenden Wines***

"Oliver's Taranga Vineyard has been growing wine grapes since 1841 in South Australia's McLaren Vale. Now into its sixth generation of family ownership, our business has diversified from being traditional grape growers into winemaking, producing our first Oliver's Taranga branded wine in 1994. The introduction of the WET rebate in 2000 importantly helped underpin the development of our wine diversity and wine tourism offering. We have gone from producing one wine to now having a range of around ten wines, including fortifieds. Without the certainty of being able to fully-offset our WET liability, as a small wine business, we could not have taken the risk of growing our branded wine offering. We are proud employers of 10-15 locals, and our connection with our region extends beyond the boundaries of our 110 hectare vineyards through our sponsorships of the local McLaren Vale netball and football teams, and personal contributions to our region and industry on numerous levels over many years."

- ***Corrina Wright, Winemaker & Director, Oliver's Taranga Vineyards***

"Campbells has been producing wines for over 145 years from our vineyards in Rutherglen, Victoria. A small, family-owned business, we are now in our fifth generation and directly employ 45 people from our region. The WET rebate has enabled us to stay in business and where possible, to expand our infrastructure, keep innovating and to employ more staff. Maintaining investment in infrastructure is particularly challenging for small wine businesses like ours, especially through difficult trading years as we have experienced over the last ten years. We run one of the oldest cellar door operations in the country and over 50% of our sales are direct to the consumer. The WET rebate has enabled us and the wineries in our region to be sustainable and in turn bring tourism and employment, providing a major boost to our region and indeed to the many country towns across the nation that have been built around wine and tourism. I was party to the negotiations that gave rise to the WET rebate. The WET rebate was provided to wineries by Peter Costello to correct the anomaly at the time of the introduction of the GST; with the proviso that it would help generate regional tourism and employment. That policy objective has seen our region survive and contribute to regional tourism and employment. It remains just as relevant today as it was in 1999 and should guide policy decision-making as we work together to secure a strong future for Australian wine."

- ***Colin Campbell, Joint Owner and Director, Senior Winemaker, Campbells of Rutherglen***

"Voyager Estate is a family-owned winery located in Stevens Valley, Margaret River. For nearly 40 years we have been both growers and producers of premium and ultra-premium wines, focusing on Chardonnay, Cabernet Sauvignon, Shiraz, Semillon, Sauvignon Blanc, and Chenin Blanc. We sell domestically and in export, and have a substantial cellar door and direct business that accounts for over 25% of our total revenue. Our commitment to excellence in wine quality and in our cellar door and restaurant experiences requires us to have a high number of staff relative to our size of wine production. To make this all happen, we proudly offer direct employment to between 45 and 60 locals depending on the season. We also

indirectly employ up to 30 additional locals throughout the year through labour-hire companies and other contractors.

The WET rebate enables our business to keep up with investment requirements in our vineyard and winery infrastructure, which are inherently capital-intensive. Its inclusion in our business planning also allows us to develop enhanced visitor and wine experiences that act as drawcards for regional tourism. (Anecdotally, Voyager Estate is among the top three most visited wineries in Margaret River, and Margaret River has among the highest visitation of any region in Western Australia.)

- ***Alexandra Burt, Managing Director, Voyager Estate***

"Angove Family Winemakers is a 5th generation, family owned winery in South Australia producing single vineyard, super premium and commercial wines for the domestic and global markets. As a medium size wine business with a typical annual crush of 18,000 tonnes, we directly employ 155 staff. Our staff are predominantly local to the regions we operate in, being McLaren Vale and Renmark and additionally located around Australia in sales positions. The last 10 years have been particularly tough for our industry and maintaining our full diversity of wines, two cellar door operations (McLaren Vale and Renmark) and winemaking facilities has been incredibly challenging. During this extended, difficult period, the WET rebate has supported our investment in our brand, our assets, our people and our regions."

- ***Victoria Angove, Executive Director, Angove Family Wines***

"Yalumba is a member of the WFA's medium sized producers group. Similar to many other producers, we have been impacted significantly in recent years by profitability challenges and low returns on capital employed. The WET rebate has allowed us to maintain our investment in growing our brands and by default premium "Brand Australia" in over 50 export markets as well as domestically. This ongoing commitment and investment has enabled us to continue to require fruit supply from the regions we produce brands being: The Barossa, Coonawarra, King Valley, Tasmania, Adelaide Hills, and the South Australian Riverland. Of our total grape requirements 70% is from family growers in these regions and therefore the WET rebate received by Yalumba has had direct benefits to communities in the aforementioned regions."

