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

28th September 2016

Neil Jericho, Jericho 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 explanation. 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.

* **Jericho Wines** is a small family wine business.
* Jericho Wines has only been in operation for 4 years although family members have significant contribution and experience in the Wine industry. Neil Jericho has been in the wine industry for over 40 years, other family members have had over 15 years of cumulative experience in the wine industry.
* Jericho Wines buys approximately 50 tonnes of grapes from 4 grape growers, the wine is made under our direction and instructions at a small contact wine making business and the wine is bottled at a local McLaren Vale bottling facility. Add to this a number of suppliers of barrels, corks, caps, bottles, cartons, labels and local transport and warehouse facilities.
* It is a long-term goal to establish our own facilities, either as a vineyard or a winery as we become more established and profitable. At a young stage of our business it is impossible to obtain bank loans to fund the purchase of appropriate assets being considered in this WET rebate discussion.
  + We would have to try and negotiate to reduce all of existing costs and offer to buy fruit from our growers at a much reduced price, reduced contract winemaking costs and reduced bottling costs all of which would put financial pressures on contract and suppliers businesses or be rejected by them.
  + Cellar Door Facility; It is not our intention to conduct a Cellar Door Sales facility as I believe this is a very inefficient and costly rout-to-market at at this early stage of our business.
* I strongly believe there will not be enough physical assets such as real estate available for purchase for many of the small winemakers to be able to build their own winery.
* I also consider this would lead to many inefficiencies such as water usage, waste water disposal, power and power augmentation, use of land (from agriculture to secondary use), public assessability off main roads and public amenities.
* There is the thought that the many of the local councils would not approve the many re-zoning or “change of use” of so many applications.
* **THE JERICHO FAMILY STORY**
* **Jericho Family Wines** has been formed by our Jericho family. A daughter who conducts the accounting and administration functions, me and a son who share the winemaking functions and our youngest son who is a graphic designer who designed our labels and undertakes many of the marketing functions. I under-take our own distribution and deliveries in Adelaide and sales support for our interstate distributors. Each of the family has a rich back ground in the wine industry.
* **INDUSTRY EXPERIENCE: (Neil Jericho)** I have been a winemaker and general manager in the wine industry for 42 years and have worked for various major wine companies in Australia; Campbells, Brown Brothers and Taylors wines. During this time I have contributed much to the industry; chairman of the Clare Valley winemakers, Regional Development Australia (RDAYMN), member of the S.A. Wine industry Association.
  + As going into retirement I saw the opportunity for our family to now take benefit of this experience and knowledge and start a wine business together that will be the future business for my young family.
  + Each family member has not taken any payment and we have not taken any money out of the business but kept the money in the business to grow the business. We consider we will continue to do this for another 5 to 8 years.
* **Sally Jericho**; has worked at Wine Australia and has 2 university degrees. She managers the administration, cash flows, invoicing and board minutes.
* **Andrew Jericho**, is a winemaker for a wine company so he and I share the wine making responsibilities so not to conflict with his daytime job.
* **Kim Jericho**, undertakes our product packaging designs, website and social media and support the distributors with POS material (Point of Sale).

**Industry Recognition**

In the first 4 years Jericho Wines have won 4 trophies, 9 gold medals and received numerous wine journalist’s highly acclaimed reviews. We received 5 Star acclaim from James Halliday Wine Companion in our first 2 years of trading.

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The Government is ignoring state regional and national industry bodies, all of

which 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,

Neil Jericho,

Winemaker, owner,

JERICHO WINES Pty Ltd

Home address, 74 Jervois Terrace, Marino, 5049

Email Address; [neil@jerichowines.com.au](mailto:neil@jerichowines.com.au)

Mobile phone; 0499013554

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)