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For the Industry by the Industry

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Winemakers' Federation of Australia

Submission to Australia's Future Tax System Review (AFTS)

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Executive Summary

The Winemakers' Federation of Australia (WFA), established in 1990, is the national peak body for the wine industry, representing Australia's wineries on all national and international issues.

WFA notes that in this Review "the guiding principles that will be used for assessing the merits of changing an individual tax or the tax system are economic efficiency, equity, simplicity and compliance costs."

The Australian wine sector has demonstrated its global competitiveness with exports as the driver of growth and with its transition from a reliance on the domestic market to becoming a major player in international markets.

The Australian wine sector makes a substantial contribution to Australia's national economic prosperity. Additional economic contribution accrues to the tourism sector and to regional economies from wine tourism.

Regional communities have been revitalised by growth of the wine sector and for many regional economies the sector's performance will determine their future viability. Winegrape growing contributes to the economy in 89 wine regions throughout Australia.

Substantial potential exists to increase the wine sector contribution to Australian prosperity in future years subject to a benign business climate, including an efficient and fair taxation regime

The wine sector not only acknowledges its responsibility to encourage responsible consumption of wine products, it has taken a leadership role in promoting health and social responsibility initiatives addressing alcohol consumption. A general increase in alcohol taxation is not an efficient or equitable policy to address the external health costs of alcohol, because it suppresses beneficial as well as harmful consumption and it impacts disproportionately on lower income households.

The Australian wine industry has made the continual improvement of its environmental performance a priority since releasing its environmental strategy - *Sustaining Success* - in 2002. Accelerating the adoption of ecologically sustainable practices throughout all aspects of its operation is critical to the wine industry's future success and will ensure the needs and expectations of the wider community and customers are met. The wine industry, as an efficient high value water user, considers that correct pricing of natural resources, particularly water, will be the most effective strategy in advancing environmental outcomes. However it is important to ensure that the tax treatment of water management investment as well as water transfer and usage transactions do not operate as an impediment to the desired resource allocation changes.

Innovation has been a major driver of the Australian wine industry's competitiveness and market performance. That innovation can be attributed to an openness and responsiveness to market trends backed by a significant ongoing investment in targeted Research and Development. It is evident in rapid business adoption of new technology and innovation at all levels within the industry supply chain. The R & D levy is the efficient and equitable tax mechanism for generating the wine industry funding for the required R & D investment.

Wine tax in Australia, when measured as consumer tax equivalents, is high compared with other OECD countries and the OECD average.

In the words of ACIL Consulting "Nor are the externality reasons for wine taxation particularly compelling, compared with more targeted approaches. These are also the clear conclusions of the recent New Zealand tax review, the best and most up-to-date independent assessment available." *Pathways to Profitability for Small and Medium Wineries*, October 2002.

Deloitte's benchmarking analysis reveals some of the unique financial features of wine businesses namely

- Wine businesses are very asset intensive, with total assets representing up to 240% of sales for a $5 to $10 million revenue business
- Wine businesses have low inventory turnover, with a ratio of around 0.7 for a less than $5 million revenue business
- Wine businesses have high inventory requirements, with a working capital to COGS ratio around 2.0 for a less than $5 million revenue business
- Wine businesses have high working capital requirements, with a ratio of 1.13 to 1.22 times the value of sales for a less than $5 million revenue business

The interaction of the tax system with these intrinsic structural features of the wine industry result in differential impacts and outcomes on wine businesses relative to business generally.

This submission makes the following recommendations on taxes that impact specifically on the wine sector:

Wine Equalisation Tax (WET)

The Wine Equalisation Tax (WET) rebate status quo be maintained, namely that the 29% ad valorem tax on domestic wine sales be rebated up to a maximum annual rebate per wine entity of $500,000.

WET and Cash Accounting

There be a change to the tax system provisions whereby wine businesses with a turnover of less than $8 million, who are remitting both GST and WET, have the option of complying on a cash or accrual accounting basis.

WET and definition of an Associated Producer

Adopt a change such that the reference to the Income Tax Assessment Act 1997 is replaced with a reference to Corporations Law, which would deem entities to be an associated producer if one of them:

- **controls more than 50% of the issued capital; or**
- **controls the composition of the Board of Directors; or**
- **can cast, or control the casting of, more than 50% of votes at AGM**

Trading Stock valuation

Trading stocks of wine on hand at the end of an income year to be brought to account for income tax purposes at prescribed minimum values as was the case under section 31A of the ITAA 1936.

Grape and wine levies

Continuance of each of the Grape Research, Wine Export Charge and Wine Grapes levies is strongly supported as being vital to the future development and sustainability of the Australian wine sector.

Fringe Benefits Tax

FBT should not apply to business meal expenditure which is a legitimate business expense.

Water

The impacts of the tax system on water investment and use be reviewed to ensure that it does not impede the desired adjustment toward improved economic and environmental outcomes.

Simplicity and compliance costs

Standardisation across State jurisdictions and simplicity should be a primary factor in consideration of any changes to the tax system.

1. Introduction

This submission has been prepared by the Winemakers' Federation of Australia (WFA) on behalf of the Australian wine industry.

The Winemakers' Federation of Australia, established in 1990, is the national peak body for the wine industry, representing Australia's wineries on all national and international issues. WFA operates by voluntary membership with specific representation for small, medium and large producers. Current WFA membership collectively accounts for over 90% of wine production in Australia.

WFA provides policy leadership on the issues of business climate, social responsibility, environmental sustainability, innovation, trade, and benchmarking issues that are critical to the enduring viability of Australia's wineries. The Winemakers' Federation of Australia also works closely with Wine Grape Growers Australia (WGGA) on issues of common interest.

Throughout this paper, reference to the "Australia wine sector" is broadly defined to be inclusive of all aspects of the supply chain and production of wine. Therefore winegrape production is encompassed in the analysis.

2. Australia's Future Tax System Review

The general criterion for addressing tax issues in this submission is that the tax measure in question disadvantages the Australian wine sector relative to other industries, thereby representing a departure from the economic efficiency and/or equity principles of the tax system.

The AFTS Review was announced on 13th May 2008 and an initial discussion paper titled *Architecture of Australia's tax and transfer system* (www.taxreview.treasury.gov.au) was released on 6th August 2008.

This tax review has been described by the Australian Government as "the most comprehensive examination of the taxation system in over 50 years."

The stated objective in the Terms of Reference is " to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia's economic and social outcomes." The desired outcome is for a tax system that will help boost Australia's productive capacity and build prosperity in an increasingly competitive global environment.

