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1 June 2015

The Hon Joseph (Joe) Hockey,
Treasurer,
PO Box 6022
House of Representatives
Parliament House,
CANBERRA CITY, ACT, 2601

Dear Mr Hockey

Re: Think – Better Tax, Better Australia – Submission

We are grateful for the opportunity to share our views on the specific issue of the taxation of alcohol beverages, and in particular the taxation of wine products.

We do not support any change in the level or method of taxation of wine products. Accolade Wines supports the retention of the current Wine Equalization Tax (WET) structure in order to ensure the best outcomes for the industry, for the Australian economy and for consumers. The wine industry is an Australian success story. It's a net exporter, regional employer and has been at the forefront of the cultural changes that have seen Australia develop a reputation for its lifestyle, fine food and wine.

A change to wine taxation will not achieve the stated goals of this review – a simpler, fairer tax system that enables economic growth and job creation.

Quite the opposite. An increase in the level of taxation of wine products, whether through a change to an excise duty taxation system where taxation is based on the volume of alcohol (like that applied to beer and spirits), or otherwise – risks devastating the wine industry while it is still restructuring and seeking to address low levels of profitability and excess supply of wine grapes.

Despite what those who argue for a change to excise duty may say –

- Such an excise system would introduce regulatory and administrative complexity and cost for the fragmented and agriculture based wine industry.
- The current tax system underpins years of investment by hundreds of farmers and enterprises, large and small, and any change to that

system will cause enormous disruption, including large scale business failures, job losses and knock on impacts into all areas, including export competitiveness.

- Such an excise tax would have a disproportionate impact on the price of affordable wines - we would expect demand for such wines to fall dramatically given likely price rises – with significant negative economic impacts in regional Australia, particularly the River Murray related wine producing regions of South Australia, Victoria and New South Wales.
- The scale of the impacts in those regions would be similar in economic and social outcomes to the restructure of the car industry, with the additional drawback that regional residents have fewer employment options, forcing many to choose between unemployment and leaving the region to find employment, further damaging the already straining fabric of rural communities.

Further, introducing a volumetric tax – or otherwise increasing overall taxes on the wine industry – will have little impact on reducing issues such as binge drinking or chronic consumption. While overall consumption may fall – or should we say, continue to fall since consumption of alcohol is at 50 year lows right now – price rises do not prevent those determined to drink to excess from so doing, nor do they deliver help to those who need it. Education and targeted programs – not tax driven price rises which unfairly impact the responsible consumer - are the answer.

Who suffers the most if affordable wines become unaffordable? Aside from the growers, the workers, their families - the greatest impact of increasing the price of affordable wine via a volumetric tax would be consumers on lower or fixed incomes – pensioners and other battlers - who would be forced to give up one of "life's little luxuries". This is an unfair and inequitable outcome, which could best be described as a tax slug on those who can least afford it.

The industry was developed on the back of a tax structure which remains as relevant today as it was in 2000 when it was put in place. There is no reason for change to a new system that targets affordable wine and no justification for an increase in taxation on the industry as a whole.

Yours sincerely

John Ratcliffe
Chief Executive Officer

Submission in Response to:

Re:think – Discussion Paper

June 2015

Submitted on behalf of Accolade Wines by:
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Contents

Executive Summary

If the objective of the government is to achieve fairness, simplicity and jobs growth through a better tax system we contend that wine taxation requires little change.

Simple adjustments to the Wine Equalisation Tax (WET) Rebate, supported by industry, would remove market distortions and ensure the scheme continues to support regional producers and the many winegrape growers whose business relies on a sound export-oriented industry.

An increase in the level of taxation of wine products - whether through a change from ad-valorem taxation to an excise system based on the volume of alcohol or otherwise – risks devastating the wine industry while it is still restructuring and seeking to address low levels of profitability and excess supply of winegrapes.

Further, introducing a volumetric tax – or otherwise increasing overall taxes on the wine industry – will have little impact on reducing issues such as binge drinking or chronic consumption. While overall consumption may fall – or should we say, continues to fall since consumption of alcohol is at a 50 year low right now – price rises do not prevent those determined to drink excessively from so doing, nor do they deliver help to those who need it. Education and targeted programs - not tax-driven price rises which unfairly impact the responsible consumer - are the answer.

Who suffers the most if affordable wines become unaffordable? Aside from the growers, the workers, and their families, the greatest impact of increasing the price of affordable wine via a volumetric tax would be on consumers on lower or fixed incomes – pensioners and other battlers - who would be forced to give up one of "life's little luxuries". This is an unfair and inequitable outcome, which could best be described as a tax slug on those who can least afford it.

Our Recommendations:

- No increase in tax on wine industry;
- Tax structure to remain as "ad valorem" (value based);
- WET Rebate to be restructured in line with original intent – removed from bulk and unbranded wine as per the Winemakers' Federation of Australia (WFA) recommendations – and with a proportion of savings reinvested in marketing Australian wine to the world;

- Tax should not be used as a blunt instrument to try and address alcohol abuse issues. Wine consumption in Australia is already at a 50 year low1, which demonstrates that the Government and industry's current education and responsibility messages are doing the job very well;
- Wine should not be taxed like beer and spirits – there is no economic, social or legal rationale for so-called equivalence of either taxation structure or level of taxation; and
- A volumetric tax – essentially an excise system - rather than delivering simplicity would introduce regulatory and administrative complexity, increase the burden of compliance and cost, and through its impact on the domestic industry undermine the crucial competitive edge of the export industry.

It is Our Position that:

1. A volumetric tax would be unfair - it disproportionately affects the majority of the population who consume alcohol responsibly (especially low income earners and seniors), for limited benefit. Currently the majority of wine sold in Australia sells for under $12 per bottle or equivalent. If a volumetric tax were imposed on wine, at the level of the current full-strength beer rate, our analysis shows that over 82pc of wine will increase in price[2]. This in turn will lead to an increase in the cost of affordable wine for the everyday Australians doing their weekly shop, leading to decreased wine sales, a decrease in grape purchases, and eventual job losses at a time when regional unemployment is at an all-time high.
2. An excise-based tax system is not suited to a seasonally variable agricultural product such as wine and the compliance cost of imposing such a system on the wine industry would be huge, with increased complexity of administration and regulatory burden.
3. A volumetric tax is an unfair, regressive tax with disproportionate impact on low income earners and older consumers on fixed incomes.
4. The wine industry is unique and quite different from other forms of alcohol such as beer and spirits. It makes a significant contribution to the nation's economy, is regionally based and is the only net exporter out of all the alcohol

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[1] Australian Bureau of Statistics, *Apparent Consumption of Australian Alcohol,* 2013 -2014, Canberra 2015.

[2] Aztec Australia Liquor Weighted MAT to 22/03/15.

types. It should continue to receive differential tax treatment as compared to other products in the alcohol beverage sector.

5. Australia already pays the highest domestic wine taxes of any wine-producing nation. A change to a volumetric tax would penalise and directly inhibit the sustainability of our $2 billion export industry that directly and indirectly employs up to 60,000 people, mainly in regional Australia.

6. The industry is still undertaking a restructure and grappling with an oversupply of grapes. In 2011 the then Federal Government gave a commitment not to change wine taxation while the industry was in the middle of a wine glut and an industry restructure was underway. The Coalition, then in opposition gave support to this position. The situation in 2015 is the same as it was in 2011 and accordingly this undertaking should be maintained. Any shift in the current taxation regime will merely shift consumption from wine to beer and spirits, worsening the profit outlook for the wine industry, with no social benefit.

1. Introduction

Accolade Wines

Accolade Wines is a global wine company with a long and proud Australian heritage whose brands sell in over 100 countries. Headquartered at Reynella, South Australia, we employ more than 1500 people in Australia, the UK, North America, mainland Europe, Asia, South Africa and New Zealand. We also have offices in Guildford, Bristol, Sydney, Brisbane, Perth, Melbourne, Stellenbosch, Singapore, Beijing, Shanghai, Tokyo, Moscow, Warsaw, Marlborough and the Napa Valley. Many of our staff are located in major viticultural regions around regional Australia.

We are the number one wine company by volume in the UK and Australia, with a portfolio of brands ranging from the iconic Hardys, the number one Australian wine brand in the UK and a significant wine brand in mainland Europe, through to Kumala, the number one South African wine brand in the UK.

In Australia, our wine range, led by Hardys which dates back to 1853, includes the 179 year-old Houghton label, recently acquired Barossa brand, Grant Burge Wines, as well as Banrock Station, Omni, Goundrey, Brookland Valley, Berri, Stanley, Amberley, Moondah Brook, Reynell, Renmano, Leasingham, Tintara, and Tasmanian labels Bay of Fires and Eddystone Point, plus sparkling brands House of Arras and Yarra Burn.

Re:think

Accolade Wines welcomes the opportunity to make a submission to the Federal Government's Tax Discussion Paper – *Re:think* (the Paper).

