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

October 5, 2016.

Alexander Byrne - Byrne Wines, Liquid Rock n Roll, and Noisy Ritual

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 have been making wine under the Byrne label since 2009, under the Liquid Rock n Roll label since 2013 and with Noisy Ritual since 2014. I worked my first vintage in the Yarra Valley at Dominique Portet winery in 2002, this inspired me to return to university to study Wine Science in 2004. I completed my Bachelor of Applied Science (Wine Science) in 2007, while completing a vintage in Margaret River in 2005 and in the Yarra Valley and the Rhone Valley (France) in 2007. In 2008 I gained work experience for another vintage in Burgundy (France) before return to work full time as an assistant winemaker at Lethbridge Wines in Victoria in 2009. With the support of my employers I began making my own wine in their facility as soon as I was settled back in Australia. I worked full time for them but made my own wine in my spare time using their space an equipment. The volume of wine I make has grown each year since then as the time, money and demand have increased. I now rely on my own wine as a primary income. I have a permanent contract for an entire 5 acre vineyard near Ballarat which I have had since 2010, I also have an ongoing contract for the majority of fruit from another vineyard near Ballarat which I have had since 2012. I work closely with the growers, who both live at the vineyards but do not have their own wineries, to maintain the vineyards and their income from them. I also buy fruit on contract from several other larger vineyards around Victoria where I have varying degrees of involvement. In total this year I processed about 35 tonnes of fruit for my businesses. My business also contributes to the winery where I lease space to produce my wine, the packaging, storage and transport companies who I work with, as well as many other small businesses who collaborate to supply our boutique products to the customers.

The loss of the WET rebate would cripple our businesses. We would be uncompetitive if we had to increase our prices to compensate for the loss, and we would be unprofitable without the rebate.

Small winemakers like myself do not make a lot of money. We work hard and our industry is based largely on good relationships between growers, producers, and consumers (and many other people in-between). Our segment of the industry is innovative, environmentally sustainable and responsible, and creative. We support many other small businesses and communities. The proposed changes would have a huge negative impact on the Australian wine industry and many other areas of the broader community who we serve.

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,

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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)