Specifically "The Government is particularly focussed on building a tax system which is internationally competitive; streamlined, simplified and harmonised; and which encourages hard-work and rewards workforce participation by removing complex disincentives".

The review encompasses all Australian Government and State taxes (except the rate and base of the GST), Government transfer payments, tax expenditures, interactions between federal, state and local government taxes and the interrelationship with the proposed emissions trading system (ETS).

The guiding principles that will be used for assessing the merits of changing an individual tax or the tax system are economic efficiency, equity, simplicity and compliance costs. As stated in the Review terms of reference "Raising revenue should be done so as to do least harm to economic efficiency, provide equity (horizontal, vertical and inter- generational) and minimise complexity for taxpayers and the community."

Economic efficiency is the concept that resources in the economy are allocated to their highest value uses through the production decisions of businesses and purchase decisions of consumers. Therefore if a particular taxation regime causes those decisions to favour tax advantaged lower value uses, the whole economy is made worse off.

The general criterion for addressing tax issues in this submission is that the tax measure in question disadvantages the Australian wine sector relative to other industries, thereby representing a departure from the economic efficiency and/or equity principles of the tax system.

Considering the scope of this tax review, it is possible that unprecedented changes to Australia's tax and transfer systems could result. Therefore the wine sector, like all other business sectors, and for that matter also households, could be faced with significant long term changes in any or all of the mix, level, incidence, jurisdictions, collection/payment methods and compliance costs for taxes and transfers.

However any taxation changes that would apply consistently to all Australian business would not competitively disadvantage or advantage the wine sector. Such economy wide changes, especially those that reduce taxation compliance costs or improve the international competitiveness of Australian business, can be considered as falling within the general business sector tax agenda. WFA strongly supports the business community in arguing for a tax regime that reduces compliance costs and enhances Australia's international competitiveness, but in keeping with its specific industry sector focus, does not attempt to address those economy wide issues.

Consequently this submission instead focuses on the tax issues that are specific to the wine sector. These issues encompass wine taxes per se and other tax measures which have a disproportionate impact on the wine sector.

3. Global competitiveness of the Australian wine sector

The Australian wine sector has demonstrated its global competitiveness with exports as the driver of growth and with its transition from a reliance on the domestic market to becoming a major player in international markets.

Australian wine has recorded remarkable export sales growth, from $289 million in 1992/1993 to $2680 million in 2007/2008 (Table 1).

Table 1

Value of Australian Exports

Financial Year	*A$ Mill*
1992-93	$288.9
1993-94	$358.3
1994-95	$380.5
1995-96	$470.8
1996-97	$596.2
1997-98	$811.7
1998-99	$990.6
1999-00	$1,347.2
2000-01	$1,614.1
2001-02	$1,967.9
2002-03	$2,385.9
2003-04	$2,545.0
2004-05	$2,748.2
2005-06	$2,799.0
2006-07	$2,988.2
2007-08	$2,680.0

Source: Australian Wine & Brandy Corporation Export Approval database via Winefacts Statistics

Table 2

Moreover this growth has been broadly based, with the number of major export markets penetrated increasing from 6 to 17 over the same period. The total number of export markets for Australian wine has doubled from 66 to 130 (Table 2).

Australian Export Markets by Size

Financial Year	*Large*	*Medium*	*Small*	*Total*
1992-93	6	9	51	66
1993-94	6	9	55	70
1994-95	6	9	59	74
1995-96	7	11	54	72
1996-97	6	15	58	27
1997-98	9	12	56	77
1998-99	10	12	61	83
1999-00	11	11	62	84
2000-01	13	12	71	96
2001-02	15	13	79	107
2002-03	17	11	84	112
2003-04	17	15	89	121
2004-05	17	16	97	130
2005-06	17	18	95	130
2006-07	19	15	95	129
2007-08	17	18	95	130

Source: Australian Wine & Brandy Corporation Export Approval database via Winefacts Statistics
Note: Large = >$15M, Medium = $2M - $15M, Small = < $2M

Table 3

Even more important has been the performance of Australian wine in accessing higher value market segments. Exports valued at more than $67.50 FOB per case have increased from 2% of total Australian export volume to 7% (Table 3).

% of volume of Australian Exports by Price Point

FY	*% of >7.50*
1992-93	2%
1993-94	2%
1994-95	3%
1995-96	4%
1996-97	5%
1997-98	6%
1998-99	9%
1999-00	10%
2000-01	11%
2001-02	9%
2002-03	12%
2003-04	9%
2004-05	7%
2005-06	6%
2006-07	6%
2007-08	7%

Source: Australian Wine & Brandy Corporation Export Approval database via Winefacts Statistics

Table 4

This performance is not attributable purely to growth in the global wine industry. Australian wine has achieved its growth by improving its market share against other country competitors. Australian wine sales share of global wine market growth has increased from 3% in 2000 to 5% in 2006 (Table 4). And the Australian wine share of world wine trade value similarly has increased from 6.6% in 2000 to 9.4% in 2006 (Table 5).

Volume of Total Aust sales as a % of Global Market Growth (Export and Domestic Markets)

2000	3%
2001	3%
2002	4%
2003	4%
2004	5%
2005	5%
2006	5%

Source: Global Wine Statistical Compendium 2006 via AWBC Winefacts Statistics
Note: Domestic markets = volume of beverage consumption less imports
Note: Value of beverage consumption not available

Table 5

Percentage Share of Value of World Exports - Aust and Competitors

Country	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
France	39.8	37.4	38.2	38.8	34.4	33.7	34.4
Italy	18.1	18.3	18.5	17.8	17.8	18	17.7
Spain	9.6	9.4	9.1	10	9.5	9.3	9.6
Australia	**6.6**	**7.1**	**8.7**	**9.1**	**10.1**	**10.3**	**9.4**
Chile	4.5	5	4.2	4.3	4.2	4.2	4.1
USA	4.1	3.9	3.6	3.5	3.7	3	3.7
Germany	2.8	2.9	2.8	3.2	3.1	3.3	3.6
Portugal	3.6	3.4	3.4	2.3	3.3	3.2	2.9
South Africa	1.9	1.9	2.2	2.4	2.7	2.9	2.3
Argentina	1.2	1.2	0.9	0.8	1.1	1.5	1.7
New Zealand	0.6	0.8	0.9	0.9	1.2	1.6	1.7

Source: Global Wine Statistical Compendium 2006 via AWBC Winefacts Statistics

Note: Countries selected and ranked by 2006 year

Note: Includes intra EU Trade

These gains in market share have occurred despite large fluctuations in the value of the Australian dollar against the currencies of the major wine markets and particularly the adverse exchange rate movements over the last five years (Table 6). Such a performance provides evidence that the wine industry has some pricing power and therefore differentiates it from pure price takers such as agricultural or mineral commodity industries.