- ***Nick Waterman, Managing Director, Yalumba***

"Tyrrells Vineyards has been growing grapes and making wine from our base in the Hunter Valley since 1858. Today we are the equal second oldest continuous family winemakers in Australia. Our winery receives in advance of 200,000 visitors per annum. We employ 68 full time staff in three locations. As the retail sector falls away cellar door remains our best marketing resource as it is here that we tie the consumer to our brands and it also forms the heart of the ever growing wine tourism sector. However Wine Tourism comes at the cost of sampling and weekend staff rates. The original Winemakers Exemption was created to assist that cost as it saved wineries paying the state licence fees. In NSW we have lost the state cellar door rebate which replaced the Winemakers Exemption - an annual cost of $3 million to the Hunter valley and over $500,000 to Tyrrells. The WET rebate is significant for medium-sized family companies. If the WET rebate were removed the combined financial impact on Tyrrells would

be difficult to absorb and would require a major reconstruction of the business. It would also require replacement of these funds used in marketing and that would have to come from government as our pockets are not bottomless."

- ***Bruce Tyrrell AM, Managing Director, Tyrrell's Wines***

"Henschke is a 6th generation, family owned winery based in Eden Valley producing single vineyard, varietal, super and ultra-premium wines from family owned vineyards in the Eden Valley, Barossa Valley and the Adelaide Hills for the our domestic and export customers. We are a small-medium size wine business with an artisanal focus of producing exceptional wines from outstanding vineyards. Our average annual crush is 800 tonnes and for that we directly employ around 50 staff, most of whom are local to the Barossa and Adelaide Hills. We have faced industry challenges in the last decade due to the GFC, recession in Europe, volatile exchange rates, and market retail domination from corporate supermarkets in Australia. Without the WET rebate we could not run a sustainable business to support our loyal local growers and employees."

- ***Stephen Henschke, Managing Director/Winemaker, Henschke Cellars Pty Ltd***

"Taylors are a family-owned business that have been making wine for four decades, across three generations. Based in South Australia's Clare Valley, the Taylors portfolio boasts five ranges, from commercial to fine wines, across 15 different varietals. The WET rebate has helped to make possible our ongoing investment in vineyards, winemaking, bottling, cellar door and our 188 staff, all in our regional area of Auburn in the Clare Valley. We are the highest taxed wine producing country in the world so the WET rebate helps us offset this massive tax burden on the Australian wine industry."

- ***Mitchell Taylor, Managing Director and Winemaker*** *(Founding Director of Australia's First Families of Wines)*

Q8. If the WET rebate was removed, what would be the likely effects for the wine industry?

We are proposing that the WET rebate be retained but with reforms. WFA and WGGA, with the support of all the state wine industry associations, are backing reforms that will better align the rebate's originally intended purpose and benefits with the future sustainability of the wine industry.

WFA has not undertaken any modelling on the impact of removing the WET rebate altogether and does not endorse any third party modelling on this policy option. WFA and WGGA do not support the removal of the WET rebate for intended recipients as per the rebate's original policy intent.

As covered in the response to Questions 1 and 7, the rebate continues to play a critical role in supporting many wine businesses in both the fine and commercial wine segments. Its removal will likely have a significant impact on these businesses and the regional communities they support.

WFA and WGGA will in consultation with industry continue to analyse the impact of reform and continue to assess the WET rebate and whether further policy reform is required including those options raised in the Discussion Paper that fall outside our proposals.
Please see our response to Questions 1 and 7 for further detail.

Q9. Should the WET rebate be replaced with a grant scheme that would phase out over a defined period of time? Why/not?

Q10. Over what period of time should the grant phase out? What transitional arrangements should apply?

WFA and WGGA will continue to monitor the implementation and impacts of any reforms introduced by the Government and remain open-minded regarding the need for further reform to the rebate and what specific changes may be required.

Our shared focus remains on facilitating a return to sustainable profitability for the industry and any further reform measures that emerge in the future that can help deliver this outcome will be supported. Improving the level of data and analysis on WET rebate claimants by the ATO and sharing this with industry will also play a critical role in enabling informed policy development.

In regards to the proposal to replace the rebate with a grants scheme, if the details of such a scheme clearly demonstrated that it met the criteria of delivering the original policy intent of the rebate and led to sustainable profitability and was easier to administer, then WFA and WGGA would consider it closely.

