

THE BIG PICTURE

Alexandra McPhee

26 June 2008

‘What’s Going On’, Murray Valley Winegrowers

Agenda

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- Shrinking consumer purse
- Wine tax—the threat of change

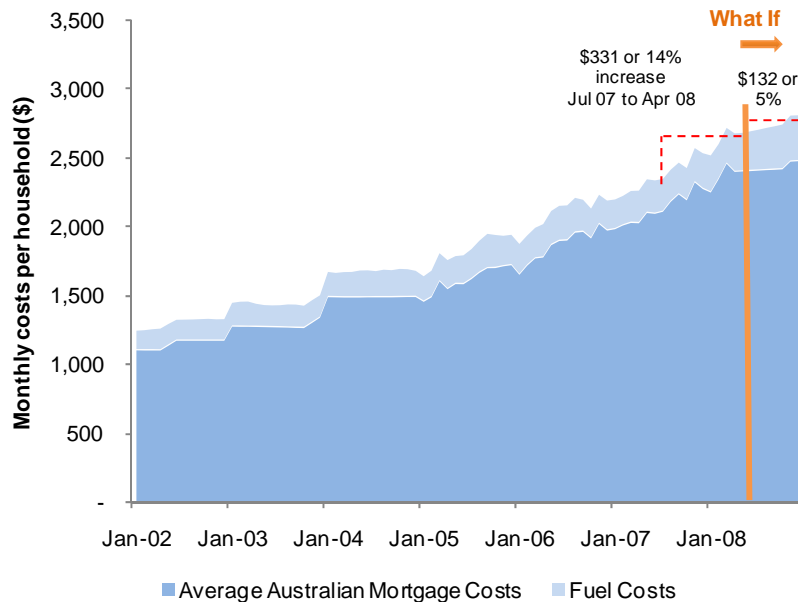
Fuel and housing...growth restraints



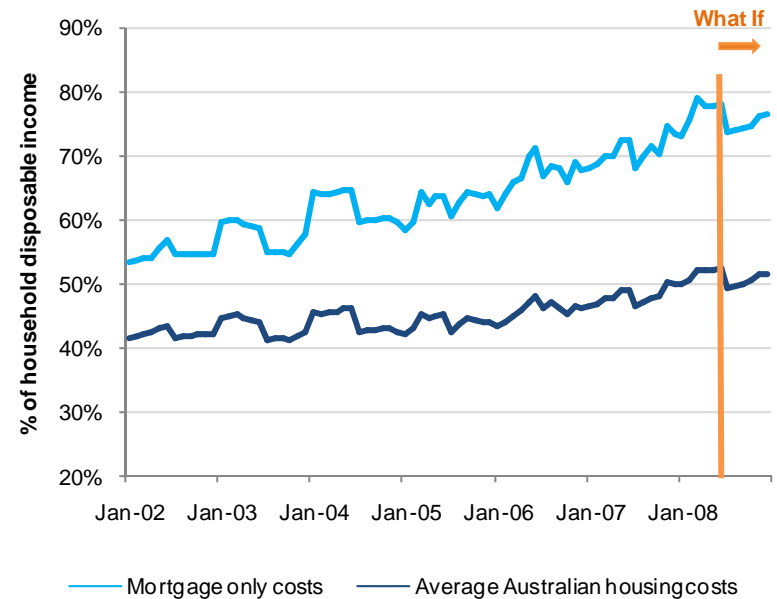
Housing and fuel 'pinching'

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- Avg housing and fuel costs rise \$331+



