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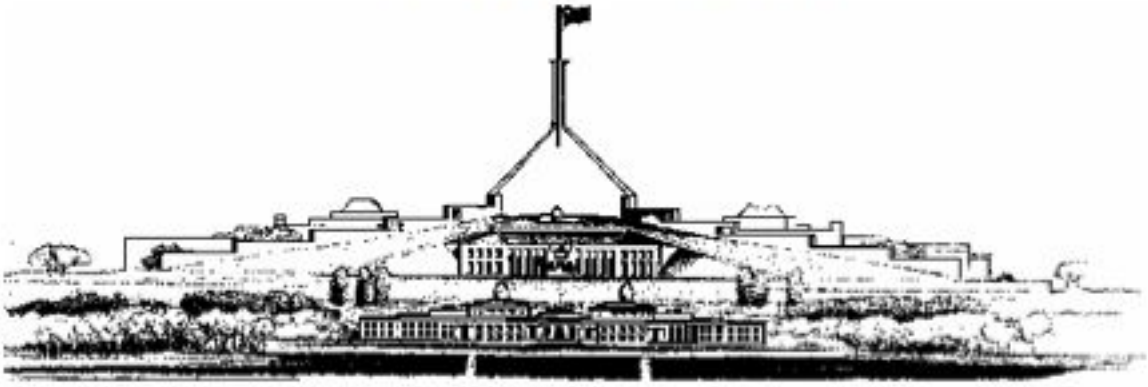

HOUSE OF REPRESENTATIVES

ADJOURNMENT

Wine Industry: Taxation

SPEECH

Tuesday, 12 November 2002

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Tuesday, 12 November 2002	**Source**	House
Page	8848	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (10.50 pm)—Last week the government released the Trebeck report, *Pathways to profitability for small and medium wineries*. This inquiry was promised by the Howard government at the last federal election as a response to the Labor Party's wine tax policy, which would have provided the option of an exemption from the wine equalisation tax for all wineries producing up to 50,000 litres of wine. The government did not want to match that Labor commitment, despite the fact that it is good policy, because it still holds a grudge against the Australian wine industry for reaching a compromise in 1993 with the then Treasurer, John Dawkins, on his proposed changes to the wine tax regime.

Ministers who now claim to be supporters of the wine industry, like the member for Mayo and the member for Higgins, have never forgiven the wine industry for what they see as its political betrayal—according to them, the wine industry are supposed to be in the pocket of the Liberal Party—in agreeing to a package of measures. These measures included: a reduction in the WST on wine—then proposed to be 31 per cent, rising to 32 per cent—to 22 per cent, rising to 26 per cent in annual increments; an accelerated depreciation arrangement for vineyard investment; funds for export facilitation; the conversion of a $1.5 million loan to a grant; additional funding of $1 million; and a series of cash grants to eligible commercial winemakers. These grants were to be $1,500 for 1993-94, $4,500 for 1994-95 and $6,000 for 1995-96.

These grants were prematurely terminated by Treasurer Costello in the 1996 budget as a gratuitous act of revenge on the industry for looking after industry policy rather than Liberal Party interests, which were supposed to be foremost in their consideration. There are stories circulating of quite hysterical behaviour by the member for Mayo when he was told that the winemakers had made an agreement which would cut the tax on wine from 31 per cent to 22 per cent. It seems that some members of the Liberal opposition at the time harboured a fantasy that they could get a double dissolution over the issue.

So with this background—and faced with another superior piece of policy for the industry: an exemption from the WET for small winemakers—the government strung them along, pretending to negotiate an alternative package, but then only offered a review. After the election that review became a review of wine tourism and wine exports for small wineries, and the terms of reference did not include any mention of wine tax. Let this be a lesson to the industry about which party is really supporting them: it is the Labor Party. Winemakers should also remember it was Senator Lees and the Democrats who ultimately sold them out on the wine equalisation tax.

What was interesting about the Trebeck report when it was released at the Wine Industry Outlook Conference on Monday of last week was that Mr Trebeck had received so much information from the industry about the adverse effects of the current design of the WET that he went outside his terms of reference and devoted a chapter to a rather interesting dissertation on wine taxation. Out of deference to the minister for primary industries, who commissioned the report, he did not make any formal recommendations on that issue; but reading the substance of his comments it is not difficult to surmise the recommendations he might have come to had he not been proscribed from doing so.

Mr Trebeck dealt professionally with a number of issues, including the alternative approaches of ad valorem and volumetric taxation. On the latter he concluded:

> The case for selective wine taxation in a contemporary (especially GST) economy is not strong on revenue raising (efficiency) grounds. Nor are the externality reasons for wine taxation particularly compelling, compared with more targeted approaches.

Trebeck was of the view that demand for alcohol is inelastic with respect to price, saying that `the level of consumption is barely affected by a small rise in price due to tax'. Trebeck said:

> Governments—

it is particularly the case with this one—

have been forced to seek a growing array of potential revenue sources to keep the books more or less in balance. The WET certainly fits that category.

He quoted Louis XIV's finance minister, Jean Baptiste Colbert, as suggesting successful taxation is `so plucking the goose as to obtain the maximum quantity of feathers with the minimum amount of hissing'. The consumers may not be hissing, but the wine industry certainly is. Trebeck's view is that the quality of the sin tax arguments for an increase in wine tax have been exaggerated. He said that:

... the case for a general health-related (public social cost) tax on wine is weak. To the extent that more specific health concerns from alcohol abuse due to the consumption of wine (for example, among some indigenous communities) are felt to be sufficiently acute to warrant intervention, this would be better addressed by targeted regulation (eg random breath testing), licensing restrictions (for repeat offenders) or education campaigns ...

This brings me to Trebeck's summary of the the WFA's current policy. It is:

... to have a WET exemption (not rebate) for the first 600,000 litres of domestic sales—regardless of whether they are made via cellar door or elsewhere. Broadening eligibility in this way would meet with support from those winemakers who currently do not have cellar door (and are concerned at the cost of constructing and servicing one), and those who are `off the beaten track' from a tourism viewpoint. The exemption status, rather than rebate, would be well received from an administration, compliance and cash flow viewpoint. It would also be seen as more secure from future attempts to whittle away the existing rebate arrangements.

With the exception of the specifics of the level of the exemption, this is exactly Labor's policy.