At this point in time we are not aware of any such detailed proposal and in the absence of sufficient data, WFA and WGGA do not support policy options that fall outside our detailed recommendations as presented in this submission. However, we will analyse the impact of the reform measures outlined in this submission, continue the analysis of the WET rebate and carry out the following further work in consultation with, and making all results available to, industry:

a) On-going assessment of whether the rebate is causing unintended industry consequences, distorting supply and impacting profitability and if so how it should be dealt with.

b) A review of rebate policy arrangements three years from implementation of the reform measures to assess all options, which could include keeping the rebate or a substitute, further restricting rebate eligibility, reducing the cap (the maximum claimable amount) or a timetable for phasing out the rebate.

Given the difficulty the Expert Review had in establishing a clear view on the impact of the WET rebate on industry dynamics due to lack of data, WFA will, in collaboration with WGGA, continue its analysis of the issues. Important areas of inquiry include the profiling of claimants, actual and projected growth in the rebate and the key drivers, the role of the rebate in various business models, and exploration of any link between the rebate and oversupply.

Q11. Are there other ways that the wine industry could be supported to restructure? What are they?

In 2013, WFA finalised 43 Actions to restore profitability in the wine sector. This document remains a blueprint for industry recovery and growth in both domestic and export markets and can be found attached.

The Actions relevant to restructuring the industry that are outside our recommendations included in this submission (on WET rebate reform and growing the demand for our wine with additional funding to AGWA) are below. Further details on each can be found in the attachments to this submission. (Refer to Actions document in the Appendix.)

Grow the Demand Opportunity

With AGWA and the Australian Government, WFA will help wine businesses grow demand for our wine, both domestically and internationally. The outcome from taking these Actions will be an increase in the relative market share of Australian wine in all major markets while we perform as well as or better in each segment.

Understand Market Challenges

WFA will work with AGWA on analysing the individual challenges in our key markets with a particular focus on route-to-market and ensure existing insights and research are leveraged in policy and programme development.

Extend Export Market Development Grants

The Australian Government to double the level of funding to Export Market Development Grants and reform the eligibility criteria

Improve Market Access

The Australian Government to rigorously pursue the FTA with China and other regional trading partners and provide adequate resourcing to improve market access including:

- APEC initiatives in the Standards and Conformance Sub Committee and Wine Regulatory Forum aimed at standardising import requirements.
- The reduction in trade barriers caused by differing maximum residue limits for agri-chemicals across key markets.
- DAFF and FSANZ's pursuit of bipartisan and regional agreements.
- DFAT and DAFF's capabilities to properly incorporate technical and regulatory issues into the development and maintenance of FTAs and regional trade agreements.

Execute a "Buy Australian First" campaign with the major liquor retailers

WFA will support the national retailers in the development of a "Buy Australian First" consumer facing campaign. This will promote regionality, blends and leading varieties with the aim of capturing share from imports and re-engaging Australian consumers.

Supply Side Activities and Hastening Supply Correction

Programs to support continued adjustment in supply will also contribute to improved market prospects of Australian wine by accelerating the transition to supply-and-demand balance.

WFA with WGGA will hasten the correction to the supply base to improve margins throughout the value chain. The outcome will help reduce the grape oversupply and the depressed prices it creates throughout the industry.

In addition, WFA and WGGA recognise that some support will be required for grape and wine businesses that will be adversely impacted by the reform measure of removing WET rebate eligibility of bulk and unbranded wine trade.

As examples, supply-side programs may include the following. Beyond these suggestions, WFA and WGGA undertake to provide more detail and costings as the policy responses to the Discussion Paper submissions evolve.

Transition programs when WET rebate access is removed

Growers or winemakers who have legitimately remodelled their businesses under the current WET rebate provisions, in order to secure alternative routes to market from that of wine company brands (when demand for these cannot accommodate their fruit) should be assisted through transitional arrangements when their eligibility is removed.

Programs that facilitate uptake of more suitable grape growing business models

For example

- mentoring for business remodelling
- promotion of initiatives such as collaborative farming
- programs to separate land asset ownership from business operations on that land.

Initiatives to address barriers to vineyard exits and 'sticky supply'

Research is needed to identify and quantify the drivers of apparent barriers to exit of unsustainable vineyards – and then to address them. Prime candidates in this endeavour include understanding and addressing the role of stranded assets in preventing vineyard exits and the roles of off-farm income and diverse agriculture portfolios in sustaining underperforming vineyards.

The Joint Policy Forum (WFA and WGGA) will undertake research to better understand the reasons for the slow correction to the supply base as a potential pathway to developing options to incentivise consolidation and rationalisation.