Our submission focuses on the issues raised in Chapter 9 of the Paper relating to indirect taxes that currently apply to alcohol beverages. Our position supports the maintenance of the current value-based tax for wine products and a volume-based excise tax for other alcohol beverages. This submission sets out in detail our reasons for this position and its importance for the future success and viability of the Australian wine industry. In particular, we emphasise the following:

- A change to a volume-based tax would significantly increase the cost of affordable wine including bottles under $12 and cask wine, or over 82pc of wine sales, but for little or no social or health benefit. Taxation is an ineffective tool to reduce alcohol-related harm. Despite assertions from the health lobby to the contrary, it is our submission that a change to a volume-based tax system would not bring about any social or health benefits. Despite the assertions of the neo-temperance lobby which would suggest Australians are swimming through a tsunami of alcohol, Australian Bureau of Statistics data shows that Australians are consuming less alcohol than they have in 50 years[3], suggesting that educational campaigns and targeted interventions advocating responsible consumption are taking effect.

- An excise-based system is not suited to wine and the costs of compliance would be significant for a regionally based agricultural industry with over 2500 individual producers. There would also be a significant cost to administer and audit a system which would require literally hundreds, if not thousands, of bonded warehouses across regional Australia.
- A volumetric tax on wine would be regressive with a disproportionate impact being felt by low income earners and older consumers. It would do little to address social/health issues while significantly increasing costs for those who enjoy wine in moderation. In addition, the benefits of drinking wine in moderation as part of a healthy lifestyle need to be considered – as well as the social and cultural benefits of wine in moderation.
- Wine is a regionally based agricultural product that makes a significant contribution to the national economy, and warrants a different tax regime to that applied to beer and spirits.
- The Australian wine industry is currently one of the most highly taxed in the world and already makes a significant total contribution to taxation revenue via the WET, corporate taxes and other levies on the industry. A change to a volumetric tax would have a negative impact on our wine industry's international competitiveness in an already tough export market.
- The Australian wine industry is still undergoing significant structural reform and still has an imbalance between supply and demand. Current estimates from the Winemakers' Federation of Australia (WFA) are that up to 70pc of total current Australian wine grape production may be uneconomic[4]. There has been a slow correction to supply. Any change to the current tax regime while this glut exists and the ensuing industry restructures would decimate the industry and the parts of regional Australia that rely on it.

We note that this is just the beginning of the discussion on tax reform and that the issues we identify in this submission are not exhaustive and are fluid. We have attempted to focus on the key points for consideration. We look forward to a continued open and frank discussion on alcohol and how it is taxed in Australia

[3] Australian Bureau of Statistics, *Apparent Consumption of Australian Alcohol, 2013 -2014,* Canberra, 2015.

[4] WFA, *Actions for Industry Profitability 2014 – 2016,* Adelaide: Winemakers' Federation of Australia, page 23. 2013

during the course of the review. We also refer to previous submissions that were made on wine taxation following the 2009 Henry Review and the 2011 Tax Summit (as part of Supporting Australian Wine). We also note previous WFA submissions made in response to the Henry Review and the Tax Summit, which contain detailed economic analysis in support of retaining the current tax system for wine. We would be happy to provide copies of any of these submissions on request.

2. Wine in Australia

During the past decades alcohol consumption patterns in Australia have changed substantially, recently reaching a 50 year low[5].

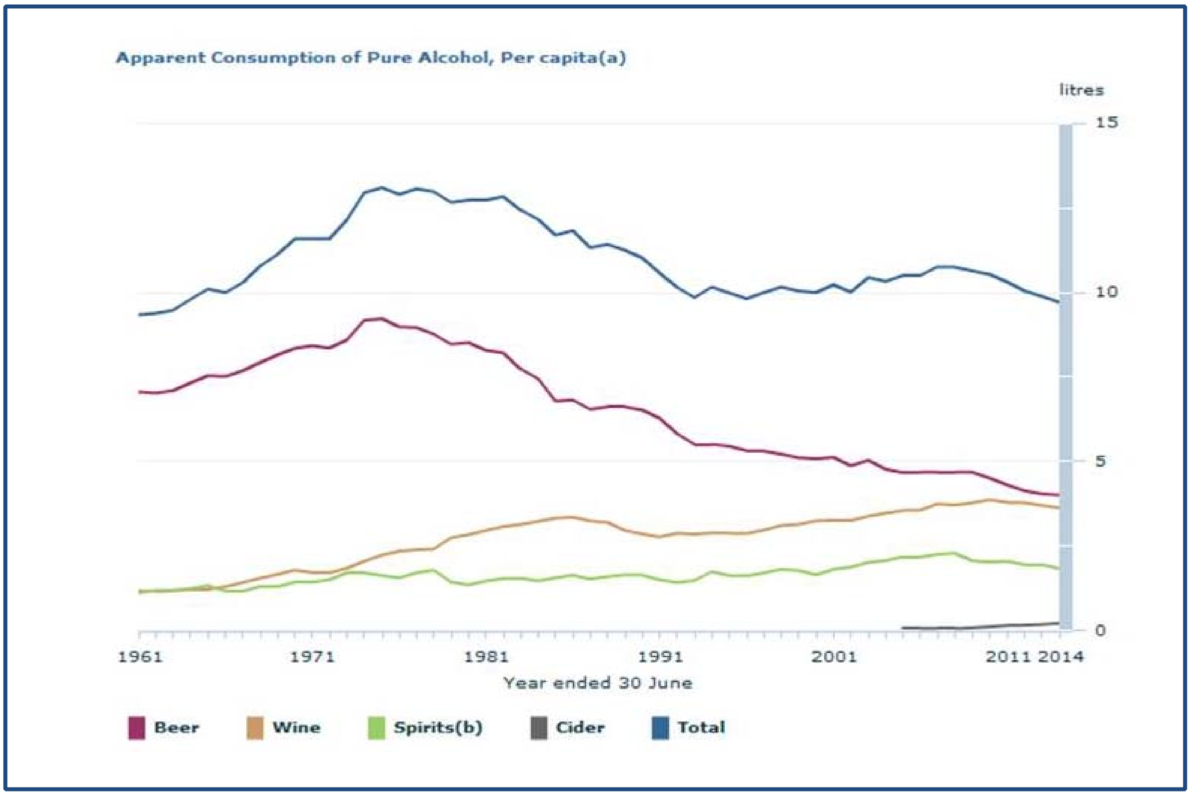
There has been a massive switch away from beer, and to a lesser extent spirits, to wine and within wine there is an emerging trend to drinking less but better, which has seen decades of rising wine consumption plateau in the Australian Bureau of Statistics (ABS) most recent survey.

Wine tends to be consumed by older consumers, in moderation, with most wine consumers preferring to purchase wines below $12 per bottle or equivalent. In the minds of most Australian consumers a $20 bottle of wine at retail is a relatively expensive bottle.

ABS data released in May 2015[6] confirmed long-term declines in the consumption of alcohol, with the Bureau reporting that alcohol consumption overall had fallen to the lowest level since 1962-63.

The greatest declines were in beer consumption, which fifty years ago comprised about 75pc of all alcohol consumed but now is less than half, at 41pc.

Figure 1 Consumption by alcohol category –
Source: ABS Apparent Consumption of Alcohol, Australia 2013-14



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[5] Australian Bureau of Statistics, *Apparent Consumption of Australian Alcohol, 2013 -2014*, Canberra, 2015

[6] ibid

In the same period wine consumption has increased from 12pc to 38pc, with Australians predominantly consuming white wine rather than red.

Wine consumers tend to be older Australians according to *What do Australians drink?*[7], an analysis of demographic and social characteristics of Australian alcohol consumers published by the Foundation of Alcohol Research and Education in 2012.

The study found that spirits and ready to drink (RTD) pre-mixed spirits were the preferred drink amongst the younger age groups, with wine consumption increasing with age. Regular strength beer was the most popular drink among 20 to 29 year olds, closely followed by bottle wine, spirits and RTDs. Bottled wine was the favourite drink of those 30 to 39 and older.

Table 1 Favourite drink by age group
Source: What do Australians Drink? Foundation for Alcohol Research and Education 2012 p10

	14-19 (%)	20-29 (%)	30-39 (%)	40-49 (%)	50-59 (%)	60-69 (%)	70+ (%)
Regular Beer	18.2	27.1	25.8	21.0	17.7	13.8	8.2
Mid-Strength Beer	3.2	5.0	7.3	7.8	7.8	6.8	6.2
Light Beer	1.2	1.7	2.7	5.4	7.5	9.5	13.4
Home Brew	0.7	0.3	0.5	0.6	0.4	0.9	0.9
Beer Total	**23.3**	**34.1**	**36.3**	**34.8**	**33.4**	**31**	**28.7**
Cider	1.4	1.3	0.8	0.6	0.4	0.4	0.1
Cask Wine	1.4	0.9	1.6	3.2	5.3	7.9	11.7
Bottled Wine	6.3	22.8	34.0	37.6	40.7	42.9	36.6
Wine Total	**7.7**	**23.7**	**35.6**	**40.8**	**46**	**50.8**	**48.3**
Fortified Wine	0.0	0.4	0.8	1.0	1.9	3.1	6.9
Bottled Spirits	21.7	20.5	13.9	12.9	12.1	10.9	13.3
RTD	44.5	19.1	11.7	9.3	5.4	3.2	1.8
Other	1.2	0.8	0.8	0.8	0.8	0.7	1.1
Weighted N	957.8	3366.7	4025.9	3507.4	3187.9	2705.2	2633.2

The more recent Australian Institute of Health and Welfare (AIHW) National Drug Strategy Household Survey 2013[8] also confirmed that beverage preferences differ by age and sex. Young people aged 12–17 and women aged 18-24 preferred to drink pre-mixed spirits. Men most commonly consumed regular strength beer.