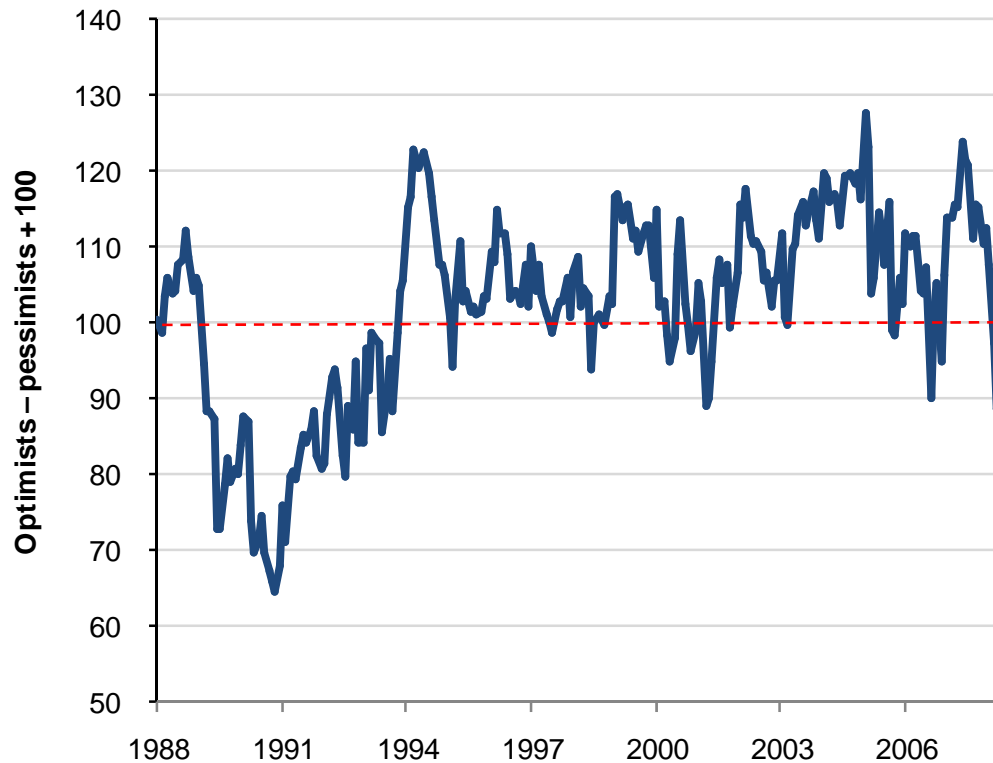
- No relief expected near term



Weak consumer & market confidence

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- June data at 15 year low, despite Budget tax cuts



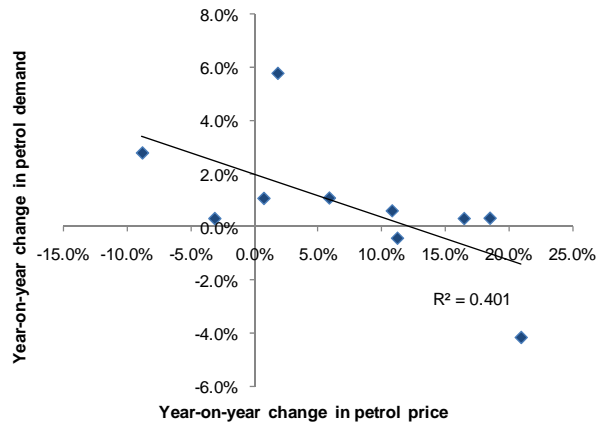
Source: Westpac – Melbourne Institute Survey of Consumer Sentiment

Petrol demand inelastic

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- No material change to car usage, consumers reduce other expenditures

Elasticity of petrol demand



Sources: ABARE, www.caltex.com.au and Southern Cross Estimates

- Difficulty passing on input cost increases

Asset values under pressure

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- Weaker consumer → slower growth
- A\$ challenging export profitability
- 2008 crop may reassert supply imbalances
- Potential for margin contraction
- Higher funding costs
- Reduced ability to expand grape prices

Alcohol policy & taxation

‘Death, taxes and childbirth! There's never any convenient time for any of them.’

