# Submission to the Australian Federal Government consultative process on reform to the WET rebate eligibility criteria.

**19 September 2016**

**Darryl Catlin, Catlin Wines**

As a wine producer concerned with the future of our industry, I feel it important to participate in the consultation process regarding proposed changes to the Wine Equalisation Tax rebate, and in particular the definitions of ‘eligible producer’ under the act. My response to the Government’s discussion questions are as follows:

1. **For rebatable wine, is the proposed definition of packaged and branded wine appropriate?**

Yes, the definition of packaged and branded wine is appropriate.

**If a trademark approach is used, what types of trademarks should be permitted (e.g. exclusively licensed trademarks) and what would be the impact?**

Common law and registered trademarks should be permitted, licenced trademarks permitted unless they entitle one business or associated businesses access to multiple rebates.

1. **For eligible producers, how should a winery ownership and leasing test be applied? What should be the nature and extent of investment in the wine industry required to access the rebate, and how can this be implemented?**

No asset tests, ‘significant interest’ or ‘skin in the game’ tests should be required. See below for further explaination. Any eligibility criteria based on asset levels introduces unnecessary complexity and regulation, will be difficult to implement and administer, will be easily circumvented, and will exclude some legitimate producers.

1. **What is the impact from a 1 July 2019 start date of the tightened eligibility criteria? How might this change from an earlier transition period?**

If eligibility criteria must be tightened, the transition period should allow time for businesses to effectively restructure their operations to minimise disruption and to reflect the long lead times from production decision to commercial sale.

While questions 1 and 3 are important issues, for my business and livelihood question 2 in particular is critical. I offer the following supporting information:

As the government’s discussion paper has noted, there are many successful non-traditional business models operating in the Australian wine Industry today. The government’s discussion paper goes some way to acknowledging this, but under any of these proposed alternative definitions my particular business model would still be ineligible.

I am a small business owner and I have a small brand called Catlin Wines. I am focussed on single vineyard wines from the Clare and Adelaide Hills. I have been involved in the industry for many years, starting out in the Barossa on my parents farm picking and pruning grapes. I have been winemaking for over 15 years in the Adelaide Hills working for a major well known producer. I decided to branch out on my own in late 2012 and started Catlin wines in 2013. I have based my model on single site wines from some of the best vineyards in the Hills and Clare. This means I source from approx 5 single site vineyards. These grower not only have A grade sites, but are A grade growers. I pay them more to ensure they deliver the quality I need to stay in a market that is highly competitive. I support not only the local growers, I have also been involved in the regional bodies, support local businesses for supplies, local warehousing even right down to getting my car serviced and so on. Losing the rebate will impact on my business in a way that will force many in my position to question the future and how I might survive. It will increase the barriers to entry even more and stifle innovation and exciting new brands. I currently worry about how many jobs will be lost at the local contract winemaking facilities, of which there are many in the hills. They employ many people who make wines for people similar to me. I want to own a vineyard, but cannot afford it yet. This will kill that dream and have unexpected flow on consequences. The loss of the small players may even force the hand of some growers into reducing quality and increase tonnes in a return to the bad old days which will ultimately result in failure as has been seen by our export market from the late 90’s and early 2000’s. Vineyard workers, suppliers and contractors will also feel the pinch. Do we need SA and other states to lose more small businesses.

 I would also like to point out how a small player has to compete in this market. They buy and pay for the grapes and winemaking, maybe barrels, bottling, transport, storage of the packaged wine, then might have a distributor that they pay between 35-45 % margin to sell the wine and that is not including the interest on loans, trips to vineyards, trips to sell the wine, accommodation, samples, wine shows and the list goes on. We can often have 3 years of stock on hand and all paid for before it leaves the door. Then you often are on 60 + days terms when someone does order stock. So on top of this, there is a wish to just drive an extra nail in the coffin. To say this is unfair is an understatement. Having a go is ok if you have the cash, but if you are trying to make it from scratch, it just gets harder.

The Government is ignoring state regional and national industry bodies, all of whom agree that there is no need for asset based eligibility criteria for the WET rebate.

Independent financial modelling undertaken by PWC for the Winemakers Federation of Australia has clearly demonstrated that almost all of the so called ‘rorting’ of the rebate and recuperation of lost taxation revenue can be remedied by simply eliminating the rebate for bulk and unbranded wine, and by tightening the rules regarding ‘associated entities’ claiming multiple rebates.[[1]](#endnote-1) I, my regional association, state association and national industry body are all supportive of these measures.

I do not, however, support the recommendation of the Government’s Consultative group (Oct 2015) that

*“The business owns or leases one out of three of a vineyard, winery (production facilities or fermentation facilities) or cellar door outlet*” [[2]](#endnote-2)

Any imposition of ‘skin in the game’ or asset based eligibility criteria unfairly penalises younger and new entrants to the industry, who do not have the financial capacity to secure major leases and asset purchases.

The WET rebate has enabled many quality brands to emerge and contribute positively to the Australian wine landscape. These are the innovators, the ones who have been able to take risks with new styles, new varieties and new packaging. They have helped create a fertile and vibrant wine market that is necessary to capture the imagination of the next generation of educated wine consumers. Many of these producers could never have survived beyond the first few vintages given the ‘perfect storm’ of adverse market conditions seen in the wine industry over the past five years. Several of these young producers are now among Australia’s brightest stars, championed by domestic and international wine journalists and the world’s hottest restaurants and bars. They are the future of our wine industry, and if nurtured they will invest back in the industry, in vineyards, wineries, and other links in the supply chain.

Innovation in the wine industry should be encouraged and supported, particularly at a time when the industry desperately needs to shed its ‘commodity’ image and instead be known for quality, uniqueness, and driving new wine trends. Other agricultural industries are being actively encouraged to develop low-asset business models, and to utilise existing infrastructure. This is fundamentally efficient. The government however appears to be encouraging the wine industry to do the opposite.

As a long-term, committed wine producer, I implore you to remove the ‘lease or own a winery’ provisions and any associated physical asset-based criteria for eligibility for the WET rebate. Such changes will likely cause significant collateral damage to my business and to the future of our industry.

Sincerely,

Darryl Catlin

Winemaker

Catlin Wines

4 Mayfair Street Maylands 5069

darryl@darrylcatlin.com.au

1. PWC report to WFA, Appendix F: *Returning WET Rebate to Fairness and Original Policy Intent - Supporting Advice on the Impact to Government Revenue,* 2015, pp iii-vi [↑](#endnote-ref-1)
2. *Wine Equalisation Tax Rebate Consultative Group report* October 2015, p 5. [↑](#endnote-ref-2)