Dissenting report of Senator Sean Edwards and Senator the Hon Bill Heffernan

1.1 The Parliament has a history of sporadic interventions into the wine industry via the public inquiry platform as a result of industry pressure over the last two decades. The genesis for these was the move to a GST, the replacement of a wholesale sales tax and the equitable transition for all stakeholders when ultimately the tax system in Australia changed to a GST system in 2000. A further focus then turned to the mounting oversupply of wine grapes in the early 2000s.

1.2 The inquiry by this committee into the operation of the wine-making industry some 11 years ago in 2005 came up with four recommendations.[1] Upon review of its findings, much of it covered similar ground to this one about oversupply of wine grapes with the main additions in this report being WET rebates and the consolidation of domestic retail customers for Australian wine producers.

1.3 Few of the collective recommendations from the 2005 report have contributed to either government or industry policy since that time. Further, since then there has been a continued oversupply of wine grapes as a result of stubbornly high exchange rate in mature overseas markets over the last six to eight years. Compounding this locally over the same period of time appears to be the negative impact of the broad access to the WET rebate which has encouraged new participants to the industry with little more than trading expertise/capacity. The original intent of the rebate has likely been lost however it is now structurally ingrained in the economy of the wine supply chain. This is not sustainable. Additionally the consolidation of retail outlets to two large companies in the twelve years from mid-30 per cent to now mid-70 per cent requires further investigation to test if this has led to market failure.

1.4 Australian wine consumers are the highest taxed of any wine-producing nation in the world. The rebate accessibility criteria should be reformed to target its original function: to serve as an economic stimulus for legitimate producers with genuine investment in the production of wine grapes or the vinification of wine with a tangible and real investment of either or both.

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1 Senate Regional and Rural Affairs and Transport References Committee, *Operation of the wine-making industry*, 13 October 2005, pp ix–xii.

Recommendation 1

1.5 We recommend that WET reform be considered outside of the Government's Tax White Paper process so as to relieve it of those time constraints and to avail Treasury of an opportunity for full and thorough exploration of the issue.

Recommendation 2

1.6 We recommend that in the interests of the WET rebate scheme's integrity, formal definitions be created to differentiate 'winemaker' and 'wine trader' and that:

- **(a) wine traders be made immediately ineligible;**
- **(b) winemaker rebate eligibility be reduced to a maximum of $150 000 over a period of five years with a commencement date of 1 July 2017.**

Recommendation 3

1.7 We recommend concurrent with the reduction of the WET rebate applicable for wine producers, that increased funding be available to wine producers via a marketing grant for which Australian Grape and Wine Authority–approved marketing activities qualify, ramping up to a maximum of $150 000 per annum in the final year of the WET rebate wind back period to assist each wine producer support Wine Australia's export marketing activities in addition to any existing arrangements for development of foreign export markets through other government agencies.

Recommendation 4

1.8 We recommend in respect to the merger of eligible wine producer entities during the WET rebate wind back period that eligibility of entities be maintained until the final year whereby the ultimate combined entity would qualify for a single rebate.

1.9 This avoids a situation where an existing winemaker would suffer sudden value erosion in the entity's market value in any merger with another wine producer arising out of its ineligibility for the WET rebate scheme once purchased by and merged with another WET rebate eligible entity. Not doing so would immediately devalue winemakers' assets and demotivate rationalisation of the sector given the WET rebate has become structural in revenues since its application in 2004.

Recommendation 5

1.10 We recommend that in accordance with Senate Standing Order 25(2)(a) the Economics Committee undertake an inquiry into the performance of the Australian Competition and Consumer Commission with respect to its role in the prevention of the misuse of market power by certain retailers in dealing with the wine industry.

Senator Sean Edwards **Senator the Hon Bill Heffernan (Deputy Chair)**