Facilitating more rapid turn-over in vineyards in times of downturn or trend change

The Joint Policy Forum (WFA and WGGA) will review the need to commission research on:

- lowering the cost of vineyard turnover and removal to facilitate greater responsiveness of vineyards to structural imbalances, economic cycles and changes in consumer preferences;
- vineyard flexibility to ascertain where there is excess supply and the technical priorities to support improvements in vineyard quality;
- alternate uses/markets for grape oversupply.

Capability of vineyard operators

- Business mentoring

- Programs to identify and promulgate good vineyard practice.
- Incentivising vineyard consolidation.
- Social support mechanisms for distressed, isolated farm operators.

Improving market operations that enable market forces to bring about supply adjustment

- Code of Conduct. WFA and WGGA will continue to support the Code of Conduct between winemakers and growers.
- Vineyard profitability. WFA and WGGA will produce a regular review of vineyard profitability supported by a National Vineyard Database and an update of demand projections in key markets.
- WGGA and WFA, through their Joint Policy Forum, will discuss further market-based mechanisms to hasten the supply-side adjustments.

Vine buyback

- A vine buyback is not supported.

Maximise Open and Fair Domestic Competition

WFA will work with the national wine retailers and competition regulator on fairness, transparency and equity in the domestic wine market. The outcome will be a more sustainable domestic marketplace for industry where companies can grow share through quality, innovation and investment.

Collaborate on shared issues and build relationships

Collaborate with the retail sector on shared issues through a standing Industry Working Group.

Code of Conduct

WFA will work with the national chains to adopt an Industry Code of Conduct based on agreed Principles and Practices.

Assist retailers and members with concerns over unfair treatment

WFA will establish a process with retailers and producers to confidentially highlight concerns regarding retailer conduct that they believe could be an abuse of market power.

Deal with Horizontal and Vertical Integration

WFA will continue to work with the ACCC and the Government on the structure of wine markets, potential vertical and horizontal acquisitions by the chains, and the likely impact these acquisitions may have on competition and market structure.

Public Benefit Review

WFA will continue to consider options to reform Competition Law and the ACCC in a manner consistent with the objectives of the recommended Principles and Practices and with greater scrutiny and control over vertical and horizontal integration.

Appendix G

Further analysis on the wine market and competitiveness

WFA to work with the Productivity Commission to extend the analysis of the domestic wine market and competition issues.

Appropriate labelling for Retail-owned Brands and Cleanskins

WFA to work with the national retailers to ensure appropriate labelling of all wine products.

Q12. Should eligibility to the WET rebate be restricted by excluding bulk, unpackaged and unbranded wine?

To support regional communities over the long-term, WFA proposes to phase out the WET rebate on bulk and unbranded wine at the rate of 25% per annum over four years, starting at 75%.

The development of 'brand power' is critical to capturing above inflation retail price increases, increased margin share with retailers and reinvestment back into rural communities. 'Cleanskins', and unbranded wine work against these objectives and therefore do not play a long term role in encouraging sustained regional investment or development.

This measure will impact some grape and wine businesses in the short term who without the prospect of selling grapes into wine company owned brands, have changed their business models to produce finished wine and claim the rebate. WFA and WGGA believe that structural reform is required to return all parts of the wine supply chain to long-term profitability and that industry's future lies in strong branded product that can command loyalty and margin growth from retailers and consumers. WGGA is of the strong view that a proportion of this wine volume will still have the capability to find its way into alternate profitable routes to market

WFA does not believe that bulk, unpackaged and unbranded wine should be eligible for the rebate as, over the long-term, they do not support the building of brand equity and margins with retailers and consumers. WGGA is concerned about the strong potential for this trade to depress winegrape prices. Therefore, the Commonwealth should phase out WET rebate eligibility for bulk and unbranded wine at 25% per year starting at 75% of the rebate rate from implementation.

This can be achieved by changing the legislative definition of rebatable wine for the WET rebate to:

> *'rebatable wine means *grape wine, *grape wine products, *fruit or vegetable wine, *cider or perry, *mead or *sake, that is packaged in a single container with a capacity not exceeding 5 litres at the time of the dealing, and which is labelled with a brand on the primary packaging that is wholly owned by, or licensed exclusively to, the producer of the wine.'*

Branded product, which would remain eligible for the rebate under this proposal, is defined as that product which bears the proprietary brand of the claimant and includes brands that may be exclusively ranged in specific outlets.