The survey also found (in line with recent ABS data) that in 2013 fewer people in Australia drank alcohol in harmful quantities, they either drink at low risk levels (58pc) or abstain (24pc); that the number of young people from 12 to 17 abstaining rose from 64pc in 2010 to 72pc in 2013; and that alcohol-related victimisation fell.

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[7] Foundation for Alcohol Research and Education, *What do Australians drink?,* September 2012
[8] Australian Institute of Health and Welfare, *National Drug Strategy Household Survey, Detailed Report 2013, 2014*

3. Volumetric Tax – unfair and regressive

A change to a volume-based tax, at the full strength beer rate, would significantly increase the cost of affordable wine including bottles under $12 and cask wine, or over 82pc of wine sales, for little or no social or health benefit. Despite the assertions of the neo-temperance lobby, it is our submission that a change to a volume-based tax system would bring about few social or health benefits, inspiring consumers to simply switch products. The statistics show that strategies already in place are taking effect with recently released ABS data showing Australian alcohol consumption is at its lowest level in 50 years[9]. The greatest impact of increasing the price of affordable wine would be on consumers on lower or fixed incomes – pensioners and other "battlers" who would be forced to give up one of "life's little luxuries".

A regressive tax is one where the lower the income, the higher the proportion of income that is paid as tax. The introduction of a volumetric tax would be regressive.

The effect of the introduction of an excise tax on wine would be to increase the relative price of lower priced wine relative to more expensive wine. In other words, were the Government to shift the tax on wine to a volume-based tax, it would be making expensive wine cheaper (which tends to be consumed by those on a higher income) and cheaper wine more expensive (which tends to be consumed by those on a lower income). Australia's battlers would lose out, with no real benefit in addressing the social costs of alcohol abuse. Clearly this is unfair.

This is supported by a 2006 study on alcohol taxation in Europe:

> "The excise taxation of alcohol is a fairly blunt instrument, causing welfare losses to non-harmful users while at the same time not adequately controlling the drinking of harmful users"[10].

While we recognise that alcohol abuse is an issue in some sectors of the community, this is an issue for the minority. Research shows that heavy drinkers have an inelastic demand for alcohol and are not price sensitive[11]. The introduction of a volumetric tax will not reduce their consumption of alcohol - rather they will

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[9] Australian Bureau of Statistics (2015), *Apparent Consumption of Australian Alcohol, 2013 -2014, Canberra 2015*

[10] Cnossen, S (2006), *Alcohol Taxation and Regulation in the European Union.*

[11] Ayyagari, P, et al, *Sin Taxes: Do Heterogeneous Responses Undercut Their Value?* NBER Working Paper, No. 15124, 2009.

switch to another type of alcohol beverage. In their 2009 study of cask wine, Mueller and Umberger from the University of Adelaide found that:

> "Policies attempting to curb binge drinking by reducing the sale of higher alcohol beverages would seem to make more sense than limiting sales of higher volume cask wine (e.g. taxes on higher alcohol versus volumetric tax)"[12].

Similarly, on page 3, at paragraph 8 of its 2012 paper on Minimum Pricing for Alcohol, the Australian National Preventative Health Agency (ANPHA) notes that the majority of regular drinkers in Australia consume alcohol in moderation. Studies show that moderate drinkers are the most responsive group to price increases and that light and heavy drinkers are much less price elastic than moderate drinkers[13]. In other words, an increase in price for alcohol will have little effect on the drinking patterns of heavy drinkers – the target group in reducing alcohol abuse - but will have an unfair impact on moderate drinkers, those on a low income and seniors.

Equally, the tax will have little impact on the greatest percentage of the population who drink at risky levels which is generally found amongst 14 – 29 year olds[14]. As discussed in the previous section wine is not the beverage of choice for this group of consumers.

The most recent National Drug Strategy Household Survey Report 2013 (the NDHS Report) also supports the position that it is the young that drink at harmful levels. It found that those aged 18-24 were more likely to drink at harmful levels than the rest of the population, with males more likely to drink at harmful levels than females[15].

Rather than targeting those most prone to consuming at risky levels introducing a volumetric tax will instead unfairly impact those buying and consuming modestly.

A volumetric tax on wine, set at a level comparable to full strength beer, the most commonly consumed beer, would see prices increase on the majority of wine sold in Australia as illustrated in Table 2.

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[12] Mueller, S & Umberger, W, '*Myth busting: Who is the Australian Cask wine consumer?'* The Australian and New Zealand Wine Industry Journal, January/February 2009. Vol 24 No 1.

[13] Manning et al, The demand for alcohol: The differential response to price, Vol 14, Issue 2, *The Journal for Health.* 1999

[14] Australian Institute of Health and Welfare, *National Drug Strategy Household Survey Detailed Report 2013,* Canberra, 2014.

[15] ibid page 32

Table 2 Impact of tax changes on wine prices[16]
Source: Aztec –MAT to 22/03/2015

	5L	4L	<$6	$6-10	$10-15	$15-20	$20-30	>$30
Market Share % Chains	9.9%	17%	11.1%	23.9%	19.9%	6.9%	3.4%	1.7%
Current Avg Price per Unit ($)	$13.48	$13.26	$5.19	$8.16	$11.79	$15.58	$22.65	$49.37
FS Beer Excise Price Per Unit ($)	$34.32	$28.34	$8.08	$9.98	$12.16	$15.11	$15.59	$32.72
Tax Change %	426%	288%	161%	60%	11%	-21%	-42%	-71%
Price Change %	164%	110%	61%	22%	3%	-9%	-17%	-29%

As can be seen above the greatest percentage increases in tax would occur across the cask formats and bottled products under $15 (cross-over for increase v price decrease occurs just under $12), which cover the majority of wine sales. The greatest volume of wine sales in Australia occur within the $6-$10 category which makes up over 20pc of the wine market.

In contrast, the proportion of the market which would enjoy a decrease in price would be a relatively small fraction of affluent buyers, just over 10pc of the market who can afford to regularly purchase wine above the $15 mark.

The cross-over of wine decreasing in price rather than increasing would actually happen just below the $12 mark as illustrated in Figure 2 overleaf.

[16] Assumes Full Strength Beer Excise 1/3/2015 $47.09 LAL and wine alcohol of 13pc across segments

Figure 2 The tipping point – where volumetric actually reduces prices
Source: Based on Aztec – MAT to 22/03/2015, assuming full strength beer and 13pc alcohol

The outcome would be to deliver price increases to the majority of consumers and price decreases to the lucky few who could afford to regularly consume wines above the $15 mark.

It is not unreasonable to conclude that the effect of a volumetric tax would be to cause a dramatic decline in wine sales with the consequent devastation of the wine industry, particularly in the warm inland regions of Australia, which grow the grapes for the "affordable" wines consumed by the majority of Australians.

There is little evidence that the devastation of the industry, which would be caused by the introduction of a volumetric tax, is warranted, even in the guise of a potential health measure, as alcohol beverage consumption is in general decreasing and the younger consumers prone to binge drinking are not wine drinkers.

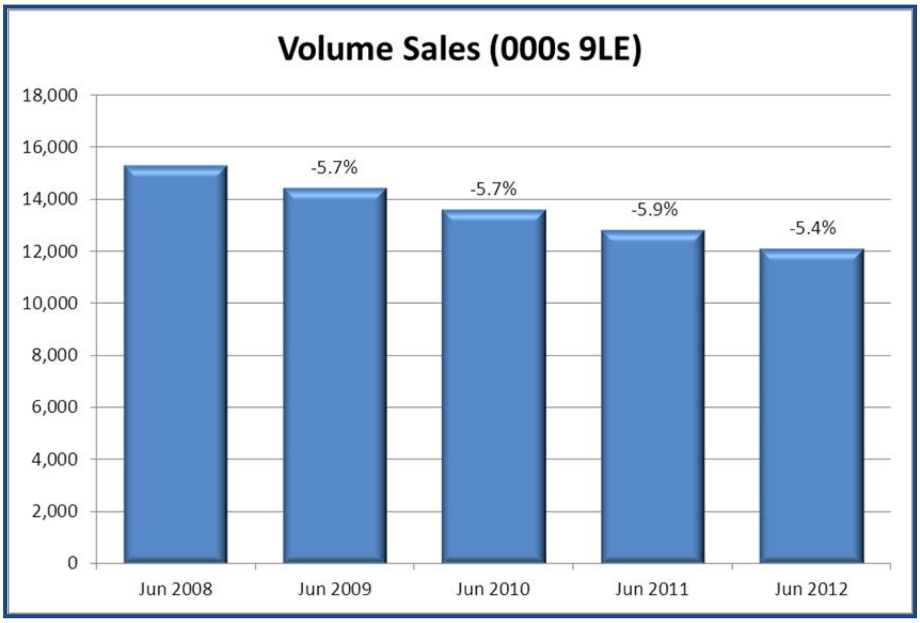
This is further illustrated when looking at the consumption of cask wine. Cask wine is not the beverage of choice for the majority of risky consumers. According to Mueller & Umberger from the University of Adelaide, cask wine drinkers are typically:

- Mostly aged 55+; only 12pc are 34 or younger;
- Earn less than $50,000 per annum;
- On average drink fewer glasses per drinking occasion (one or 2 per night); and

- Usually eat food while drinking wine[17].