Margaret Mitchell, Gone with the wind

Alcohol policy & taxation under review

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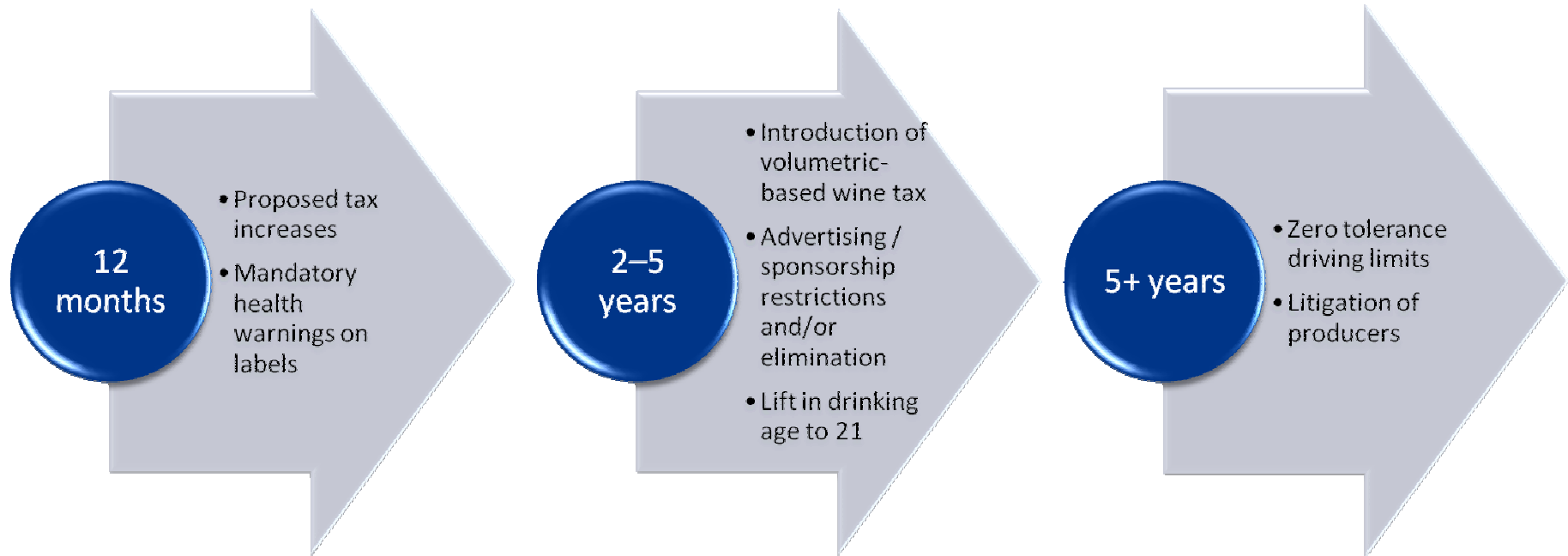
- Alcohol Toll Reduction Bill inquiry (Senate)
- Ministerial Council on Drug Strategy (COAG)
- ANZ Food Regulation Ministerial Council (COAG)
- Preventative Health Taskforce (Federal)



Move on RTDs ... a wake up call

Potential outcomes

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Wine tax under microscope

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- Increased calls for wine to be taxed on volumetric basis
- Advocates for change:
 - Australian Democrats
 - Australian Greens
 - Non-government organisations, eg AMA

Tax policy review—potential outcomes

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1. No change
2. WET retained but rate increased above 29%
3. Industry revenue neutral volumetric-based excise
(~\$12/LAL)
4. Excise rate at parity with packaged beer (~\$39/LAL)
5. Excise rate at parity with spirits (~\$67/LAL)
6. Revenue neutral beverage industry excise rate
(~\$25/LAL)

What if ...

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... a tax change is not revenue neutral

A 4-litre cask will rise to ~\$30 if excise = packaged beer

		WET	Excise	RRP impact
Landed cost in bond	A\$ / litre	7.34	7.34	
Regulatory charge (WET / Excise)	A\$ / litre	2.13	16.53	
Landed cost in market	A\$ / litre	9.47	23.87	
Distributor's margin	%	NA	NA	
Wholesale price	A\$ / litre	9.47	23.87	
Retail margin	%	20%	7%	
Retail margin	A\$ / litre	1.89	1.89	
Retail price pre consumption tax	A\$ / litre	11.36	25.76	
Regulatory charge (GST)	%	10%	10%	
Retail price per 4 litres	A\$ / litre	12.50	28.34	127%