This proposal would continue to support the industry consistent with the original intent of the rebate discussed above. By way of example, it would enable the following activities to continue to claim the rebate:

- Winemaking and grape growing businesses that produce their own branded and packaged wine;
- Winemakers and grape growers who lease their production assets or contract out the making of their wine and produce their own branded and packaged wine; and
- Businesses that purchase grapes or leases vineyards and produce their own branded and packaged wine.

WFA also believes that current rebate arrangements may be inhibiting industry consolidation at a time when there is considerable pressure to rationalise and capture efficiencies and economies of scale. Wineries that believe their future lies in consolidation should not be stymied by the unintended consequence of a tax measure. Government should introduce transitional rebate measures to allow the second rebate on a merger of two businesses which are entitled to the rebate to remain with the new entity but be phased out at 25% per year over four years. These transitional arrangements will be made available to the industry for up to five years from the date of implementation. Accessing this arrangement would be limited to a 'once-only' or finite entitlement.

These legislative changes are expected to deliver significant budget savings as detailed in this submission.

Further insight into industry thinking on the proposal to remove rebate eligibility for bulk and unbranded wine is as follows:

"Riverland Wine strongly supports the WFA proposal to phase-out the WET rebate on bulk, unbranded and unpackaged wines. The current arrangement provides a rebate where no tax is payable. This leads to a distortion in market-pricing, putting the great majority of growers at a disadvantage relative to those enterprises producing wine with a rebate. There is clear evidence that the availability of the WET rebate on bulk, unbranded and unpackaged wine is being used as leverage to negotiate below market prices for the purchase of grapes. This is a distortion the industry cannot afford."

- ***Chris Byrne, Executive Officer, Riverland Wine***
  (the Riverland is Australia's largest wine producing region accounting for more than half South Australia's production and more than 20 per cent of the national crush. Riverland Wine represents the diverse interests of over 1000 grape growers and 16 wineries spanning large and small boutique operations.)

"The WET rebate on bulk wine is having unintended outcomes in the market that result in lower grape prices. This must be fixed to allow industry recovery to start."

- ***Brett Proud, Riverland grape grower***

"The WET rebate issue needs resolving. It is reducing the ability for us to sell fruit, and also has a negative impact on the value of bulk wine"

- ***Sheridan Alm, Director, Yatco Viticulture***

"Australian Vintage Limited is a leading Australian wine company and a fully-integrated wine business that includes vineyards, boutique and bulk wine production, packaging, marketing and distribution. AVL crushes around 8% of Australia's total production. AVL supports the WFA proposal to phase-out the rebate on bulk, unbranded and unpackaged wines. This is because we fundamentally believe this particular use of the WET rebate is artificially depressing grape prices and is preventing a correction to the industry's oversupply problem. Addressing this situation is critical to the sustainability of the industry."

- ***Neil McGuigan, CEO, Australian Vintage Limited***

Q13. Should the definition of 'producer of wine' be amended to restrict claims for the rebate?

WFA and WGGA believe that the priority reform is to amend the definition of 'rebateable wine' in the Act rather than change the definition of 'producer'.

WFA looked closely at this question and it formed part of the industry consultations held in 2013. With the benefit of this consultation, together with expert legal opinion, it became clear that approaching this matter by trying to define "producer", and covering all intended consequences and avoiding all unintended consequences, would prove more complex than focussing on the "product". To focus on "producer" would likely require a lengthy, convoluted definition. Simplicity is highly desirable as one of the biggest issues with the current law is that it cannot be understood by the average winemaker or grape grower.

Further, the issue of who is a "genuine producer" is a highly subjective and emotive one. Focussing on the 'activity' or 'product' is simpler. It is also important to note that the liquor licensing of producers is governed by State law, so there already exists different definitions of 'producer' throughout the country. Another national definition, which would be different again, would add further confusion.

It was also felt that determining rebate eligibility by reference to the definition of "producer" would encourage people to adopt a particular business model for the wrong reason. From an economic benefit perspective, Australian businesses should be encouraged to select the most efficient model for their businesses and to be innovative in that regard.

Focussing on the definition of "producer" would not necessarily prevent a wine from being the subject of multiple rebates, as it could pass through the chain to multiple entities all within the definition. On the other hand, 'rebatable wine', as defined and proposed here in this submission, can only be subject to one rebate when dealt with by its producer.

Finally, relying on the definition of "producer" could also give rise to WTO/CER problems, if it impacts on the ability of foreign producers to claim the rebate. For all these reasons, the consensus was that focussing on the definition of what constitutes 'rebatable wine', was preferable for its simplicity and clarity.