Despite the low cost, cask wine sales have continued to decline for the past seven years and over every quarter following the rise in "alcopops" taxes[18]. This is set out in the Nielsen sales data chart below (Figure 3):

Figure 3 – Cask wine sales by volume
Source: Nielsen Sales Data – Cask Wine 2012



This drop in sales has occurred despite cask wine being one of the cheapest forms of alcohol per standard drink. Clearly this would support the fact that cask wine is not the product of choice for those who misuse alcohol. It is the product of choice for older consumers and those on a budget.

As price is a factor with the cost-conscious cask consumer, we believe that they are attracted to cask wine as its packaging allows for a glass or two to be consumed at a time, with the remainder to be saved for a number of weeks after opening (which cannot be done with a bottled product)[19]. This is particularly attractive for the lower income earner and the elderly living alone. One or two glasses per night is well within the recommended guidelines for alcohol consumption and may even have positive health benefits including a reduction in the risk of cardiovascular disease, prostate cancer and Alzheimer's disease[20].

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17 Mueller, S & Umberger, W, '*Myth busting: Who is the Australian Cask wine consumer?'* The Australian and New Zealand Wine Industry Journal, January/February 2009. Vol 24 No 1.

18 ibid.

19 Mueller, S & Umberger, W, *'What drives the Australian cask wine consumer?'* The Australian and New Zealand Wine Industry Journal, January/February 2009. Vol 24 No 2.

20 ibid.

It is our submission that just because cask wine is sold at a low price does not mean that it is misused. This is supported by the FARE study discussed earlier. The data on cask wine suggests that pricing is not a driver of consumption levels and that it remains an unpopular format for younger consumers[21].

Finally, it is worth looking at the international experience relating to alcohol taxation. In its 2006 report, the International Center for Alcohol Policies (ICAP) notes that:

> "Perhaps the most compelling evidence against taxation as an effective policy measure against abuse comes from countries where taxation rates have traditionally been high. In many of these, such as the Nordic countries or those in Eastern Europe, alcohol consumption and harmful drinking patterns remain high"[22].

Similarly, the World Health Organization (WHO) has found that binge drinking in Italy and Spain, where alcohol prices are relatively low, are at a much lower level than in Finland or Iceland where prices are high[23].

It is also worth noting that in many of the Nordic countries, the high cost of alcohol has led to a growth in home brewing and the illegal importation of alcohol, impacting negatively on public health and government revenue[24].

The facts clearly demonstrate there is no need to increase wine taxation as alcohol consumption is falling and risky behaviours are already diminishing, as illustrated by the NDSH Survey which found (in line with recent ABS data) that in 2013 fewer people in Australia drank alcohol in harmful quantities; that fewer young people are binge drinking, fewer pregnant women are drinking, the average age at which people first try alcohol is increasing and the number of abstainers is at the highest level ever recorded.[25].

We believe that the most effective way to reduce the misuse of alcohol is to introduce targeted policies that are focused on those who have a problem with alcohol rather than policies that are most effective against the majority of the population who drink in moderation. We are supportive of State, Federal and other

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[21] Accolade Wines, *Submission to the Australian National Preventative Health Agency (ANPHA) on the Issues Paper – Exploring the Public Interest Case for a Minimum (Floor) Price for Alcohol,* 2012 page 5.

[22] International Center for Alcohol Policies (ICAP), *Alcohol Taxation, ICAP Reports 18*, 2006 page 6.

[23] Wine and Spirit Trade Association Response – *Finance Committee call for written evidence on the Alcohol (Scotland) (Minimum Pricing) Bill*, London, 2012 at paragraph 2.2.

[24] Winemakers' Federation of Australia, *Submission to Tax Forum*, Adelaide, September 2011 page 18.

[25] ibid, page 6.

community-driven programs to address these issues, including restrictions on the sale of certain cask formats in certain indigenous communities. As a company we actively participate in:

- DrinkWise Australia and have voluntarily committed to the DrinkWise “Get the Facts” labelling initiative by including consumer messages on our labels that promote the responsible consumption of alcohol;
- In the UK, we fund Drinkaware, the national charity which runs educational campaigns and programs to help combat alcohol misuse, and the Alcohol in Moderation (AIM) educational program. We are also a signatory to the UK Government’s Public Health Responsibility Deal;
- We have voluntarily improved the warnings and information on our labels, including the use of the pregnant-lady pictogram and the use of a standard glass indicator, on all cask products; and
- We have voluntarily withdrawn large format cask wines from sale in targeted regions, where the product was liable to misuse by certain consumers.

This position for targeted policies to address alcohol misuse, rather than blunt taxation, is also supported by the majority of Australians surveyed as part of the NDSH Survey discussed earlier in this submission.

4. Excise System – Far from Simple

An excise-based system is not suited to wine and the costs of compliance would be significant for a regionally based agricultural industry with over 2500 individual producers. There would also be a significant cost to administer and audit a system which would require literally hundreds, if not thousands, of bonded warehouses across regional Australia.

In the Paper, the Federal Government states that it is committed to "a better tax system to deliver taxes that are lower, simpler and fairer"[26]. In particular, it notes that the tax system in Australia is "too complex, with significant resources spent on tax compliance and tax management issues"[27]. Moving to an excise-based system for wine would be counter to this objective. It would be unmanageable for a sector such as wine which is regionally based with over 2500 individual producers and a product whose alcohol content varies from year to year – and even from batch to batch and between varietals within a year. The cost of compliance with an excise -based system would be detrimental and regressive for a struggling industry.

The current volume -based tax system for beer and spirits in Australia is an excise -based system, established under the *Excise Act 1901*. Since its inception the excise -based system for alcohol taxation has developed into a highly regulated and complex regime in Australia. This was acknowledged in the 2010 Final Report of the Henry Review. Key features of the current excise regulatory system for beer and spirits in Australia are:

- Percentage of alcohol testing and volume for each product;
- Varying excise rate indexed twice yearly, in line with the CPI;
- Product to be kept in a bonded premise and permission required for it to be moved to another licensed premise;
- Premises (manufacturer and storage) to be licensed by the Australian Tax Office (ATO);
- Generally a weekly payment of excise to the ATO (under Periodic Settlement Permission); and
- Five-year record keeping requirements.

In contrast, wine is currently taxed under the WET. WET is a much simpler system to administrate than the excise system for beer and spirits:

[26] Australian Government (2015), *Re:think – Tax Discussion Paper*, page 2.
[27] Australian Government (2015), *Re:think – Tax Discussion Paper,* page 2.

- WET is based on the wholesale price of the wine, not its alcohol and volume. This is a more practical approach for a product such as wine that is not manufactured according to a recipe and has an alcohol volume that fluctuates season to season due to the fact that wine is an agricultural product, with variations in climate affecting natural sugar levels;
- WET is not indexed in line with the CPI – and is therefore a consistent rate allowing for simpler compliance systems;
- Wine can be moved freely as the tax is based on its value not its volume (there is no costly expense of running bonded premises or monitoring movement of the product to bonded premises only). The excise system for alcohol in Australia has been the subject of abuse, with fraud and leakage of product;
- WET suits a regionally based product. An excise system would pose issues for a regionally based product such as wine, as audits would be costly and difficult;
- Wine is stored for a significant length of time. This is in contrast to beer and the majority of spirits. A bonded warehouse system would be a significant burden on an industry such as wine; and
- WET is reported and paid on the business activity statement, the same way as other taxes are paid. There is no weekly payment requirement, therefore reducing paperwork and compliance costs.

The Australian wine industry contributed approximately $820 million via the WET in 2015 -16[28]. In addition it contributed approximately an additional $17 million in compulsory industry levies/charges (which beer and spirits are not subject to)[29].

Further the implementation of an excise-based system and the accompanying requirement for auditing of the hundreds and potentially thousands of bonded warehouses required for the storage of wine would create a major auditing challenge for the ATO which would have to have a small army of inspectors travelling around the wine regions of rural Australia. The result would be a significant increase in complexity.

The cost of compliance with an excise system would be significant for the almost 2500[30] individual wine producers in Australia, many of them small businesses. In addition, there would be a significant increase in Government regulatory and

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[28] Australian Budget, Budget Paper 1, Statement 4 Taxation Office, *http://www.budget.gov.au/2015-16/content/bp1/html/bp1_bs4-03.htm*

[29] Winemakers' Federation of Australia, *Why should wine continue to receive a differential tax rate compared to other alcohol types?,* Adelaide, 2015.