Table 6

Value of Australian Exports and Exchange Rates

Financial Year	*$ Mill*	*USD*	*UKP*
1992-93	$288.86	0.6722	0.4453
1993-94	$358.35	0.7291	0.4721
1994-95	$380.49	0.7086	0.4452
1995-96	$470.81	0.7890	0.5099
1996-97	$596.18	0.7455	0.4482
1997-98	$811.69	0.6135	0.3681
1998-99	$990.56	0.6596	0.4188
1999-00	$1,347.25	0.5986	0.3941
2000-01	$1,614.10	0.5075	0.3603
2001-02	$1,967.93	0.5648	0.3700
2002-03	$2,385.86	0.6674	0.4038
2003-04	$2,544.97	0.6889	0.3815
2004-05	$2,748.20	0.7637	0.4224
2005-06	$2,798.96	0.7433	0.4049
2006-07	$2,988.17	0.8487	0.4236
2007-08	$2,680.01	0.9626	0.4829

Source: Australian Wine & Brandy Corporation Export Approval Database via Winefacts Statistics & Reserve Bank of Australia

Note: Exchange rates at end of June each financial year

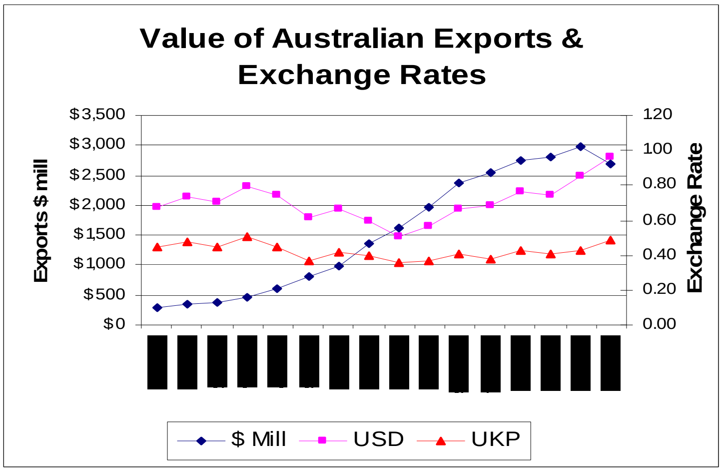

Table 7

Aust Exports as a % of Total Aust Sales

1997	35%
1998	37%
1999	41%
2000	46%
2001	50%
2002	54%
2003	56%
2004	60%
2005	62%
2006	63%
2007	64%

Source: Australian Wine & Brandy Corporation Export Approval Database via Winefacts Statistics

As a consequence of the Australian wine industry performance in global markets, the domestic market has declined from a dominant 65% of sales value in 1997 to only 36% in 2007 (Table 7). This demonstrates the transformation of Australian wine into a globally focussed business sector that is therefore particularly sensitive to all of the factors, especially taxation and regulation, that impact on the Australian business climate and hence international competitiveness.

4. Economic contribution of the Australian wine sector

The Australian wine sector makes a substantial contribution to Australia's national economic prosperity

The Australian wine sector has the features of agricultural production, of elaborately transformed manufacturing and of the fast moving consumer goods sector (FMCG). Grape growing is hostage to seasonal weather fluctuations; winemaking requires much technical expertise and sophisticated capital equipment; and wine sales performance calls for considerable marketing expertise.

The complexity of the wine production process and its end stage as a high value consumer good entails a high degree of value adding, and hence results in a greater economic contribution than most agricultural commodity industries. This high level of wine sector value adding is provided, in part, by a substantial network of suppliers whose economic contribution generally is not measured nor acknowledged as part of the wine sector.

Grape growing and wine production directly employs 27,959 persons according to the 2006 Census (Table 8)

The wine industry contributes its corresponding share of corporate, personal and transactional taxes but in addition contributes, through the wine industry specific Wine Equalisation Tax (WET), a further $651 million (2006/2007) to Government revenue.

Table 8

Australian Employment

	2001	*2006*
Grape growing	15 629	11 003
Wine manufacturing	14 480	16 956

Source: Census of Population & Housing 2001 and 2006

5. Wine creates tourism

Additional economic contribution accrues to the tourism sector and to regional economies from wine tourism

Unlike most other industry sectors, wine production is of such interest to consumers that it motivates visitation to the wine production sites, resulting in tourism activity and expenditure, some of which accrues to the locality as external benefits. Therefore the wine sector strengthens Australia and the specific regions and communities as a tourism destination, thereby generating additional economic contribution of which only a proportion is captured by the wine sector.

Wine tourism is defined as "visitation to wineries and wine regions to experience the unique qualities of contemporary Australian lifestyle associated with wine at its source – including wine & food, landscape and cultural activities". National Wine Tourism Strategy (1998).

Tourism Australia reports that wine tourism has out performed the average annual growth for all visitor types. (*Snapshot Food and Wine Tourism in Australia 2006).* For international visitors, the comparison was 8% average annual growth in winery visitors versus 2% growth for all visitors. Similarly the growth rates for domestic overnight visitors were winery 6% and all visitors 0%. Tourism Australia data for 2004 also shows that both domestic and international wine visitors stayed longer and spent more than the respective non wine domestic and international visitors.

Victorian research (Tourism Victoria, A Survey of Tourism at Victorian Wineries – Final Report) reveals that the value of winery tourism to the Victorian economy in 2004 was estimated at $493 million.

This is indicative of the substantial economic benefit that accrues to the tourism industry from winery visitors.

6. Maintaining viable regional communities

Regional communities have been revitalised by growth of the wine sector and for many regional economies the sector's performance will determine their future viability.

Wine production is widely dispersed over the non metropolitan regions of Australia and it is a major driver of regional development.

As of 2008 there are 2299 wineries operating in Australia. Victoria has the highest number of wineries at 687, followed by South Australia with 607. New South Wales and the Australian Capital Territory have a combined total of 452, Western Australia has 356 while Tasmania has 90. The Northern Territory is the only state where the wine industry is not a major employer in regional areas. (Australian and New Zealand Wine Industry Directory, 2008).

