# **Submission to the Australian Federal Government consultative process on reform to the WET Rebate: Tightened Eligibility Criteria.**

**October 5, 2016**

**Damian North, Journey Wines**

As a wine producer passionate about the future of the Australian wine industry, I feel it is important to participate in the consultation process regarding proposed changes to the Wine Equalisation Tax rebate, and in particular the proposed tightened definitions of ‘eligible producer’.

My specific responses 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 owned by the claimant should be permitted. Our business owns the trademarks for its brand, this is a reasonable expectation indicating a businesses commitment to building their brands.

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?**

Eligibility for the rebate should not be based on any asset test. Any eligibility criteria based on assets introduces unnecessary complexity and regulation; will be difficult to implement and administer; will be easily circumvented; and will exclude many legitimate producers like Journey Wines.

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

I have been involved in the Australian wine industry for nearly 25 years – first as a sommelier in some of the best restaurants in Sydney and then, after completing a winemaking degree at Charles Sturt University, working as a full-time winemaker for other wine businesses in the Yarra Valley in VIC, Oregon USA and Margaret River in WA for over 18 years.

In 2010, after completing an MBA at Curtin University, I returned to the Yarra Valley to start my own wine business – Journey Wines.

For the last 6 years Journey Wines has purchased grapes from 3 vineyards in the Yarra Valley and 1 in Heathcote, and made our wine at Medhurst Wines in the Yarra Valley under a contract arrangement. Our production has grown over that time to around 2,500 dozen per year.

We own the grapes used to produce Journey Wines from the vineyard farm-gate through the entire winemaking process until the packaged wine is sold to the final customer.

We use a Victorian mobile bottling service for all of our bottling requirements and utilise a third-party logistics business to handle our packaged goods logistics in VIC, NSW, QLD & WA.

Over the last 6 vintages, our investment in the winemaking process alone has been of the following order:

* Wine Grapes: $475k
* Contract Winemaking Services: $330k
* Bottling & Packaging: $280k
* Warehousing & Logistics: $135k

In addition to the above, our business rents an office in the Yarra Valley, pays salaries and wages, owns vehicles etc.

**In total our investment in the business over the last six years has exceeded $2.7 million – the vast majority of which is spent with other small businesses in our local regional area.**

Since beginning, Journey Wines has eschewed traditional distribution arrangements common in the industry (where the winemaker sells to a wholesaler who sells to restaurants and retailers) and distributed the wines ourselves. This innovation, and the direct contact it provides with our customers has proved very successful, and Journey Wines can be found on the wine lists of the best restaurants in the country.

Over the last year Journey Wines has also begun exporting to the UK, Singapore and Thailand.

As a result of our strong growth we have recently employed a part-time account manager to handle Victorian sales. We are ready to employ someone in a similar role in NSW but those plans have been put on hold due to the uncertainty surrounding the proposed changes to WET rebate eligibility.

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 an 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.

Given the level of investment in our local region outlined above – I find the suggestion that our business does not have ‘skin in the game’ to be anachronistic and incredibly short-sighted.

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 are to 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 to commercial sale inherent in the wine industry.

The WET rebate has enabled many quality wine brands to emerge and contribute positively to the Australian wine industry. These are the innovators, the ones who have been able to take risks with new styles, new varieties and new models of distribution.

These wine businesses 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 Australian 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 be devastating to my business and to the future of our industry.

Sincerely,

Damian North – Winemaker & Managing Director

Journey Wines

1A/29 Hunter Road

Healesville VIC 3777

0427 298 098

damian@journeywines.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)