

Media Release

AER Foundation calls for urgent reform on the Wine Equalisation Tax

6 September, 2011: The Alcohol Education & Rehabilitation Foundation (AER Foundation) today released a report calling for urgent reform of the Wine Equalisation Tax (WET) – a tax that the AER Foundation says makes ‘no sense’ for the economy, the Australian wine industry or the health of Australians.

The report “Alcohol Taxation Reform – Starting with the Wine Equalisation Tax”, produced by leading economic consultants the Allen Consulting Group, and commissioned by the AER Foundation, concluded that the current tax structure contributes to the Australian wine glut by rewarding producers of cheap, poor-quality wines and propping up inefficient producers.

The report states that the WET and the WET rebate are costing Australian tax payers at least \$250 million a year, of which the Wine Federation of Australia estimates \$50 million is being rorted by retailers, who are exploiting WET loopholes.

AER Foundation Chief Executive, Michael Thorn called for urgent reform of the WET.

“The current tax arrangement doesn’t make economic sense, it doesn’t make sense for the health of Australians, and it doesn’t make sense for the wine industry,” Mr Thorn said. “Over the last decade, eight reviews including the 2010 Henry Review into taxation found the WET to be inequitable and it’s about time the Australian Government did something to reform this tax.

“The report shows that wine benefits from the current tax arrangements by up to \$1.5 billion a year by not being taxed in the same way as comparable products like full strength packaged beer.

“Reform could also reduce the consumption of pure alcohol by between four and 16 million litres per year, lessening the likelihood of costly alcohol-related diseases and social problems.

“This would reduce the harms and the cost to the community caused by dirt-cheap mass-produced wine,” Mr Thorn said.

“Allen’s report points out that targeted reform can put a stop to the current taxation arrangements that punish the domestic industry for producing quality wines and domestic patrons from consuming them.

“The Treasurer is using the wine glut as an excuse to avoid reforming the tax system, when this is precisely what is needed to resolve the glut. The upcoming Tax Forum provides the Government with an opportunity to address both the bad tax and industry problems associated with the oversupply of cheap, poor-quality wines.

The AER Foundation will officially launch the report this morning at Parliament House, Canberra with Kerry Barwise of the Allen Consulting Group, presenting the findings. This will be followed by a panel discussion with health economist Professor Chris Doran and wine journalist Philip White, moderated by Dr Richard Denniss from the Australia Institute.

The “Alcohol Taxation Reform – Starting with the Wine Equalisation Tax” Report can be accessed at the AER Foundation website: www.aerf.com.au.

-Ends –

Media Contact: Peta Lange 0419 156 281

Alcohol Education & Rehabilitation Foundation (AER Foundation): The AER Foundation is an independent, charitable organisation working to prevent the harmful use of alcohol in Australia. Since 2001, the AER Foundation has invested over \$115 million in research and community projects to minimise the impact of alcohol misuse on Australians. Through our national grants program and commissioned research, the AER Foundation has established itself as a leading voice on alcohol and other drugs issues. We work with community groups, all levels of government, police, emergency workers, research institutions and the private sector to address alcohol-related problems. For further information visit our website: www.aerf.com.au

Appendix 1:

The Allen Consulting Group

Alcohol Taxation Reform – Starting With The Wine Equalisation Tax

Key points

This report puts forward the case for pursuing reform of Australia's alcohol taxation arrangements by starting with reform of the WET and WET rebate. Key points are set out below.

- Increasing scientific evidence and day-to-day experience reveals significant social harms from alcohol misuse and consumption. The evidence highlights why alcohol consumption and existing alcohol taxation arrangements should be addressed at every opportunity so that the taxation arrangements are directly linked to the social harms from alcohol misuse.
- The current taxation arrangements for alcohol are unwieldy and not well directed towards addressing social harms from alcohol consumption.
- The taxation of alcohol is an effective policy instrument that can be used as a means of changing consumer behaviours so as to reduce alcohol related harms. Any taxation reform should be based on evidence of the identified alcohol related harms.
- The AFTS Review (or Henry Review) flagged that it was time to shift taxation of alcohol towards combating the social harms associated with alcohol consumption based on the evidence of those harms. This supports the underlying premise of this report that any pursuit of effective taxation reform needs to be linked to evidence concerning the spillover costs from alcohol misuse.
- Applying a principled approach to taxation reform suggests that any proposed taxation arrangements should be:
 - efficient by reflecting the costs associated with the social harms from alcohol misuse;
 - simple so that it is easy to understand and simple to comply with; and
 - sustainable so that it raises revenue over time to account for the spillover costs from alcohol misuse.
- The Wine Equalisation Tax (WET) and WET rebate are in particular recognised as resulting in an illogical and inconsistent basis of taxation. Examples of their perverse effects include that they create a bias between:
 - cask wine and premium wine — this is because wine is taxed on a value basis which means that wines with the same alcohol content are subject to different levels of taxation. Cask wine that is typically cheaper than bottled wine is therefore taxed less than bottled wines; and
 - smaller producers ahead of larger scale producers — the WET rebate settings means that small producers effectively do not pay any net WET (that is, for most smaller producers the WET rebate fully covers the WET that they pay). The result is that smaller producers are favoured over larger producers.