Winegrape growing contributes to the economy in 89 defined wine areas throughout Australia. (Table 9)

Table 9

State	Region
ACT	Australian Capital Territory
New South Wales	Big Rivers - other
	Canberra District
	Central Ranges - other
	Cowra
	Gundagai
	Hastings River
	Hilltops
	Hunter
	Hunter Valley - other
	Mudgee
	Murray Darling - NSW
	Northern Rivers - other
	Northern Slopes - other
	Orange
	Perricoota
	Riverina
	Shoalhaven Coast
	South Coast - other
	Southern Highlands
	Southern NSW - other
	Swan Hill (NSW)
	Tumbarumba
	Western Plains - other
Northern Territory	Northern Territory
Queensland	Granite Belt
	Queensland - other
	South Burnett
South Australia	Adelaide Hills
	Adelaide Plains
	Barossa - other
	Barossa Valley
	Clare Valley
	Coonawarra
	Currency Creek
	Eden Valley
	Far North - Other
	Fleurieu - other
	Kangaroo Island
	Langhorne Creek
	Limestone Coast - other
	Lower Murray - other
	McLaren Vale
	Mount Benson
	Mount Lofty Ranges - other
	Padthaway
South Australia Cont'd	Riverland
	Robe
	Southern Fleurieu
	Southern Flinders Ranges
	The Peninsulas
	Wrattonbully
Tasmania	Tasmania
Victoria	Alpine Valleys
	Beechworth
	Bendigo
	Central Victoria - other
	Geelong
	Gippsland
	Glenrowan
	Goulburn Valley
	Grampians
	Heathcote
	Henty
	Macedon Ranges
	Mornington Peninsula
	Murray Darling - VIC
	North East Victoria - other
	North West Victoria - other
	Port Phillip - other
	Pyrenees
	Rutherglen
	Strathbogie Ranges
	Sunbury
	Swan Hill (VIC)
	Upper Goulburn
	Western Victoria - other
	Yarra Valley
Western Australia	Blackwood Valley
	Central Western Australia
	Eastern Plains, Inland and North of WA
	Geographe
	Great Southern
	Greater Perth - other
	Manjimup
	Margaret River
	Peel
	Pemberton
	Perth Hills
	South West Australia - other
	Swan District
	Western Australian South East Coastal

Sources: ABS Vineyard Survey via AWBC Winefacts Statistics
ABS Aust Standard Geographical Classification

There are 23 wine areas where winegrape growing is undertaken at a substantial scale in the local economy (Table 10). These include:

Table 10

Regions producing > 10,000 tonnes		
Region	***Statistical Subdivision***	***>10,000 tonnes***
Riverland	Riverland	455,274.60
Riverina	Lower Murrumbidgeee	243,029.50
Murray Darling - VIC	West Mallee	219,781.80
Murray Darling - NSW	Murray Darling	119,290.80
Barossa Valley	Barossa	77,416.80
Padthaway	Upper South East	62,922.10
McLaren Vale	Southern Adelaide	59,964.30
Langhorne Creek	Fleurieu	59,196.80
Swan Hill (VIC)	East Mallee	43,464.70
Coonawarra	Lower South East	40,701.00
Clare Valley	Lower North	39,040.60
Margaret River	Vasse	28,637.00
Mudgee	Central Tablelands	26,407.20
Hunter	Hunter	23,072.30
Adelaide Hills	Mount Lofty Ranges	21,849.80
Cowra	Central Tablelands	19,799.00
Yarra Valley	Yarra Ranges Shire A	15,163.50
Wrattonbully	Upper South East	14,512.90
Great Southern	King	12,464.00
Eden Valley	Barossa	12,326.80
North West Victoria - other	West Mallee	12,145.00
Currency Creek	Fleurieu	10,262.20
Goulburn Valley	South West Goulburn	10,174.80

Sources: ABS Vineyard Survey via AWBC Winefacts Statistics
ABS Aust Standard Geographical Classification

There are an additional 40 wine areas where winegrape growing is undertaken at a significant scale in the local economy (Table 11). These include:

Table 11

Regions producing 1000-10,000 tonnes		
Region	***Statistical Subdivision***	***1000 - 10,000 tonnes***
Orange	Orange	9,960.10
North East Victoria - other	N/A	8,978.10
Rutherglen	West Ovens - Murray	7,419.40
Alpine Valleys/Beechworth	East Ovens - Murray	7,339.50
Swan District	North Metropolitan	7,116.40
Big Rivers - other	Lower Murrumbidgeee	6,274.50
Swan Hill (NSW)	N/A	5,752.80
Adelaide Plains	N/A	5,689.10
Tasmania	Tasmania	5,570.70
Mount Benson	Upper South East	5,119.20
Limestone Coast - other	N/A	4,873.60
Gundagai	N/A	4,742.80
Barossa - other	Barossa	4,015.30
Hilltops	N/A	3,907.70
Geographe	N/A	3,563.80
Mornington Peninsula	Mornington Peninsula Shire	3,400.50
Southern Fleurieu	N/A	3,261.00
Strathbogie Ranges	N/A	3,240.50
Heathcote	N/A	3,116.80
Central Victoria - other	N/A	2,971.00
Blackwood Valley	Blackwood	2,969.60
South West Australia - other	N/A	2,789.20
Bendigo	N/A	2,657.30
Granite Belt	Darling Downs SD Bal	2,350.80
Tumbarumba	N/A	2,347.20
Pyrenees	West Central Highlands	2,221.40
Geelong	N/A	2,172.20
Grampians	West Central Highlands	2,153.00
Western Victoria - other	N/A	2,009.00
Hunter Valley - other	Hunter	1,873.00
Perth Hills	N/A	1,773.10
Glenrowan	N/A	1,651.80
South Burnett	N/A	1,642.70
Perricoota	N/A	1,611.60
Southern Flinders Ranges	N/A	1,580.70
Western Plains - other	N/A	1,489.10
Upper Goulburn	N/A	1,386.90
Northern Slopes - other	Northern Slopes	1,187.30
Lower Murray - other	Riverland	1,081.90
Fleurieu - other	Fleurieu	1,056.80

Sources: ABS Vineyard Survey via AWBC Winefacts Statistics

ABS Aust Standard Geographical Classification

There are a further 26 wine areas where winegrape growing is undertaken on a small scale in the local economy (Table 12). These include:

Table 12

Regions producing < 1000 tonnes		
Region	***Statistical Subdivision***	***< 1000 tonnes***
Canberra District	Southern Tablelands	997.20
Henty	N/A	955.30
Greater Perth - other	N/A	778.10
Queensland - other	N/A	770.80
Australian Capital Territory	N/A	741.50
Sunbury	N/A	613.00
Mount Lofty Ranges - other	Mt Lofty Ranges	587.80
Central Western Australia	N/A	575.90
Gippsland	Gippsland	571.10
Central Ranges - other	N/A	537.40
Beechworth	East Ovens - Murray	531.00
Macedon Ranges	N/A	529.10
Southern Highlands	N/A	520.90
Southern NSW - other	N/A	401.70
The Peninsulas	N/A	315.20
Kangaroo Island	Kangaroo Island	255.20
Port Phillip - other	N/A	150.60
Shoalhaven Coast	N/A	128.20
Hastings River - other	N/A	102.80
Northern Rivers - other	N/A	84.70
Western Australian South East Coastal	N/A	70.00
Peel	N/A	68.00
South Coast - other	N/A	63.90
Far North - Other	Northern	43.90
Eastern Plains, Inland and North of WA	N/A	35.70
Northern Territory	Northern Territory	30.00