[30] Winetitles, *Australian Wine Industry Directory*, Adelaide, March 2015 2481 producers

compliance costs, with the ATO having to regulate over eight times as many licensees as it currently administers[31].

WET Rebate

Accolade Wines supports the WFA position on the WET Rebate, which aims to remove the rebate on bulk and unbranded wine.

WFA's position will be articulated in detail in its submission to the WET Rebate review which is running as an adjunct to the Re:think process, however we believe that while the rebate should be retained as it is an important revenue source particularly for small and medium winemakers, there is room for reform.

Concerns about the WET rebate have been driven by the fact that although the amount of wine produced has remained relatively static the number of claimants has increased substantially, with an average annual increase according to WFA estimates of close to 12pc.

The availability of the rebate on bulk and unbranded wine has served to drive down wine prices as producers seek margin by claiming the wet rebate on grapes processed and sold as bulk and unbranded wine, which then is available as retailers' own brands in competition with branded wine producers who have the additional costs of supporting their brands through marketing and promotion.

Retaining the WET rebate while reforming it would tackle the problem of wine price intervention while preserving the benefit of the rebate's original intent, maintaining a diverse regionally based industry that is a major source of income in regional areas both directly and indirectly through the tourists that winery cellardoors draw to their regions.

Impacts on Industry Research and Development and Promotion

Changing to a volumetric tax would have significant unintended impacts on the industry's capacity to fund research and development.

The industry's statutory research, development and promotional body, the Australian Grape and Wine Authority (AGWA) derives its operating funds from four primary sources:

1. **Market development funding**
   a. Wineries pay the promotion component of the wine grapes levy in a stepped amount per tonne. The promotion component is payable on grapes delivered to a winery once the threshold of 10 tonnes has been reached.

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[31] Currently the ATO administers approx. 300 beer and spirits producers. Source Australian Taxation Office Website and Winemakers' Federation of Australia, *Submission to Australia's Future Tax System Review (AFTS)*, Adelaide, May 2009.

b. Wine businesses also pay the Wine Export Charge on wine produced in and exported from Australia. The amount of levy payable is based on the free-on-board (FOB) sales value of wine for the levy year.

2. **Regulatory funding**

   Regulatory activities are funded on a cost-recovery basis through activity-based fees.

3. **RD&E funding**

   The grape research levy (grapegrowers pay $2 per tonne of winegrapes crushed) and the R&D component of the wine grapes levy (wineries pay $5 per tonne of winegrapes crushed) are matched dollar-for-dollar by the Australian Government.

4. **User-pays activities**

   Wine businesses, regional associations and state governments pay voluntary contributions to participate in market development activities.

In the event that a volumetric tax were introduced, the decimated domestic wine sales would flow through to a reduction in tonnage crushed and therefore to the levy revenues funding AGWA. The result would be significantly lower investments in research and development (which would be further impacted through the reduction in Federal dollar for dollar matching) and would have equally devastating outcomes for Australian wine promotion both in export markets and domestically.

5. The Wine Industry – Point of Difference

Wine is a regionally based agricultural product that makes a significant contribution to local communities and the regional and national economies, and warrants a different tax regime to that applied to beer and spirits.

As discussed in more detail later in this submission, the majority of wine producing countries tax their industry less than other alcohol beverages (eg beer and spirits). This is in part because of the significant contribution wine makes to both regional and national economies.

Unlike beer and spirits, wine is a regionally based agricultural product that employs local Australians, supports primary industries, establishes tourism destinations and creates direct and indirect regional employment[32]. According to the WFA, wine contributes the most of all the alcohol sectors to Australia's economy[33]. Any change to the status quo in alcohol taxation has the potential to devastate regional communities and threaten jobs in those communities.

Wine's Contribution to the Economy and Regional Importance

According to a recent report prepared by the WFA wine contributes:

- $1.77 billion to the national economy, most of which is reinvested into regional Australia (which is 14 times more than the spirits industry and 1.5 times more than beer);
- Provides 60,000 jobs, 16,122 which are direct jobs, mostly in regional Australia (which is 20 times more than spirits and 4 times more than beer). This contribution is made across 64 wine-producing regional communities[34]; and
- $8.2 billion through wine tourism[35].

A volumetric tax would significantly impact wine producers, and the regional employees and suppliers, dependent on them. These impacts would be particularly felt in Australia's warm climate regions such as the Riverland, Riverina and

[32] Supporting Australian Wine, Submission to the Federal Government October 2011 Tax Forum, September, 2011, page 3.

[33] Winemakers' Federation of Australia, Why should wine continue to receive a differential tax rate compared to other alcohol types?, Adelaide: Winemakers' Federation of Australia, 2015, page 1.

[34] Supporting Australian Wine, Submission to the Federal Government October 2011 Tax Forum, September, 2011, page 3.

[35] Winemakers' Federation of Australia, Why should wine continue to receive a differential tax rate compared to other alcohol types? Adelaide, 2015, pages 1 – 2 and Business Insider, "Australians are Getting Hammered When it Comes to Wine Taxes", 5 May 2015. http://www.businessinsider.com.au/australians-are-getting-hammered-when-it-comes-to-wine-taxes-2015-5.

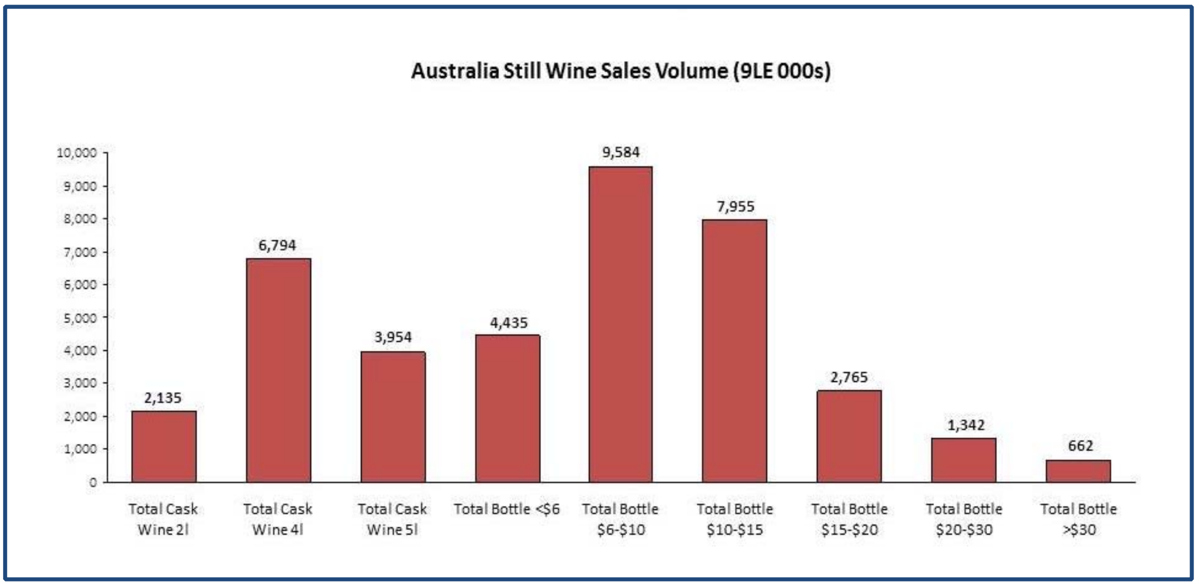
Sunraysia as these regions provide a higher proportion of the wines in the price brackets that will be most impacted by any price intervention via the imposition of an excise-based tax[36].

For example, if wine were to be taxed at the same rate as beer:

- 82pc[37] of wine would increase in price, leading to a fall in demand for grape products (Table 5);
- Wine sales would fall with a significant reduction in volume of grapes processed;
- Job losses potentially including small producers forced out of business due to loss of WET rebate;
- Adverse grape grower impact concentrated on the inland irrigated regions in SA, Victoria and NSW; and
- Potentially unworkable implementation and substantial compliance costs and business disruption of an excise tax.

The changes in the price of wine relative to other alcohol beverages and the impact on the different price points are illustrated in Table 2 on page 12:

Figure 4: Australian wine sales by volume
Source: Aztec Australia Liquor Weighted MAT to 22/03/2015



This would have a significant impact on these warm climate regions. In addition, any fall in demand for wine would lead to a decrease in demand for grape products (with little opportunity to export) with a loss of direct employment in the local wine industry and flow-on effects to the regional economy.

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[36] WFA (2011), Submission to Tax Forum, (September, 2011), Adelaide: Winemakers' Federation of Australia.

[37] Assumes Full Strength Beer Excise 1/3/2015 $47.09 LAL and wine alcohol of 13pc across segments

Taking a broader perspective, a reduction in the volume of wine consumed within Australia would also have a significant negative impact on the competitiveness of Australia's wine producers on an international level. This would occur due to a reduction in the economies of scale currently available to wine producers. The reduction in volumes of wine produced for the domestic market would increase the fixed costs carried by each unit of wine, including those produced for export markets, significantly reducing Australia's competitiveness in an already difficult environment. As discussed later in this submission, wine exporters currently face a higher level of tax and a higher cost of labour, land and goods than in competitor countries[38].