WFA does not believe that bulk, unpackaged and unbranded wine should be eligible for the rebate as, over the long-term, they do not support the building of build brand equity and margins with retailers and consumers. Therefore, the Commonwealth should phase out WET rebate eligibility for bulk and unbranded wine at 25% per year starting at 75% of the rebate rate from implementation.

This can be achieved by changing the legislative definition of rebatable wine for the WET rebate to:

> *'rebatable wine means *grape wine, *grape wine products, *fruit or vegetable wine, *cider or perry, *mead or *sake, that is packaged in a single container with a capacity not exceeding 5 litres at the time of the dealing, and which is labelled with a brand on the primary packaging that is wholly owned by, or licensed exclusively to, the producer of the wine.'*

This proposal would continue to support the industry consistent with the original intent of the rebate. By way of example, it would enable the following activities to continue to claim the rebate:

- Winemaking and grape growing businesses that produce their own branded and packaged wine;
- Winemakers and grape growers who lease their production assets or contract out the making of their wine and produce their own branded and packaged wine; and
- Businesses that purchase grapes or leases vineyards and produce their own branded and packaged wine.

It should also be noted that our proposals would also require all rebate claimants to hold a relevant domestic liquor licence.

Q14. Should the WET rebate only be allowed for wine on which WET has been paid? Why?

WFA and WGGA will continue to monitor the implementation and impacts of any reforms introduced by government and remain open-minded regarding the need for further reform to the rebate and what specific changes may be required.

Our shared focus remains on facilitating a return to sustainable profitability for the industry and any further reform measures that emerge in the future that can help deliver this outcome will be supported. Improving the level of data and analysis on WET rebate claimants by the ATO and sharing this with industry will also play a critical role in enabling informed policy development.

In regards to the proposal to allow the rebate to be paid only on wine where the WET has been paid, if the details of such a proposal clearly demonstrated that it met the criteria of delivering the original policy intent of the rebate and led to sustainable profitability and was easier to administer, then WFA and WGGA would consider it closely.

At this point in time we are not aware of any such detailed proposal and in the absence of sufficient data, WFA and WGGA do not support policy options that fall outside our detailed recommendations as presented in this submission. However, we will analyse the impact of the reform measures outlined in this submission, continue the analysis of the WET rebate and carry out the following further work in consultation with, and making all results available to, industry:

a) On-going assessment of whether the rebate is causing unintended industry consequences, distorting supply and impacting profitability and if so how it should be dealt with.

b) A review of rebate policy arrangements three years from implementation of the reform measures to assess all options, which could include keeping the rebate or a substitute, further restricting rebate eligibility, reducing the cap (the maximum claimable amount) or a timetable for phasing out the rebate.

Given the difficulty the Expert Review had in establishing a clear view on the impact of the WET rebate on industry dynamics due to lack of data, WFA will, in collaboration with WGGA, continue its analysis of the issues. Important areas of inquiry include the profiling of claimants, actual and projected growth in the rebate and the key drivers, the role of the rebate in various business models, and exploration of any link between the rebate and oversupply.

Q15. If the cap was reduced, what should the maximum WET rebate be?

Q16. If the rebate was only available for a proportion of the WET, what should that proportion be?

WFA and WGGA will continue to monitor the implementation and impacts of any reforms introduced by government and remain open-minded regarding the need for further reform to the rebate and what specific changes may be required.

Our shared focus remains on facilitating a return to sustainable profitability for the industry and any further reform measures that emerge in the future that can help deliver this outcome will be supported. Improving the level of data and analysis on WET rebate claimants by the ATO and sharing this with industry will also play a critical role in enabling informed policy development.

In regards to proposals to reduce the rebate cap or make it only available on a portion of the WET paid, if the details of such a proposal clearly demonstrated that it met the criteria of delivering the original policy intent of the rebate and led to sustainable profitability and was easier to administer, then WFA and WGGA would consider it closely.

At this point in time we are not aware of any such detailed proposal and in the absence of sufficient data, WFA and WGGA do not support policy options that fall outside our detailed recommendations as presented in this submission. However, we will analyse the impact of the reform measures outlined in this submission, continue the analysis of the WET rebate and carry out the following further work in consultation with, and making all results available to, industry:

a) On-going assessment of whether the rebate is causing unintended industry consequences, distorting supply and impacting profitability and if so how it should be dealt with.

b) A review of rebate policy arrangements three years from implementation of the reform measures to assess all options, which could include keeping the rebate or a substitute, further restricting rebate eligibility, reducing the cap (the maximum claimable amount) or a timetable for phasing out the rebate.