Sources: ABS Vineyard Survey via AWBC Winefacts Statistics
ABS Aust Standard Geographical Classification

The wine sector's contribution to regional economies is more transformational than most other rural industries due to:

- High degree of local value adding
    - Wine production is characterised by a high incidence of processing within the grape growing region and the degree of processing extending much higher up the value chain.
- Supplier demand creates a critical mass of infrastructure and business services
    - The wine sector through its supplier demand in a region creates the critical mass of infrastructure, skills and suppliers necessary to attract and support complementary food processing and hospitality businesses.
- Connects the region directly to specific international markets
    - The marketing process for wine entails wine producer visits to, and personal relationships in, export markets as well as inbound visits by trade and media from those markets.
- Business leadership
    - The McKinsey report *"Lead Local, Compete Global"* (1994) emphasised the importance of local business leadership in fostering development of a regional economy. The wine industry, for the regions in which it operates, is an important source of prominent, well educated business leaders.
- Skills base
    - Wine businesses employ high level technical, financial, marketing and management skills and thereby add to the diversity and to the professional qualifications in a region's skills base.
- Tourism attractions and infrastructure
    - The wine sector creates marketing assets for regions. It creates or contributes to a regional image; it creates visitor experiences that constitute a destination attraction; it generates media publicity; and by sponsoring high value trade visitors it enables investment in tourism accommodation and hospitality infrastructure.

7. Future prospects for the wine sector

Substantial potential exists to increase the wine sector contribution to Australian prosperity in future years subject to a benign business climate, including an efficient and fair taxation regime

The Australian wine industry completed a strategic plan in May 2007 titled *"Directions to 2025"*. The Directions plan has identified the potential for the Australian wine sector to sell an extra $4 billion worth of wine over the next five years – lifting cumulative domestic and export sales for the period to $30 billion, rather than the $26 billion expected based on current production levels and consumer trends. The gains will come through a combination of

- New marketing based on regional and fine wines
- A clearer identification of new markets and niche market opportunities

Directions represents a comprehensive plan for the Australian wine sector to transform itself from a volume-driven approach to one that delivers a more sustainable and profitable business environment for more growers and producers. That is it is a shift from a volume growth to a value growth strategy. This requires improved performance in penetrating high value export market segments and in penetrating high growth potential (emerging) markets.

Not surprisingly, Australia's competitors are adopting similar strategies and targeting the same market opportunities, so it is imperative that the Australian wine sector is not handicapped by an uncompetitive or inefficient tax regime.

Directions called for partnership with Government to create a competitive business climate for wine sector growth:

"As a value-added exporter that creates jobs in over 60 regional Australian communities, a profitable and expanding Australian wine sector is very clearly in the interests of the Australian community and, by extension, its governments. Over the past decade, as the status of the Australian wine sector has grown, a far more positive partnership has evolved with most governments, enabling meaningful reforms to be developed in areas such as liquor licensing, trade facilitation and market access, environmental performance and taxation reform. These positive developments must be fostered and enhanced." *Directions to 2025* page 16.

8. Wine and health

The wine sector not only acknowledges its responsibility to encourage responsible consumption of wine products, it has taken a leadership role in promoting health and social responsibility initiatives addressing alcohol consumption.

When consumed in moderation, in a manner consistent with the Australian Alcohol Guidelines, wine is part of a healthy lifestyle.

At the same time, WFA recognises that wine is not always consumed in moderation. Consequently, the wine sector has a responsibility to ensure that its business practices do not contribute to the harmful consumption of wine.
The *Directions to 2025* strategy recommended:

A. "Social responsibility - Promote a safe and healthy drinking culture and, where possible, influence change to limit undesirable consumption behaviours.
B. Regulatory regime - Demonstrate widespread commitment to self-regulatory measures such as the Alcohol Beverages Advertising Code and the standard drinks promotion.

C. Recognition - Make responsible promotion and moderate consumption with food a recognised value of the Australian wine sector.
D. Partner approach - Build partnerships for the Australian wine sector in the health, social services and education sectors that enhance our ability to improve consumption patterns.
E. Enhanced knowledge base - Improve knowledge throughout the wine sector of the patterns of wine consumption, effects of this consumption and potential for beneficial consumption."

In line with the above strategies, the wine sector has embraced a vision for wine to be recognised as a lifestyle beverage to be enjoyed in moderation and for the industry to advocate sustainable and socially responsible consumption of wine.

To advance this vision, WFA has initiated a number of programmes, including:

- The development and promotion of standard drinks labelling
- The initiation of advertising self regulation on alcohol products
- The promotion of appropriate levels of consumption for males and females
- The development of close working relations with Federal and State Government agencies in the development of policies and guidelines
- Partnering with other alcohol sectors in the formation of DrinkWise Australia to promote change towards a more responsible drinking culture in Australia

The Australian wine sector has committed itself to continue working with the Australian Government and the wider community to ensure the benefits of moderate wine consumption are maximised and excessive consumption and associated harms are minimised in every possible way.

WFA follows established economic principles in arguing that the most effective policy measures to reduce and avoid the adverse community impacts of excessive and inappropriate alcohol consumption are intervention programs targeted at the specific causal consumer groups, behaviours, occasions or locations. A general increase in alcohol taxation is not an efficient or equitable policy to address the external health costs of alcohol, because it suppresses beneficial as well as harmful consumption and it impacts disproportionately on lower income households.

In the words of ACIL Consulting "Nor are the externality reasons for wine taxation particularly compelling, compared with more targeted approaches. These are also the clear conclusions of the recent New Zealand tax review, the best and most up-to-date independent assessment available" *Pathways to Profitability for Small and Medium Wineries*, October 2002.

9. Wine and the environment

The Australian wine industry has made the continual improvement of its environmental performance a priority since releasing its environmental strategy - *Sustaining Success* - in 2002. Accelerating the adoption of ecologically sustainable practices throughout all aspects of its operation is critical to the wine industry's future success and will ensure the needs and expectations of the wider community and customers are met.