Other Points of Difference

It is also worth noting that wine is quite different to beer and spirits in a variety of other ways, which make it vulnerable to any change in taxation. These differences have recently been highlighted by the WFA:

- Wine is the least profitable of the alcohol manufacturing sectors in Australia;
- Wine is the only net exporter, exporting $2 billion per annum (12 times more than spirits and 39 times more than beer);
- Wine is the least consolidated sector;
- Retailer margins are greater on wine than beer and spirits (reducing the profit for grape growers and winemakers);
- Wine is more capital intensive than beer;
- Invested capital required to generate $1 of profit is higher in the wine industry;
- The wine industry needs a higher level of working capital than beer and other beverages; and
- Average return on invested capital for wine is less than 1pc, in contrast beer is 20.3pc[39].

Finally it is worth mentioning retail margins. Retailers generate more margin on wine sales than they do from beer and spirits. For example, Woolworths Liquor Group earns 2 to 3 times more margin on wine than beer. This reflects the highly

[38] Winemakers' Federation of Australia, *Why should wine continue to receive a differential tax rate compared to other alcohol types?* Adelaide, 2015.
[39] ibid.

fragmented Australian wine industry structure and the ease of the large retailers passing costs back to wine producers[40].

In light of the current balance of retail power in the Australian wine industry, we anticipate that any increase in the cost of wine (that may occur if wine taxation were to increase) would be taken by the wine producer (and not passed onto the consumer or borne by the retailer), further eating into the already small profit margin of the industry and reducing any possible positive social policy outcome claimed by the anti-alcohol lobby.

[40] Winemakers' Federation of Australia, *Why should wine continue to receive a differential tax rate compared to other alcohol types?* Adelaide, 2015, page 5.

6. Australian Wine - Highly Taxed Globally

The Australian wine industry is currently one of the most highly taxed in the world and already makes a significant total contribution to taxation revenue via the WET, GST, corporate taxes and other levies on the industry. A change to a volumetric tax would have a negative impact on our wine industry's international competitiveness in an already tough export market.

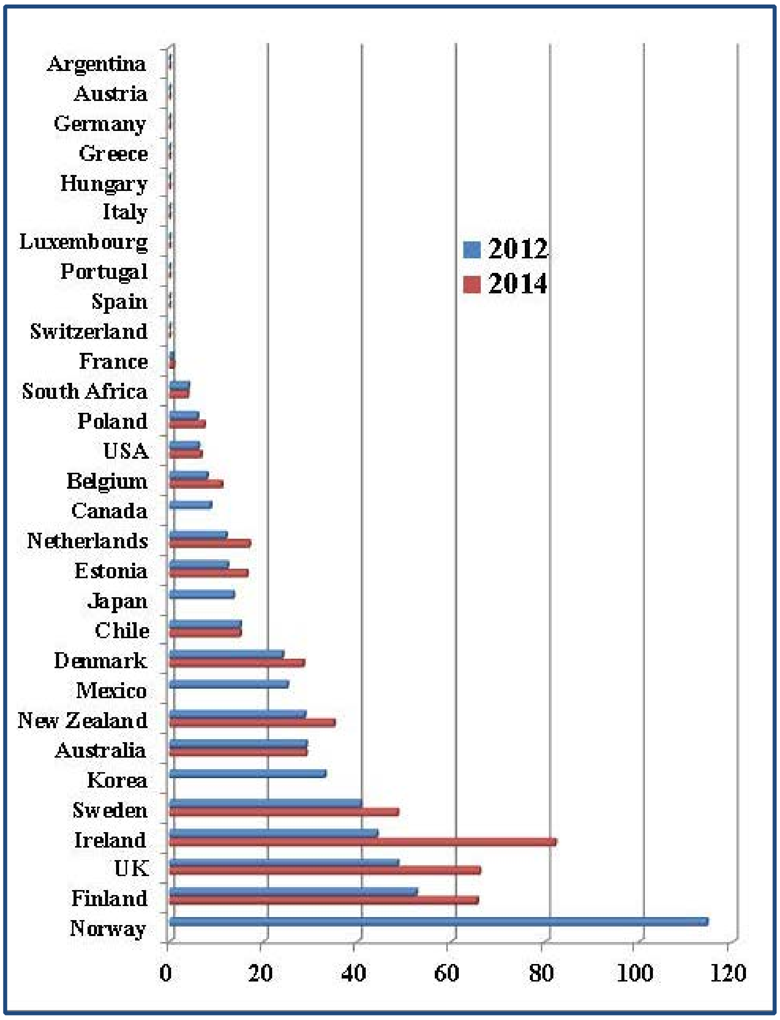
Australian wine is already one of the most heavily taxed in the world[41]. Domestic taxation rates are important for the ongoing competitiveness of our industry in the global market. It is critical that our local tax rates are comparable to our global competitors to allow us to fairly compete.

A recent study by Professor Kym Anderson of the University of Adelaide shows that Australia is taxing wine relative to other alcohol beverages more than other wine exporting countries[42]. It is also important to note that wine is taxed lower than other alcohol beverages in most wine producing countries. Anderson's key findings are:

- For commercial premium wines (retail price of $12 per bottle), Australia's WET (29pc) is one of the highest tax rates among significant other wine exporting countries (France – 0.8pc; Italy – 0pc; Spain – 0pc; Argentina – 0pc; Chile – 15pc; South Africa – 3.8pc; and the United States – 6.6pc)[43];
- Expressed as cents per standard drink (in Australian dollars), this equates to Australia – 22 cents; France – 1 cent; Argentina, Italy and Spain – 0 cents; South Africa – 3 cents; and United Sates – 5 cents[44];
- Australia taxes wines higher relative to other alcohol beverages (beer and spirits) than most wine exporting countries, with the exception of Chile where beer is very lightly taxed[45].

[41] Anderson, K (2014), "Excise Taxes on Wines, Beers and Spirits: An Update International Comparison", Working Economics Research Centre, Working Paper No 0214.
[42] ibid.
[43] ibid.
[44] ibid.
[45] Anderson, K (2014), "Excise Taxes on Wines, Beers and Spirits: An Update International Comparison", Working Economics Research Centre, Working Paper No 0214.

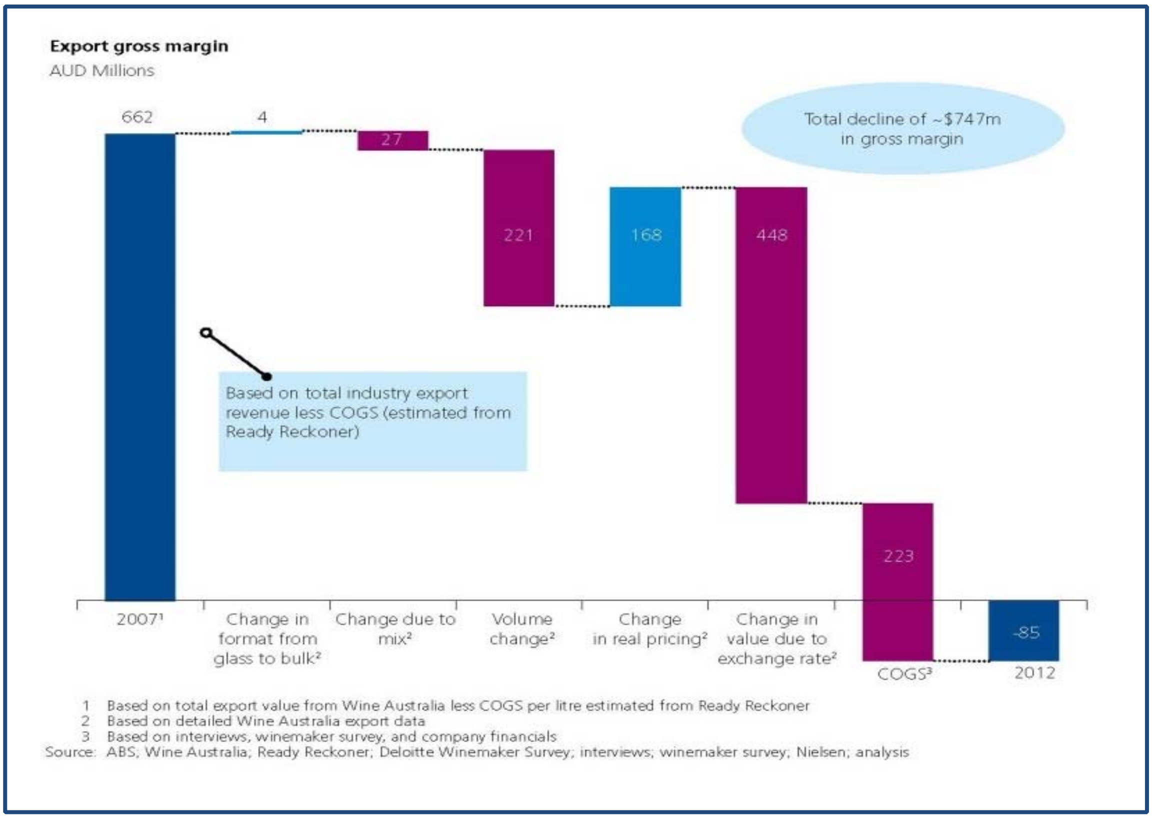
Figure 5: Ad valorem consumer tax equivalent of excise on commercial premium wines, 1 January 2012 and 1 July 2014 (in %)
Source: Anderson, page 7.