Given the difficulty the Expert Review had in establishing a clear view on the impact of the WET rebate on industry dynamics due to lack of data, WFA will, in collaboration with WGGA, continue its analysis of the issues. Important areas of inquiry include the profiling of claimants, actual and projected growth in the rebate and the key drivers, the role of the rebate in various business models, and exploration of any link between the rebate and oversupply.

Q17. Should New Zealand producers' access to the rebate be changed? If so, how?

WFA and WGGA are not seeking to exclude New Zealand claimants from rebate eligibility. We are seeking a level playing field for all claimants regardless of nationality and this will require abolition of the separate New Zealand producers' rebate arrangements and its preferential terms.

To further ensure the WET rebate continues to deliver its original policy intent of supporting local wine businesses and wine regions, WFA recommends that the amendments to the WET Act in 2005, which established the New Zealand WET rebate system, be repealed. The ability of New Zealand wine producers to access the rebate on unfairly favourable terms has directly harmed Australian producers and has added to the oversupply of wine in the domestic market. The separate New Zealand rebate arrangements provides New Zealand producers with an unfair commercial advantage over local and other foreign claimants as they are not required to be registered for Australian GST and are not subject to compliance costs associated with lodging an Australian income tax return. There is a compelling case to immediately abolish this separate entitlement, and instead enable New Zealand producers to continue to claim the rebate, but on identical terms of access as currently applied to Australian and other foreign country claimants. WFA has supporting legal advice on how this can be done in a manner without impacting Australia's broader trading obligations and bilateral commitments.

This recommendation has widespread industry support. Some $25m per annum is currently rebated to New Zealand wine producers and the abolition of the separate New Zealand rebate arrangements along with the other reforms to rebate eligibility proposed above will see a net saving of almost $15m per annum to the Commonwealth (by 2018/19) and a level playing field created for all future claimants regardless of origin. This approach is consistent with Australia's bilateral and multi-lateral trading commitments.

While all foreign entities are currently eligible to access the rebate, it is New Zealand winemakers that have particularly benefited from the rebate. In recent years, we have seen New Zealand imports increase from 21 million litres in 2007 to over 52 million litres in 2014 resulting in a 30% of the total value of the leading 20 SKUs sold in Australia. This loss of market share, in large part underpinned by the rebate, has directly harmed Australian producers, and consequently regional communities. The supporting legal advice at attached to this submission outlines what changes are required and how they can be implemented without compromising our bilateral or international trading obligations.

The separate New Zealand producers' rebate scheme provides New Zealand producers a commercial advantage over other local and foreign claimants as outlined in the supporting legal advice (see attachment):

> *…foreign winemakers who receive the WET rebate are: (1) treated as having derived Australian income; and (2) therefore required to lodge Australian income tax returns.*
>
> *However, NZ winemakers are <u>not</u> required to lodge Australian income tax returns, as the WET producer rebate is considered to be assessable in NZ and not Australia.*
>
> *In addition, NZ winemakers are not required to be registered for Australian GST purposes and hold a state or territory liquor license, unlike Australian wine producers and other foreign wine producers.*
>
> *NZ winemakers are therefore not subject to the compliance costs associated with lodging Australian income tax returns, Business Activity Statements (BAS), or with ongoing state or territory liquor licensing requirements.*

Further, the ATO allows the NZ Inland Revenue to administer the WET rebate for NZ winemakers. The ability for NZ winemakers to deal with their local revenue authority is not available to other foreign wine producers.

These preferential conditions make it easier and cheaper for NZ winemakers to access to the WET rebate, than for other foreign wine producers.

The following table summarises the requirements to claim the producer rebate, and the benefits afforded to NZ wine producers that are not available to other foreign wine producers.

Claim requirements under the current WET producer rebate schemes

	Australian wine producers	*New Zealand participants*	*Other foreign wine producers*
GST registration required	✓	✗	✓
Wine tax must be paid	✗	✓	✗
Australian income tax obligations	✓	✗	✓
In-country administrative assistance provided	✓	✓	✗
Entity required to be exporter of wine	N/A	✗	✓
Required to hold a State/Territory Liquor License	✓	✗	✓

While some $25m per annum is currently rebated to New Zealand producers, the abolition of the separate New Zealand arrangements plus the proposed changes to future rebate eligibility including the requirement to hold local liquor licences and business premises and the removal of the rebate from bulk and unbranded wine from New Zealand will deliver a net savings to the Commonwealth of $44.9m over four years.