The wine sector has adopted an environmental vision for the industry to:

- Optimise business operations to ensure the use of resources and generation of by-products are managed in an efficient and ecologically sustainable manner
- Anticipate and satisfy community and customer expectations on environmental performance
- Measure and evaluate performance to demonstrate environmental stewardship

This vision is being achieved by addressing the priority environmental issues of:

- Water quality & use in viticulture, winemaking & packaging;
- Generation and disposal of wastewater from winemaking;
- Management of solid waste products such as grape marc, filter material and treated timber posts;
- Use of insecticides, fungicides and herbicides (pesticides);
- Maintaining & enhancing natural ecological systems &protecting biodiversity;
- Conflicting land-uses with local communities and other industries;
- Ramifications of future greenhouse gas- induced climate change on viticulture;

Evidence of substantial progress is demonstrated by the following industry performance measures:

- The industry is recognised as one of the most water efficient - 12.9% of vineyard area receives no supplementary water. Of the area irrigated, 78.5% is under drip or micro spray (ABS 2008), providing a high economic return on water used compared to other Australian industries.
- The Australian wine industry is currently developing a voluntary environmental certification scheme to verify the industry's environmental sustainability
- The Australian wine industry is providing leadership in the development of the International Wine Carbon Protocol and calculator.
- In the 2008 Australian Wine Industry Stewardship (AWIS) national report
    - Over half of winegrape growers participated in sustainability workshops
    - 64% have property management plans
    - 1 in 5 participate in on-farm nature conservation
    - 60% with mid-row vegetation use native grasses/groundcovers
    - 77% retain native vegetation along waterways
    - 67% use soil moisture monitoring
    - 70% using drip irrigation
    - 70% using soil/petiole analysis to inform nutrient schedules
- The WFA is a Facilitative Member of the Australian Government's Greenhouse Challenge Plus program.
    - The Federation accepts that a response to climate change is required and encourages all practical emissions reduction and adaptation strategies
    - Through the Wine Industry National Environment Committee, the Federation will continue to advocate the allocation of targeted research and development resources towards climate change measurement, understanding of regional effects and adaptive strategies.

The wine industry, as an efficient high value water user, considers that correct pricing of natural resources, particularly water, will be the most effective strategy in advancing environmental outcomes. However it is important to ensure that the tax treatment of water management investment as well as water transfer and usage transactions do not operate as an impediment to the desired resource allocation changes. In fact as an alternative to large scale public investment, the taxation system operating with the market could facilitate faster change to restore efficient resource allocation and environmental improvement if water investments and transfers were treated for tax purposes as current rather than capital items.

Likewise the wine industry accepts the necessity for a national carbon pricing regime to drive carbon emission abatement investment and behaviours. However the industry is concerned about the WET tax revenue amplification of the consequent rise in input costs and suggests that there be a means of quarantining this impact on WET tax liability.

10. Wine and innovation

Innovation has been a major driver of the Australian wine industry's competitiveness and market performance. That innovation can be attributed to an openness and responsiveness to market trends backed by a significant ongoing investment in targeted Research and Development. It is evident in rapid business adoption of new technology and innovation at all levels within the industry supply chain.

The industry recently agreed to an increase in the Wine Grapes (Wine) Levy to fund increased Research and Development effort, recognising the role of the levy in securing contributions from all of the potential beneficiaries and in avoiding the risk of under investment in R & D. WFA participates in the R & D priority-setting process and encourages broad industry participation.

The industry has developed a prospectus, taking into account the full range of needs across the grape and wine industries, starting with consumers and working backwards along the supply chain.

The top eleven research areas identified in the prospectus demonstrate a focus on research to deliver improvements in: market access; competitive advantage; increased profitability, environmental sustainability and risk management.

As a consequence of this approach, the wine industry's R & D is market driven; the R & D outcomes create and stimulate the innovation that drives the Australian wine sector competitive advantage; and the levy is the efficient and equitable tax mechanism for generating the wine industry funding for the required R & D investment.

11. Wine and wine sector specific tax issues

Deloitte Touche Tohmatsu was commissioned by WFA and the Australian Wine and Brandy Corporation (AWBC) in 2007 to prepare benchmarking guides for large, medium and small businesses. Those reports (*Wine Australia: Directions to 2025, Benchmarking Guides for small, medium, large wine business*) stated:

"Wine businesses operate in an environment of multiple and complex taxation regulations particularly when dealing with multiple export jurisdictions. Examples of the taxation that apply to a wine business are:

i. Wine Equalisation Tax (WET);
ii. Goods and Services Tax (GST);
iii. stamp duty;
iv. income tax;
v. capital gains tax;
vi. Fringe Benefits Tax (FBT);
vii. payroll tax;
viii. customs and import duties;
ix. overseas taxes and duties for exporters; and
x. employee superannuation.

All of those taxes are relevant but the specific taxation issues that potentially have the greatest direct impact on the Australian wine sector's future profitability and sustainability are addressed below.

A global comparison of wine taxes reveals that almost all countries tax the consumption of wine with variations in both the rate of taxation and taxation policy. Similarly every jurisdiction in the world taxes different alcohol products at different rates. Wine tax in Australia, when measured as consumer tax equivalents, is high compared with other OECD countries and the OECD average. (*Consumer & Import Taxes in the World Wine Market: Australia in International Perspective; Policy Discussion Paper No. 99/03 Berger N, Anderson K; Centre for International Economic Studies, University of Adelaide; 1999)*

Deloitte's benchmarking analysis, referred to earlier, reveals some of the unique financial features of wine businesses namely

- Wine businesses are very asset intensive, with total assets representing up to 240% of sales for a $5 to $10 million revenue business
- Wine businesses have low inventory turnover, with a ratio of around 0.7 for a less than $5 million revenue business
- Wine businesses have high inventory requirements, with a working capital to COGS ratio around 2.0 for a less than $5 million revenue business
- Wine businesses have high working capital requirements, with a ratio of 1.13 to 1.22 times the value of sales for a less than $5 million revenue business

The interaction of the tax system with these intrinsic structural features of the wine industry results in differential impacts and outcomes on wine businesses relative to business generally. That is, a tax system designed for the typical business financial parameters has some unintended adverse impacts on wine businesses as identified in 11.2 and 11.4 below.

11.1 Wine Equalisation Tax (WET)

The *Architecture* paper, page 27, describes this tax as follows:

> "Wine is not subject to (the) excise (tax that applies to beer and spirits). It is subject to a separate wine equalisation tax (WET), which applies as a percentage of the price of wine products. This is normally 29 per cent of the wholesale price of wine, cider, perry, mead and sake, and certain other wine-based products. Unlike the excise on beer and spirits, the amount of tax payable on wine is independent of alcohol volume. There is a $500,000 WET producer rebate that reduces the WET paid by wine producers, often to zero in the case of smaller producers of wine."