Anderson's findings need to be viewed in the context of Australia's falling share of the wine export market. In its 2013 *Wine Industry Report* (Centaurus Report) Centaurus Partners notes that from 2007 – 2012 Australia's export volume fell by 8pc and value by 38pc[46]. As a result the industry lost an estimated $750 million in total industry gross margin – See Figure 6 from the Centaurus Report.

[46] Centaurus Partners (2013), *Wine Industry Report: Expert Report on the Profitability & Dynamics of the Australian Wine Industry,* (August, 2013), page 20.

Figure 6: Estimate of gross margin change from exports, 2007-2012
Source: Centaurus Report, p20



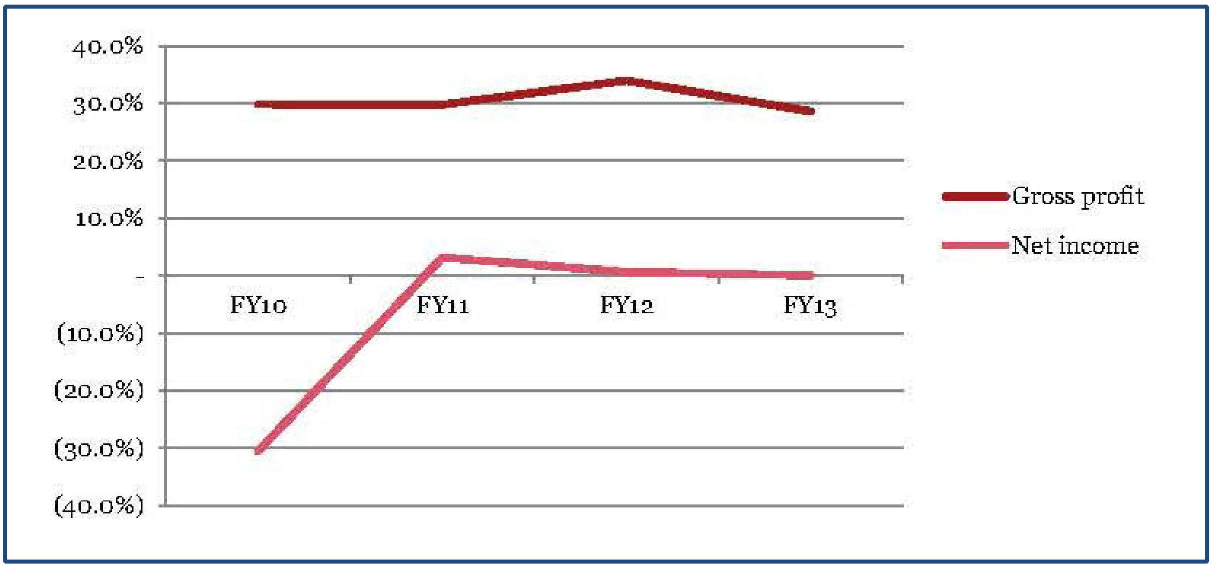
Two of the primary drivers for this fall in exports were increasing competition from other wine exporting countries and higher operating costs[47]. A change to a volumetric tax would only further increase the differential between Australian wine producers and their international competitors, by adding to higher operating costs and increasing taxes. This could not come at a worse time for a struggling industry that exports over 60pc of its product[48].

Profit margins have been falling in the Australian wine industry over the past three years[49]. Profit margins across the Australian wine industry are expected to be

[47] Centaurus Partners (2013), Wine Industry Report: Expert Report on the Profitability & Dynamics of the Australian Wine Industry, (August, 2013), page 20.
[48] Centaurus Partners (2013), Wine Industry Report: Expert Report on the Profitability & Dynamics of the Australian Wine Industry, (August, 2013), page 5.
[49] WFA (2015), Why should wine continue to receive a differential tax rate compared to other alcohol types? Adelaide: Winemakers' Federation of Australia, page 11.

approximately 5.4pc in 2014 – 15, being much lower than the average profit margin of the beer (16pc) and the spirits industry (13pc)[50]. This is evident in Figure 7.

Figure 7: Weighted average wine company margins FY10 – FY13
Source: Winemakers Federation of Australia – Why wine should continue to receive a differential tax rate compared to other alcohol types



These declining profit margins have in part been driven by the domestic oversupply of wine, which has resulted in heavy discounting throughout the supply chain. If a volume-based tax were to be introduced, economies of scale would decrease. Costs per unit of wine would rise, resulting from a fall in production - e.g. consumers would buy less wine, shifting to beer or spirits. Less wine would be produced but the high capital costs of wine production would remain the same. This would have a devastating effect on an already struggling industry. This in turn would make imports more competitive in the domestic market, adding to the impact.

Loss of Cost Efficiencies would threaten Export Competitiveness

Analysis of Accolade Wines' own wine producing operations at our Berri facility in the South Australian Riverland (one of the largest wineries in the Southern Hemisphere, processing just over 200,000 tonnes of grapes annually), reveals that if production were to be cut by 20pc, due to reduced sales of wine under $12 a bottle (including large format cask), our production costs for premium commercial wine would increase by 16pc.

[50] Wine Production in Australia, IBISWorld Industry Report, August 2014.

This increase in cost would make it very difficult for us to compete effectively for market share in the United Kingdom, for example where supermarkets, the main outlets for wine, are very price sensitive.

The competitiveness of retail markets both within Australia and the United Kingdom would make it impossible for us to pass on that increased cost through the retail chain, further hampering our business.

Sadly, the increase in production costs caused by volumetric tax-induced collapse in the domestic wine market would basically undo all the recent gains created by Free Trade agreements negotiated with Japan, Korea and China.

Against this background, it is significant to note that most nations have rejected proposals to increase alcohol taxes to battle large deficits caused by the Global Financial Crisis and bring their Budgets back into a degree of balance. There is little justification for any increase in wine taxation and the impact on the wine sector would be regressive[51].

Australia has some of the Most Effective Alcohol Policies in the World

Australia is a world leader in alcohol control regulation. Its current alcohol policies are very effective and do not need to be radically changed. This is reflected in the decrease in alcohol consumption found in the recent ABS survey and the 2013 NDS Report referred to earlier in this submission.

In 2007, a review of the strength of alcohol policies in 30 OECD countries ranked Australia at number 5[52]. In this study Australia ranked higher than those countries that have introduced a form of minimum pricing, such as Canada and Finland. Of note, the UK was ranked at number 20. This strength in Australia's alcohol policies is further supported by the Preventative Health Taskforce in its *Technical Paper 3 – Preventing Alcohol - related harm in Australia: a window of opportunity* (NPHT Paper)[53] and the falling levels of alcohol consumption in Australia.

It is our position that targeted non price measures are much more effective in reducing alcohol misuse than pricing policies. Great success has been had with the following types of programs:

- Increased support in health services, such as primary health care (including GPs), emergency rooms etc.;

[51] Wine Production in Australia, IBISWorld Industry Report, August 2014.
[52] Brand, et al, "Comparative Analysis of Alcohol Control Policies in 30 Countries", 2007 *PLoS* Medicine 4.
[53] Accolade Wines, *Submission to the Australian National Preventative Health Agency (ANPHA) on the Issues Paper – Exploring the Public Interest Case for a Minimum (Floor) Price for Alcohol, 2012,* page 13.

- Community education programs;
- Targeting high risk groups such as teenagers (as well as parents), pregnant women, sports clubs, and indigenous groups[54];
- Pharmacotherapies;
- The quasi-regulatory framework for alcohol advertising (ABAC) in Australia; and
- Education and research into binge drinking behaviours.

The Henry Review acknowledged that these types of policies can produce better outcomes in specifically addressing alcohol misuse than pricing policies:

> "...individual-based interventions (usually by doctors) are an effective way to reduce hazardous alcohol consumption. Stricter enforcement of random breath testing, and reducing the allowed blood alcohol concentration level for drivers would be effective ways of reducing the costs of drink driving"[55].

The 2013 NDSH Survey also found that most consumers favoured alcohol policies with a focus on consumer behaviour. Its top three supported measures to reduce problems associated with alcohol were:

- Establish more severe penalties for drink driving (85pc support);
- Strict enforcement of the law prohibiting the supply of alcohol to minors (84pc); and
- Policies aimed at reducing alcohol-related harm[56].

The lowest level of support was found for increasing the price of alcohol.

It is our view that in lieu of large scale taxation reform, much can be achieved within the existing cultural framework with a view to reducing alcohol-related harm.

