

## WFA initial response to Carbon Tax proposal: 12 July

### Summary

WFA is concerned that the wine sector will face increased cost of production of wine primarily through increases in the cost of electricity and transport costs. Increased production costs mean that trade-exposed (exporting) wine businesses may face further reductions in competitiveness in markets where the high Australian dollar has already eroded profit margins, and domestic wine retail may face a loss in competitiveness relative to imported wine products. On the positive side, the exclusion of direct agricultural emissions such as from the use of nitrogen fertilisers in vineyards and fuel use in agricultural vehicles means that vineyard cost of production will be insulated in the short term. Wine businesses will be able to access support from government for efficiency enhancing developments, that will support businesses to invest in more efficient equipment and processes such as refrigeration systems and alternative energy. Wine sector businesses with land holdings may be able to generate saleable carbon credits by planting trees and increasing carbon storage in the soil. The WFA will continue looking into the likely impacts and opportunities of the carbon tax on the wine sector in coming weeks.

### The Carbon Tax Scheme in Brief

The carbon tax will charge the 500 biggest Australian emitters of greenhouse gas a fee of \$23/ton of CO<sub>2</sub>e, some of these emitters will be cushioned by the government to support them to adjust to the tax with free permits for pollution at the commencement of the scheme. It is very unlikely that the top 500 carbon pollution emitters will include wine companies. Tax will also be imposed on business fuel users by the removal of the fuel excise for business and commercial transport. Given that the top 500 emitting companies include major electricity producers, these costs will be passed on to other businesses and consumers in the electricity, transport and fuel costs associated to the provision of goods and services. The higher costs will increase the incentive to operate efficiently and utilise alternative power sources. Revenue collected by Government will compensate low income earners and pay for government programs to increase engagement in efficient practices and renewable energy.

### Effect on Emissions Reduction in the Wine Sector

The aim of the carbon tax as far as business is concerned is to ramp up the incentive for businesses to utilise efficient practices, equipment and alternative energy sources. Of the emissions from the production, sale and use of wine, by far the greatest greenhouse

gas emissions result from glass manufacturing and transporting wine from wineries to retail outlets, grape growing and winemaking operations that are directly controlled by the sector contributing a relatively small (about ten percent) proportion of the overall wine emissions picture. Hence in terms of incentives for the wine sector in the carbon tax, vineyards and wineries are largely reliant on other businesses in the product chain finding efficiency solutions. However there are many opportunities for wineries and vineyards to increase the efficiency of practices and equipment, supported by government grants for this purpose.

The Carbon Tax will make lighter wine bottles more attractive to wineries, and encourage wineries to take a second look at alternative wine packaging types such as plastic bottles, tetra packs and casks. Rising glass manufacturing costs could also incentivise the reuse of wine bottles. Glass bottle manufacture in Australia may become uncompetitive relative to imported bottles. The carbon tax is likely to increase the attractiveness for exporting wine companies to undertake in-market bottling of wine (in or near the export destination country), resulting in job losses in Australia. This process reduces the emissions intensity and hence exposure to a carbon tax, of activities in Australia. Depending on their treatment by the scheme, the Carbon Tax will potentially increase the incentive for offshore shipping companies to purchase fuel elsewhere, potentially reducing the efficiency of their operations.

### Benefits for the Wine Sector

Opportunities to access government grants (listed below) to support the modernisation of equipment, behaviours and processes for greater energy efficiency.

Market access to carbon-taxing economies in Europe may be protected as there is a proposal before the European Union to tax imports from economies where the production was not subject to carbon taxes. The implementation of a carbon tax potentially improves the reputation of Australia in wine markets as being clean and green, modern, innovative and globally responsible.

Along with all agricultural operations and society generally, climate change is a threat to wine production, hence mitigation efforts reduce that threat. The benefit to Australian agriculture would be to the degree that the engagement of Australia on emissions influences other countries to undertake similar programs and establish widespread GHG abatement. The establishment of the carbon tax in Australia increases the incentive for the Australian Government

to protect Australian trade and manufacturing by promoting similar programs elsewhere.

### **Business Costs**

The wine production sector including both vineyards and wineries is highly varied in terms of the scale of operations, from small hobby farms and wineries through to large wine and vineyard businesses with many operational and marketing staff. The scale of operations is likely to have some bearing on the impact of the carbon tax on the sector, some of the larger companies are likely to be eligible for grants to support improvements in the efficiency of operations, for example the clean technology investment program will be available to operations using more than 300 megawatts of electricity per year and this will include most wineries. Small and hobby businesses will be more interested in the compensation packages offered to individuals, such as changes to income tax and tax write-offs for asset purchases.