WET contributed $ 836 million to annual Government revenue in 2006/2007. However it is estimated that 22%, representing $185 million of WET revenue, is returned as a rebate. As a result 2,072 producers, representing 96% of wineries, do not bear the WET impost.

Those 2072 small wineries generate visitation to their specific regions and communities, resulting in tourism activity and expenditure, thereby generating an economic contribution much of which accrues to other businesses in the locality. Therefore the wineries are the source of an external economic benefit for regional development.

The status quo allows the Government to collect a significant amount of wine tax while removing smaller wineries from the burden of WET in recognition of their major contribution to regional tourism. Consequently, the WFA argues for the retention of the WET Rebate up to $500,000 per entity, with the 29% value based Wine Equalisation Tax to apply after that.

Accordingly, the WFA recommendation for the WET rebate is that:
The Wine Equalisation Tax (WET) rebate status quo be maintained, namely that the 29% ad valorem tax on domestic wine sales be rebated up to a maximum annual rebate per wine entity of $500,000.

11.2 WET and Cash Accounting

Under current tax system provisions, all businesses are expected to operate under an accrual accounting basis for the purpose of GST remittances unless annual turnover is less than $2 million, in which case cash accounting may be used. This threshold was extended in 2007 from $1 million in recognition of the impact on cash flow that the collection of GST has on small businesses under an accruals-based system.

The $2 million figure for requiring the use of accrual accounting was decided, arbitrarily, to differentiate small businesses from larger for the purposes of carrying the GST liability. Businesses over $2 million turnover were seen as large enough to accommodate the cash flow variances created by payment of the GST. However, no differentiation was made for the wine industry where the combination of the 10 per cent GST plus the 29 per cent WET has a substantially higher impact on cash-flow and accrued tax liability. This is an unintended anomaly which arises purely due to the cash flow impact of the wine specific tax regime.

The result for smaller wineries under the $2 million threshold is that they don't remit GST or WET in their BAS until they have received income from the sale of goods. By contrast, for wine businesses over $2 million turnover, GST and WET must be remitted when the next BAS is lodged, regardless of whether income from the sale of products has been received or not.

For example, for a winery that turns over $4 million, the adverse cash flow impact of remitting WET and GST in advance of receiving sales proceeds is estimated at approximately $200,000. That is $200,000 of the winery's working capital is tied up in GST and WET prepayments.

Accordingly the WFA recommendation is that:
There be a change to the tax system provisions whereby wine businesses with a turnover of less than $8 million, who are remitting both GST and WET, have the option of complying on a cash or accrual accounting basis.

While not all businesses would choose to take advantage of this option, the effect of such a reform would be to return up to $400,000 of working capital to those smaller wineries that did choose to use the cash system.

11.3 WET and definition of an Associated Producer

In the present tax system an anomaly exists in the definition of corporate control as it is applied when determining eligibility of associated entities for the purposes of WET rebates. The effect is to unfairly deny WET rebates under certain ownership arrangements between wine producers.

Section 128 of the ATO ruling WETR 2004/1 states:

> *The maximum amount of producer rebate to which a producer is entitled for a financial year is $290,000 up until 30 June 2006, and $500,000 from 1 July 2006. However, if the producer is an associated producer (refer to paragraph 129 of this Ruling) of one or more other producers for a financial year, the maximum amount of producer rebates to which those producers are entitled as a group for the financial year is $290,000 until 30 June 2006, and $500,000 from 1 July 2006.*

Section 129 goes on to define an 'Associated Producer' in reference to Subsection 152-30(2) of the Income Tax Assessment Act 1997 which essentially means that if one winery has 40% or more equity in another winery, the two wineries may only access one rebate of $500,000.

If the intent of the legislation was to limit larger wineries with control over other wineries from gaining access to the rebate multiple times, it can be argued that a 40% equity share does not define control. In circumstances where a larger winery has a 50:50 partnership with a small operator, the smaller winery operation should have access to the $500,000 WET rebate in its own right (as is currently the case if the larger operator has less than 40% equity).

Accordingly the WFA recommendation is that:
Adopt a change such that the reference to the Income Tax Assessment Act 1997 is replaced with a reference to Corporations Law, which would deem entities to be an associated producer if one of them:

- **controls more than 50% of the issued capital; or**
- **controls the composition of the Board of Directors; or**
- **can cast, or control the casting of, more than 50% of votes at AGM**

This is argued to be a more logical and equitable arrangement for the purposes of defining control and therefore 'associated producers'.

11.4 Trading Stock valuation

The treatment of trading stock under current taxation uniquely disadvantages wine producers relative to other industries. This occurs because tax law requires an addition to wine stocks (inventory) to be valued using the principles of full absorption costing. The effect is that wine businesses pay tax against the full value of wine that is stored for maturation, quality improvement and awaiting sale in their annual accounting period.

The combination of the high levels of investment in inventory and the lack of tax relief provided as a consequence of the adoption of full absorption costing results in a greatly increased financing cost. It produces significant negative cash flows for Australian wineries when investing in inventory, which puts them at a commercial disadvantage compared to other industries which have a higher turnover of stock. It has a negative impact on both the ability of winemakers to make further investments in their own businesses as well as for the industry to attract further investment.

In particular the current system imposes a greater financial burden on those wineries which produce premium wines and whose stock is turned over even less frequently. Consequently the premium winemaker must fund the cost of wine production for a longer period of time without obtaining tax relief for those costs. This undermines the industry's strong commitment to stable growth in wine sales based on the need to produce quality premium wines in both domestic and, in particular, export markets.

The current tax treatment is an impediment to achieving the Australian wine sector's *Directions to 2025* strategy plan to shift from a volume growth to a value growth strategy with a potential yield of $4 billion in additional sales. Such an outcome is dependent on improved performance in penetrating high value export market segments. That in turn necessitates more investment in the higher quality wines segment of the wine sector's portfolio and hence an increase in stock holdings requiring longer maturation time.

Consequently the WFA recommendation is that:
Trading stocks of wine on hand at the end of an income year to be brought to account for income tax purposes at prescribed minimum values as was the case under section 31A of the ITAA 1936.

Reasons for this include:
- it was used successfully for the wine industry between 1953 and 1973;
- it would assist in alleviating the financial burden on negative cash flow from operating activities without creating a distortion in favour of holding wine stocks;
- it is simple to implement and can be administered in a way to properly reflect the true costs of holding wine stocks;
- it is presently available to other primary producers by way of the use of standard values for the natural increase of livestock which are incorporated into the ITAA under section 70-55; and
- there is no reduction in taxation revenue gained by the Commonwealth Government. Rather it results in a difference in the timing of the collection of the taxation revenue.