The significant downturns in alcohol consumption over the past decade argue that educating the community in relation to responsible consumption is proving effective and further extraordinary measures are not required.

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[54] Sourced at http://docs.health.vic.gov.au/docs/doc/Victoria's-Alcohol-Action-Plan-2008-2013---May-2008.

[55] Henry, K *Australia's Future Tax System: Report to the Treasurer* (The Henry Review), Canberra: The Treasury, December, 2009 page 434.

[56] Australian Institute of Health and Welfare, *National Drug Strategy Household Survey Detailed Report 2013,* Canberra, 2014 page 113.

7. Wine Industry - Still Restructuring

The Australian wine industry is still undergoing significant structural reform and still has an imbalance between supply and demand. Current estimates from the WFA are that up to 70pc of total current Australian wine grape production may be uneconomic[57]. There has been a slow correction to supply. Any change to the current tax regime while this glut exists and the ensuing industry restructures would decimate the industry and the parts of regional Australia that rely on it.

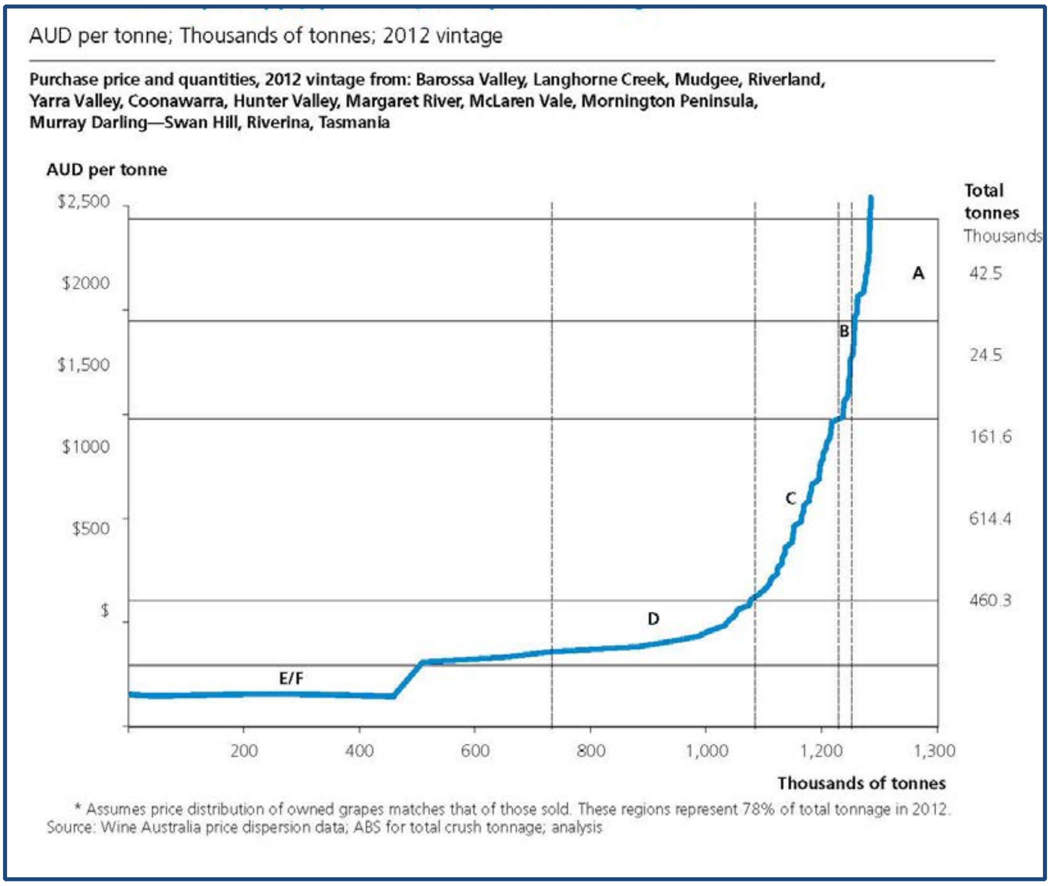
The Australian wine industry continues to face economic uncertainty, vulnerability and its toughest trading conditions in 20 years[58]. The wine industry is still undergoing major structural adjustment. A change to the tax system would threaten the viability of an industry already under pressure.

In 2011, the then Federal Government (with the support of the opposition) rejected the Henry Review recommendation to move to a volumetric system for all alcohol sold in Australia. It rightly acknowledged the negative impact that a change to a volume-based tax would have to the viability of the Australian wine industry while it was undergoing a major restructure.

Despite assertions to the contrary, it is clear that the industry is still restructuring and will be doing so for several years to come. In its 2013 Report, Centaurus Partners notes that falling export demand has created excess vineyard and winery capacity[59]. Its analysis of 13 wine growing regions (cold and warm climate) suggests that the grape over supply in Australia is "significant"[60]. The 13 regions studied provided 78pc of Australia's total grape crush in 2012. Initial analysis shows that 70pc of the total crush from these 13 regions was likely to be unprofitable – See Figure 8.

[57] WFA, Actions for Industry Profitability 2014 – 2016, Adelaide: Winemakers' Federation of Australia, 2013, page 23.
[58] Centaurus Partners, Wine Industry Report: Expert Report on the Profitability & Dynamics of the Australian Wine Industry, August, 2013.
[59] Centaurus Partners, Wine Industry Report: Expert Report on the Profitability & Dynamics of the Australian Wine Industry, August, 2013, page 31.
[60] Centaurus Partners, Wine Industry Report: Expert Report on the Profitability & Dynamics of the Australian Wine Industry, August, 2013, page 31.

Figure 8: Grape supply profile by sale price – 13 regions – FY13
Source: Source: Centaurus Report, page 31



Recent analysis from Wine Australia (now the Australian Grape and Wine Authority (AGWA)), indicates that if current trends continue demand will not correct the oversupply issue in relation to product priced at under $15 per bottle for several years[61].

Clearly the industry is responding slowly to restructure. Centaurus argues that this is due, in part, to the attitudes of grape growers and winemakers. It states that:

- Winemakers are providing a market for uneconomic fruits, providing marginal growers with some hope. This is due to them having built their businesses on volume and the need to maintain this volume to cover their fixed costs;
- The industry has significant sunk costs with few attractive alternative uses for the land; and

[61] Centaurus Partners, *Wine Industry Report: Expert Report on the Profitability & Dynamics of the Australian Wine Industry*, August, 2013, page 36.

- Human and emotional resistance to change – an attitude that things will get better[62].

Centaurus concludes that with respect to oversupply “without significant improvement in export returns and domestic profitability (retailer power) it is unlikely any feasible reduction in supply will return the industry to previous profit levels”[63].

The WFA in its recent report *Actions for Industry Profitability 2014 – 2016* gives further support to the fact that the industry is still undergoing a major restructure. In this report the WFA makes a number of recommendations to “help reduce the oversupply of commercial grade grapes and the pricing distortion it creates throughout the industry” (Action 3: Hasten the Supply Correction)[64].

Included in the WFA’s recommendations are the development of a regular review of vineyard profitability by a National Vineyard Database and an update of demand projections in key markets (Action 3.1). The WFA will also establish a Joint Policy Form to work on Vineyard Flexibility and Profit Improvement (Action 3.2)[65]. The industry is making positive steps to address the oversupply issues it faces, but clearly any resolution is still some years away.

We also note that on 25 March 2015 the Senate moved to refer the issue of the Australian grape and wine industry to the Rural and Regional Affairs and Transport References Committee for Inquiry (the Committee). The Committee is to due to report by 11 November 2015.

One of the Terms of Reference of this Inquiry is the profitability of wine grape growers, and the steps the industry has taken to enhance profitability. While it is not clear what the findings of the Inquiry will be or the relevance to the tax debate, it may provide some useful information on the state of the grape growing industry and the oversupply problem. Accolade Wines is currently preparing a submission to the Inquiry in order to assist the Committee with its deliberations.

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[62] Centaurus Partners, Wine Industry Report: Expert Report on the Profitability & Dynamics of the Australian Wine Industry, August, 2013, page 37.
[63] Ibid, page 38.
[64] Winemakers’ Federation of Australia, Actions for Industry Profitability 2014 – 2016, Adelaide, 2013, page 23.
[65] ibid pages 23 - 25.

8. Conclusion

If the government's objective is to achieve fairness, simplicity and jobs growth through a better tax system we contend that little change is required to wine taxation.

Simple adjustments to the Wine Equalisation Tax (WET) Rebate, proposed by industry, would remove market distortions and ensure the scheme continues to support regional producers and the many winegrape growers whose business relies on a sound export-oriented industry.

An increase in the level of taxation of wine products - whether through a change from ad-valorem taxation to an excise system based on the amount of alcohol or otherwise – risks devastating the wine industry while it is still restructuring and seeking to address low levels of profitability and excess supply of winegrapes.

We thank you for the opportunity to provide comments on wine taxation in Australia. We note that this is just the beginning of this process and we look forward to further discussion on the issue.

We would be very pleased to expand on any of the matters set out in this paper and would welcome the opportunity to be heard at any time in person.