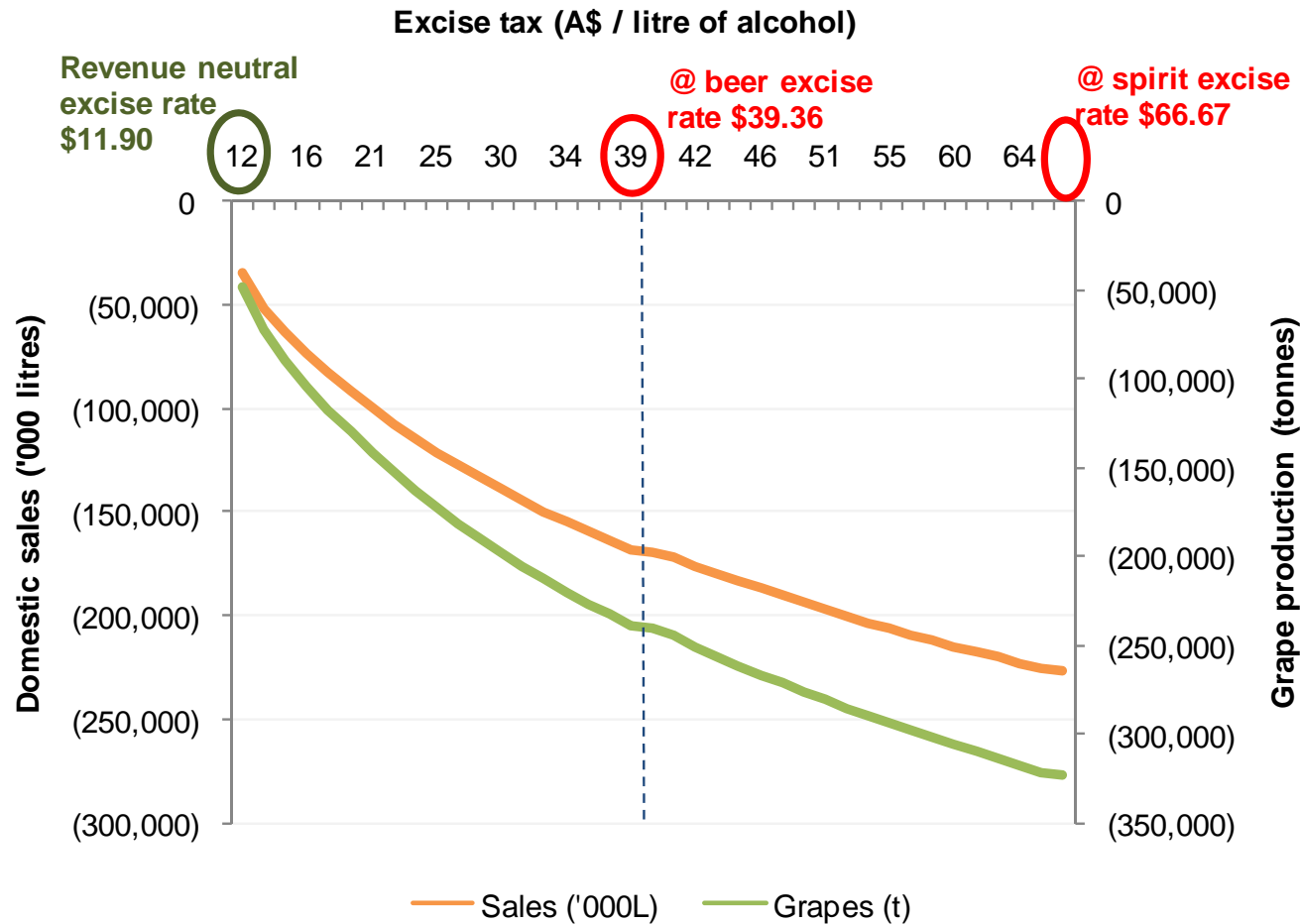
Sources: Southern Cross Equities estimates

... all bottled wine <\$25 would increase

		WET	Excise	RRP impact
Landed cost in bond	A\$/litre	10.95	10.95	
Regulatory charge (WET / Excise)	A\$/litre	3.18	5.31	
Landed cost in market	A\$ /litre	14.13	16.26	
Distributor's margin	%	30%	30%	
Wholesale price	A\$/litre	18.36	21.14	
Retail margin	%	32%	22%	
Retail margin	A\$	5.88	5.88	
Retail price pre consumption tax	A\$/litre	24.24	27.02	
Regulatory charge (GST)	%	10%	10%	
Retail price per litre	A\$/litre	26.66	29.72	
Retail price per 750ml	A\$/750ml	20.00	22.29	11%

Implications of volumetric tax

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Implications of volumetric tax

- Major industry structural change
- Job loss of up to 4,500 FTE
- Greatest impact—major corporates and warm inland regions
- Potential loss of WET rebate

THANK YOU

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