These legislative changes are expected to deliver significant budget savings detailed in our submission. The requirements for claimants under our proposals are summarised below:

Claim requirements under the proposed changes for accessing the WET producer rebate

	Australian wine producers	*New Zealand participants*	*Other foreign wine producers*
GST registration required	✓	✓	✓
Wine tax must be paid	✗	✗	✗
Australian income tax obligations	✓	✓	✓
In-country administrative assistance provided	✓	✓	✗
Entity required to be exporter of wine	N/A	✓	✓
Required to hold a State/Territory Liquor License	✓	✓	✓

Q18. Should the WET rebate be replaced by a small rebate for independent Australian alcohol producers such as wineries, distilleries and breweries?

WFA and WGGA will continue to monitor the implementation and impacts of any reforms introduced by government and remain open-minded regarding the need for further reform to the rebate and what specific changes may be required.

Our shared focus remains on facilitating a return to sustainable profitability for the industry and any further reform measures that emerge in the future that can help deliver this outcome will be supported. Improving the level of data and analysis on WET rebate claimants by the ATO and sharing this with industry will also play a critical role in enabling informed policy development.

In regards to proposals to replace the rebate, if the details of such a proposal clearly demonstrated that it met the criteria of delivering the original policy intent of the rebate and led to sustainable profitability and was easier to administer, then WFA and WGGA would consider it closely.

At this point in time we are not aware of any such detailed proposal and in the absence of sufficient data, WFA and WGGA do not support policy options that fall outside our detailed recommendations as presented in this submission. However, we will analyse the impact of the reform measures outlined in this submission, continue the analysis of the WET rebate and carry out the following further work in consultation with, and making all results available to, industry:

a) On-going assessment of whether the rebate is causing unintended industry consequences, distorting supply and impacting profitability and if so how it should be dealt with.

b) A review of rebate policy arrangements three years from implementation of the reform measures to assess all options, which could include keeping the rebate or a substitute, further restricting rebate eligibility, reducing the cap (the maximum claimable amount) or a timetable for phasing out the rebate.

Given the difficulty the Expert Review had in establishing a clear view on the impact of the WET rebate on industry dynamics due to lack of data, WFA will, in collaboration with WGGA, continue its analysis of the issues. Important areas of inquiry include the profiling of claimants, actual and projected growth in the rebate and the key drivers, the role of the rebate in various business models, and exploration of any link between the rebate and oversupply.

Q19. Would any significant changes to the WET rebate require transitional arrangements to help the wine industry restructure? How should transitional arrangements be designed?

WFA and WGGA recommend a number of transitional arrangements for the proposed reforms:

1. A four year phasing out of rebate eligibility for bulk and unbranded
   WFA does not believe that bulk, unpackaged and unbranded wine should be eligible for the rebate as, over the long-term, they do not support the building of brand equity and margins with retailers and consumers. Therefore, the Commonwealth should phase out WET rebate eligibility for bulk and unbranded wine at 25% per year starting at 75% of the rebate rate from implementation.

2. Government to work with WFA and WGGA to develop industry assistance for grape and wine businesses impacted by reform.

3. Encourage consolidation by introducing transitional rebate measures to allow the second rebate on a merger of two businesses which are entitled to the rebate to remain with the new entity but be phased out at 25% per year over four years.

4. On-going analysis by WFA and WGGA in consultation with industry on further reform

WFA will analyse the impact of the reform measures outlined above and continue the analysis of the WET rebate and carry out the following further work in consultation with, and making all results available to, industry:

a) On-going assessment of whether the rebate is causing unintended industry consequences, distorting supply and impacting profitability and if so how it should be dealt with.

b) A review of rebate policy arrangements three years from implementation of the reform measures to assess all options, which could include keeping the rebate or a substitute, further restricting rebate eligibility, reducing the cap (the maximum claimable amount) or a timetable for phasing out the rebate.

Given the difficulty the Expert Review had in establishing a clear view on the impact of the WET rebate on industry dynamics due to lack of data, WFA will, in collaboration with WGGA, continue its analysis of the issues. Important areas of inquiry include the profiling of claimants, actual and projected growth in the rebate and the key drivers, the role of the rebate in various business models, and exploration of any link between the rebate and oversupply.

8. Appendix

A. Supporting Letters from State Wine Associations

B. Snapshot of the industry

C. Actions for Industry Profitability 2014-2016

D. Legal Advice, “Returning WET Rebate to Fairness and Original Policy Intent” Finlaysons Lawyers

E. Economic Modelling, “Returning WET Rebate to Fairness and Original Policy Intent – Supporting Advice on the Impact to Government Revenue”, PwC

F. WFA Vintage Report July 2015