### **Electricity**

The average electricity price rise as a result of CT modelled to be about 9-10%, a more useful figure for businesses is an expected price increase of around 1.5 cents per kilowatt hour. However this will vary in response to the carbon intensity of the state grid, location of business and negotiated power contracts. For example the emissions intensity of grid power will influence prices such that it can be expected that electricity price rises will be greatest in Victoria (high brown coal dependency) and lowest in Tasmania (high proportion of hydro power).

### **Transport (fuels)**

Light commercial (under 4.5gvm) and agricultural vehicle fuel users will not pay a carbon tax on fuel use until at least 2014. This represents a reprieve for vineyard management but the inclusion at a later stage is a significant concern for the wine sector as agricultural vehicles must be used regularly in vineyards to care for vines and harvest grapes.

Other business fuel use (freight, rail and shipping, stationary, aviation etcetera) will be subject to a carbon price via mechanisms such as changed fuel tax credits or excise, and phased in over the first years of the carbon tax. This represents a cost to the wine sector for the transport of grapes and empty bottles to wineries, and wine to markets. Often this transport is contracted to third party transport businesses rather than under the direct control of wine businesses, hence the sector will be reliant on those operations utilising efficient practices and vehicles.

### **Agricultural Emissions**

Agricultural emissions such as nitrous oxide from nitrogen fertilisers used in the vineyard will not be included in the Carbon Tax.

### **Other Vineyard and Winery Activities**

It is unclear what effect the carbon tax will have on prices for the following at this stage:

- Commercial carbon dioxide (used primarily for sparkling wine and transfers).
- Refrigerant recharge gases
- Vineyard inputs such as fertilisers

### **Glass Manufacturing**

Glass manufacturing businesses could be included in the top 500 emitting companies, meaning that they would face a direct carbon tax for emissions or significant price increases in electricity and fuel use. There is a significant threat that this could render domestic glass production unviable and force relocation offshore. The cost of a new empty wine bottle is likely to rise by about 1 to 2 cents from a current price around 40-60 cents. This will favour lighter glass bottles and is consistent with requests from retailers in the United Kingdom for lighter bottles in response to greenhouse gas abatement goals in the UK.

### **International Trade**

International shipping businesses exposure is unclear at this stage

### **New Government Programs for Compensation and Innovation**

#### **Clean Technology Program - Clean Energy Investment Program:**

\$800 million in funds to support manufacturers that use more than 300 megawatts of electricity per year with grants for energy efficient capital equipment and low-pollution technologies, processes and products. Most wineries use more than 300 megawatts and will be eligible for this program.

#### **Clean Technology Program – Food and Foundries Investment Program:**

All food processing businesses are eligible to apply for funding from \$150 million in funds over six years to support investment in energy efficient equipment and low-pollution technologies, processes and products.

**Clean Technology Program – Clean Technology Innovation Program:**

Grant program of \$200 million over 5 years to support business to co-invest with government in research and development of renewable energy, low-pollution technology and energy efficiency solutions.

**Jobs and Competitiveness Program**

This program has been developed for emissions intensive-trade exposed operations it is unlikely that wine businesses will be eligible to participate in this program, however domestic glass manufacturing operations may be assisted to stay on shore rather than relocating overseas with support from this program.

**Small Business Instant Asset Write-off**

A proposal that is dependent on the Resources rent Tax, will increase the tax write-off for small business assets to \$6500.

**Regional and Community Support Programs**

The government will set aside \$200 million to support regions affected by repercussions of a carbon price, such as through the cessation of power plants or coal mining operations.

**Clean Energy Finance Corporation**

A program valued at \$10 billion has been established to invest in renewable energy and low pollution technology. It is likely that many of the opportunities for investment will be located in rural areas, potentially supporting rural and regional communities that overlap with the wine sector. It is possible that alternative energy projects could be undertaken by wineries in collaboration with other businesses or government with support from this program.

**Land Management Implications – Programs**

The Carbon Farming Initiative may provide some wine sector businesses with opportunities to gain credits for the sequestration or mitigation of emissions depending on the amount of land available for planting trees and carbon storage potential of the soil.

**Other Aspects:**

Adjustments to the tax system will reduce disposable income available to higher income earners; this is the group of consumers most likely to drink wine and especially premium wines, indicating a potential slowing of domestic wine sales and profitability.

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