- The demands for wine tax reform are not expected to go away. Such a tax is contrary to the original public policy purpose of alcohol taxation and is costing the Australian economy. At a minimum it is costing \$250 million per year in terms of taxation revenues foregone. Of this, it is claimed that \$50 million is result of retailers exploiting the wine-tax rebate system. These costs represent at best the minimum cost of the existing WET arrangements as they do not take into account the harms perpetrated by the perverse taxation treatment of wine.
- Alcohol taxation reform will not happen overnight. It is a tax reform that will take time to achieve and should be pursued. Reforming the WET and WET rebate are the first step in achieving more effective and efficient alcohol taxation reform to address social harms from alcohol misuse.
- The wine glut has been raised as a hurdle to pursuing reform of the WET and WET rebate immediately. However, the current wine glut has been exacerbated by the operation of the existing WET and WET rebate. This is because the existing wine tax arrangements encourage producers to produce wine on the basis of volume as opposed to value.
- The twin reasons for reform are therefore inseparable and a full structural adjustment program in conjunction with tax reform can reduce both the current levels of harm as a result of the existing alcohol taxation arrangements while assisting producers to adjust to current market conditions.
- The case for industry structural adjustment is strong and aligns with the Productivity Commission's guidelines for where structural adjustment packages and programs are justified.
- Given that the WET regime is in some part the cause of much social harm and the possibility that it is also a contributor to the wine glut, its resolution is clearly in the interest of all parties. However, Government must ensure that in delivering assistance uneconomic producers are retired from producing rather than assistance being aimed at the continuation of the supply of cheap wine and the corresponding social harms.
- The Tax Forum provides an invaluable opportunity to discuss:
 - the merits of reforming the WET and WET rebate so as to address the adverse effects on both consumers and producers; and simultaneously
 - ways of assisting the wine sector with industry adjustment by using any taxation revenue gains to assist with principled industry structural adjustment.
- To spark constructive debate at the Tax Forum as to the appropriate alternative options for reforming the WET and WET rebate, a modelling framework was used to analyse changes to the existing WET and WET rebate arrangements under three scenarios:
 - scenario 1 involves replacing the WET at a rate which does not alter the net tax burden of wine producers;
 - scenario 2 involves replacing the WET with the rate for full-strength draught beer; and
 - scenario 3 the WET with the rate for packaged full-strength beer.
- The analysis shows that reforming the WET and WET rebate under the three scenarios would result in increased prices for cheaper wine (i.e. cask wine) and reduced alcohol consumption overall. Alcohol consumption would be reduced by between 4.85 million litres of pure alcohol and 16.34 million litres of pure alcohol, depending upon the proposed option.

- In so far that the consumption of cask wine has been associated with harmful alcohol consumption, the three alternative regimes proposed for taxing wine reduces spillover costs from alcohol misuse by reducing demand for cask wine in the order of 26.2 per cent and 61.2 per cent.
- The retail price of cask wine was found to increase by between 24.7 per cent and 114.6 per cent between scenarios.
- For all scenarios the level of substitution to other forms of alcohol was being offset by a reduction in the consumption of cask wine. The level of switching from wine to other forms of ranged between nil to 4.7 million litres of pure alcohol between scenarios.
- Both scenarios 2 and 3 reduce consumption and harm at the same time as raising considerable additional taxation revenue in the order of \$1 billion and \$1.5 billion respectively. This additional taxation revenue collected should be redeployed to assist in combating alcohol related harms, while also assisting with principled industry structural adjustment in the short to medium term so as to assist wine producers in meeting the current challenges in the sector and to adjust to the changed taxation arrangements. Such reforms would be welfare enhancing for the Australian economy.