Please find an email I would like to submit for the panel considering the WET rebate.

I believe Paul Evans from The Wine Federation is ‘between a rock and a hard place” as lots of tiny new wineries , labels and growers are totally relying on the WET exemption for their business model to work and this has totally distorted the marketplace. Quite a rift has occurred between the industry with many larger wine producers unhappy with their representation by the Wine Federation. So much so that many are pulling out of funding.

I am speaking out here for the many medium and larger producers not getting a hearing

Firstly I would like to say we have all benefited to varying degrees by the assistance the WET exemption has brought us. Overall however, all it has done  is make wine cheaper (mainly middle or upper range wines), make the trade more profitable to some degree and introduced masses of new labels to the marketplace. The latter are mainly coming from new inexperienced growers and their friends and relatives, ‘quasi’ wine companies, retailers, and New Zealand wine growers/ makers/ trade. In addition there are similar cider selling companies. The WET exemption has not sold one extra bottle of wine. Effectively it has mostly been like a hand out to the final consumer making wine cheaper.

Paul Evans has relatively nicely worked on rewriting the details of WET exemption eligibility; however the core problems going forward are not addressed. I will address these shortly, after I have pointed out some of the distorted occurrences we have observed that are relatively legal. People have been able to make multiple claims on a single parcel of wine by selling it to a so called “extra party” and then again on selling multiple times, such that each time a WET exemption claim is made. Effectively this leaves the wine owing nothing to the original owner. Obviously this is not intentionally illegal, but easily orchestrated legally. Even New Zealanders have got in on the act. I have heard of wine being sold from Australia to New Zealand and then back to Australia. Each time WET exemption is paid, while the wine itself has not left Australian shores. While on the subject of New Zealand, 7 years ago very little New Zealand wine was imported. Now it accounts for about 15% of all wine sold. We have been paying the New Zealanders tens of millions of dollars to come and take over our industry.

I have also heard of Chinese setting up companies in Australia to claim WET exemption on cider that is sold somewhere else in the world.

Paul’s model has addressed these issues to the best he can, however while the WET exemption still exists, there are multiple ways of claiming it .

The main problem I envisage in the future is that all companies up to $1.5 million wholesale sales have a huge price advantage. Once  and sales reach $1.5 million, every bottle sold over  and above the threshold dilutes the average return per bottle. Eventually we will end up with thousands of companies all claiming WET exemption, and in turn the Government will not be collecting much WET tax at all. Many of these companies would be basing their finances on getting the 29% rebate to be profitable and wine would be cheaper. Not  one extra bottle of Australian wine would be sold. Not one oversupplied grape would be crushed.

In effect, the WET exemption would be rewarding the small inefficient wine producers while making it harder for the larger wine companies to compete causing them to cut costs (and potentially staff) to the bone. In both cases that would leave few dollars to build a brand , and market the brand both domestically and internationally.  Small companies pricing for export would be higher than the same locally sold wine and well Overseas based informed retailers and customers would not want to stock those products.

Effectively Australia’s huge advantage of having the strongest brands in the world would be diluted. The canvas would be more like Europe where there are masses of small wineries adding to the confusion about wine that the consumer already has.

As we all know the major problem with the wine industry centres around supply and demand. There is just not enough demand for the amount of supply. So, as we all strongly compete the WET exemption makes the inefficient small companies compete but doesn’t make anyone more profit as while we are in oversupply undercutting to lower margins will always bring profits down to the bones, as people are desperate to keep selling their grapes/ wine. This is where I say the WET exemption only makes wine cheaper and doesn’t help the producers/ growers.

What would be   best for everyone is to bring supply and demand back to even or ideally demand over supply. The $300 million  handed to wineries in 2013/2014 could be given in a different way. I see two types of assistance packages that would achieve amazing results. The  $300 million could be spread among all wineries only on the condition it be spent on visits to export markets  and ancillary costs of doing events. During the heyday of Aussie wine exports a huge amount of winemakers toured overseas markets with amazing success. Now, very few travel largely due to their self-imposed cost cutting due to the imbalance of supply and the Wet Tax rebate derived industry.

You can imagine the headlines around the world. “Cashed up Aussie winemakers  invading our shores”. The results would be astronomical.

The second benefit would be spreading the rest of the $300 million for publications. Specifically for advertorials and establishment or  continuation of publications on Australian wine; both published magazines and e-commerce.

Part of the problem of Aussie wine export sales is the lack of international press written about Australian wine, which is inextricably bound to the lack of Aussie wine advertising in their publications. Countries in Europe are heavily subsidized by Governments to promote their wine industry internationally. Also there is the issue of parochial prejudice which is more difficult a mindset to overcome.

This may sound a lot like the EMDG but I see that too is easily rorted. In the EMDG companies can get invoices from overseas distributors claiming “market development costs” for huge amounts. The overseas company can justify the expenses as wages of employees, on the road and alike. Meanwhile the wine  export price is elevated so as to match the original intended price. Effectively achieving very little that wouldn’t already be done, and getting a nice cash injection from the government. It’s just too easy to rort.

I envisage that the money would be allocated as assistance to money to be spent.  (Remuneration for 60-70% of costs) and it is set up as a tendered grant, applied for before spending. Before long, Australia would be considered the capital of the wine world taking up volumes of the world’s wine lists.

Some people in the industry have put forward a concept where you must have a bricks and mortar winery to get  the WET exemption. This has major flaws and negative consequences. The definition of ‘bricks and mortar” is a difficult one as one wine barrel could potentially be enough. Conversely if there definition is based on only grapes processed and stored on site considered eligible this may result in decreased quality and many inefficient wine labels. Places like Tasmania have processing wineries doing dozens of small wine label wines. Each of these wines would then need to be made in inefficient small wineries prone to problems arising from incompetence  , naivety and all the associated problems of semi micro vinification

It would be too painful to many businesses to remove the WET exemption in one foul swoop. I would see it being phased out over a 3 year period. Each of those three years of gradual WET exemption reduction would be offset by the increase in promotional support outlined in the two formats.

We could just continue with the Paul Evans slightly cleaned up WET tax exemptions or we could be putting the assistance to much greater use.

If we take the first route, one day in the future when we have a very different multi small wine company geography and the government is removing the WET exemptions as little money is being collected, it will be much more painful and difficult to adapt. It isn’t that long ago that Australian wine was on everyone’s   minds internationally. The longer we leave it to make a change, Australian wine becomes a lost memory.

Finally I thought I would leave you with  a quote made  by Neil McGuigan who  is the fourth Australian president of the International Wine & Spirit Competition. Anthony Madigan from “The week that was” and WBM spoke to Neil. He asked him about the Peter Lehmann Wine company sale. He didn't want to comment on the rumour that it had been sold, other than to say, "Let's face it, almost every Australian winery is on the market."

How long should unprofitable wine labels/companies be subsidised by the Government?

The money could be so better put too use to achieve great export volumes  and achieve enormous benefits to the wine industry and the Australian economy, instead of causing a lot of distortions and pain.

Kind regards

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