Other possible alternatives for consideration that would achieve a similar improvement for the Australian wine sector would include:
- the use of direct costing rather than absorption costing;
- deferral of tax collection;
- averaging of wine stock values; and
- closing stock value only included in respect of bottles held ready for sale (i.e. that have matured into a saleable product)

11.5 Grape and wine levies

The *Architecture* paper noted that the Australian Government's agricultural levies provide another example of narrow-based taxes used to fund specific programs. "More than 60 separate levies are imposed on agricultural products, the revenue from which is earmarked to fund services and research within specific agricultural industries."

"They are typically implemented at the request of industry to correct market failures that arise from the characteristics of many primary industries — a large number of producers, each accounting for a small share of broadly undifferentiated industry output. This makes it difficult for producers to capture sufficient benefit from research and development for which they might individually pay. By collecting a levy from all producers, they share both the cost of the research and development and the benefit. For example, a single cotton grower is unlikely to realise the benefits from their private research into better sowing methods. The government therefore collects a levy from all cotton growers to fund the Cotton Research and Development Corporation to undertake such research for the benefit of all growers."

All of these agricultural levies are individually listed in Table 2.9 and the relevant levies for the wine sector are identified as **Grape Research, Wine Export Charge, Wine Grapes Levy** with information on the respective levy rates at page 67.

For the wine industry these national levies are the most efficient and equitable means of mobilising industry resources to address the whole of industry agendas of research and development; quality assurance; and market development. The programs funded by the levies benefit all wine industry participants so that the legislative levy mandates ensure that all of the beneficiaries contribute. However as additional levies have been added by States and regions it is necessary to ensure that the integrity of the whole of industry objectives is maintained and that collection arrangements avoid duplication or inefficiency.

The WFA recommendation is that:
Continuance of each of the Grape Research, Wine Export Charge and Wine Grapes levies is strongly supported as being vital to the future development and sustainability of the Australian wine sector.

11.6 Fringe benefits tax

Most non-cash payments to employees are taxed separately under FBT, which is paid by employers and is levied at the top personal income tax rate plus the Medicare levy (currently 46.5 per cent).

Business meals along with other forms of entertainment for business colleagues and clients are deemed to be an employee benefit and are therefore subject to FBT.

There are three key problems with the current legislation, as follows:
- It does not recognise that business meals are legitimate, necessary, business costs;
- It results in the over-taxation of all but those on the top marginal tax rate;
- It is very complex and leads to very high compliance costs.

There are a multitude of different ways of treating a business meal for taxation purposes. The current legislation governing the taxation treatment of business meals is overly complex. In 2001 Access Economics stated that 'In its tax treatment of business meals, Australia leads the world in complexity, in discriminating against business dining as a legitimate business input and, as a result in inefficiency, and in unfairness'. (*The case for, and economic effects of, part-recognition of business entertainment as legitimate business inputs or expenses for taxation purposes,* Access Economics Report commissioned by Restaurant & Catering Australia, Jan 2001).

Small businesses use hotels, restaurants and cafes as their boardroom. The very businesses that can not afford additional taxation are being disadvantaged.

Consequently the WFA recommendation is that:
FBT should not apply to business meal expenditure which is a legitimate business expense.

11.7 Water

An efficient quality focussed grape growing sector is vital to the competitiveness of the wine industry. Secure access to water is a prerequisite for a reliable and viable grape supply.

The wine industry, as an efficient high value water user, will benefit from reallocation of water resources under the influence of water pricing that increasingly reflects its true resource cost.

Water Usage 2004-05

Activity	Application Rate (2004-05)
	ML/Ha
Pasture	5.1
Rice	12.4
Cotton	6.7
Vegetables	4.0
Fruit	5.3
Grapevines	4.9
Other	3.9

Source: ABS Water Account 2004-05, Catalogue No: 4610.0

However this general principle is currently being overwhelmed by the impact of the drought that is imposing immediate and unpredictable structural adjustment on grape growers that is not necessarily consistent with efficient resource use outcomes.

The tax system is relevant to the structural adjustment process for water use - irrespective of whether the adjustment is being driven by economic and environment policies or by the involuntary responses to drought - in that it should not constrain necessary business changes.

Therefore it is important to ensure that the tax treatment of water management investment as well as water transfer and usage transactions do not operate as an impediment to the desired resource allocation changes. In fact as an alternative to large scale public investment, the taxation system operating with the market could facilitate faster change to restore efficient resource allocation and environmental improvement if water investments and transfers in defined circumstances were treated for tax purposes as current rather than capital items.

Consequently the WFA recommendation is that:
The impacts of the tax system on water investment and use be reviewed to ensure that it does not impede the desired adjustment toward improved economic and environmental outcomes.

11.8 Simplicity and compliance costs

As a national organisation, WFA is very aware of the taxation system differences across State jurisdictions and considers there is a prima facie case for further standardisation to reduce compliance costs for wine businesses operating nationally. Some state taxes, for example stamp duty, are inefficient taxes that distort family business asset ownership and transfer decisions, particularly for succession planning.

WFA strongly endorses the principle of simplicity in the tax system to ensure the lowest possible compliance costs and argues that it should be a primary factor in consideration of any changes to the tax system.

Accordingly the WFA recommendation is that:
Standardisation across State jurisdictions and simplicity should be a primary factor in consideration of any changes to the tax system.

12. Conclusion

This submission recognises that the desired outcome for this review is for a tax system that will help boost Australia's productive capacity and build prosperity in an increasingly competitive global environment.

The Australian wine sector has demonstrated its global competitiveness with exports as the driver of growth and with its transition from a reliance on the domestic market to becoming a major player in international markets.

Australian wine makes a substantial contribution to Australia's national economic prosperity. Additional economic contribution accrues to the tourism sector and to regional economies from wine tourism. Regional communities have been revitalised by growth of the wine sector and for many regional economies the sector's performance will determine their future viability.

The wine sector not only acknowledges its responsibility to encourage responsible consumption of wine products, it has taken a leadership role in promoting health and social responsibility initiatives addressing alcohol consumption. A general increase in alcohol taxation is not an efficient or equitable policy to address the external health costs of alcohol, because it suppresses beneficial as well as harmful consumption and it impacts disproportionately on lower income households.

Substantial potential exists to increase the wine sector contribution to Australian prosperity in future years. This will be dependent on reform of the taxation regime to address the adverse impacts on wine businesses relative to Australian business generally caused by the interaction of the tax system with the unique structural features of the wine industry. The specific issues are detailed in this submission.