Attention David Pullen

Treasury

11 September 2016

Dear Sir,

**Proposed changes to the WET rebate**

We are pleased to see Treasury are seeking comments with regard to changes to the WET rebate, on a number of criteria including a possible assets test.

Our business is involved in the wine industry as grape growers and a small wine business. We have almost 700 hectares of grapes under management in South Australia. We have been in business for 23 years and employ 18 people. If the WFA recommendations are accepted in their entirety we will suffer income loss as we sell some bulk wine to other wine companies and receive WET rebate.

During the first round of this debate, we objected strongly to the WFA submissions as they wanted to restrict the WET rebate to branded product and impose some stringent rules which directly supported the position of the top wine companies. At the extreme this could see a ‘Producer’ with nominal capital garner the current $500,000 in WET Rebate, where we gain no WET rebate even though we may supply 90% of the wine needed – whilst we employ 18 people in regional areas (and many others indirectly) and have around $30,000,000 invested in the industry.

As you are aware, the wine industry is presently marginally profitable. The simply astonishing WFA argument is that by restricting WET to branded product only the industry will regain profitability. We asked, at the 2015 annual general meeting of WFA, for a copy of any research to back this statement and were advised that there was no such research. We are aware that a research paper commissioned by WFA released a few years ago warned against promoting the branded wine only position.

The basic problems with the WET rebate in our view are as follows;

* The definition of a Wine Producer is extremely difficult to monitor in a complex industry
* For the smaller Producers, the current system is too generous to those who struggle over the line and get the maximum rebate
* As in many other Government rebates, there is no means testing. In this case skin in the game’ is important
* We seem to have lost the purpose of this rebate – it is required to support a capital intensive and marginally profitable industry – but one which exports two thirds of its production, is an integral part of the tourism industry, and provides many rural jobs.

We think the most essential element of the ability to claim a rebate should be a real investment in the wine industry, whether that be a winery, a vineyard or a Cellar Door.

As an alternative to the WFA position is there a situation where everyone in the wine industry producing wine, either in bulk or branded is eligible for a WET rebate on their first $300,000 of sales which would mean small winemakers, including some grapegrowers who make wine and sell in bulk, will all qualify. The $87,000 rebate would be sufficient to keep all these participants in the industry but not be of a magnitude that the developers of ‘schemes’ deemed worthwhile.

For sales beyond $300,000 the qualification criteria would be bottled and branded sales, but with an assets test. For example, to gain the full $290,000 WET rebate you would need sales of $700,000 at least in branded sales and up to $300,000 in bulk. Assuming there was no assets test up to $300,000 then after $300,000 of sales you needed $2 in assets (fixed assets only in the form of a winery, a cellar door or a vineyard) for every $1 of sales. To gain the full $290,000 you would need $1,400,000 tied up in owned fixed assets. Most proper players in the industry would need this magnitude of capital tied up to garner a reasonable level of profitability.

This simple approach would remove most of the virtual wine businesses and encourage people in the industry to invest in regional assets and increase local employment and at the same time may limit New Zealanders to their Australian assets only.

We understand the industry needs to rid itself of virtual wine businesses and others rorting the system. However, there is no evidence that restricting WET to branded product only will increase industry profitability as the supermarkets will just look overseas to replace the present unbranded and bulk products.

Am happy to be contacted at any time regarding this letter. My mobile is 0411 660 555 and my email is [ronc@blaxvin.com.au](mailto:ronc@blaxvin.com.au)

Thank you,

**Ron Collins**

**Director**

**Blaxland**