

The Allen Consulting Group

## Alcohol Taxation Reform

Starting With The Wine Equalisation Tax

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Report to The Alcohol Education & Rehabilitation Foundation

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# The Allen Consulting Group

Allen Consulting Group Pty Ltd  
ACN 007 061 930, ABN 52 007 061 930

## Melbourne

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Level 9, 60 Collins St  
Melbourne VIC 3000  
Telephone: (61-3) 8650 6000  
Facsimile: (61-3) 9654 6363

## Sydney

---

Level 1, 50 Pitt St  
Sydney NSW 2000  
Telephone: (61-2) 8272 5100  
Facsimile: (61-2) 9247 2455

## Canberra

---

Empire Chambers, Level 2, 1-13 University Ave  
Canberra ACT 2600  
GPO Box 418, Canberra ACT 2601  
Telephone: (61-2) 6204 6500  
Facsimile: (61-2) 6230 0149

## Online

---

Email: [info@allenconsult.com.au](mailto:info@allenconsult.com.au)  
Website: [www.allenconsult.com.au](http://www.allenconsult.com.au)

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## Key points

Alcohol taxation reform to correct material economic health and social harms associated with alcohol misuse is essential. Reforming the Wine Equalisation Tax (WET) and the WET rebate should be the first step. These taxation arrangements are clearly the worst components of the existing tax regime. Together they encourage consumers and producers to consume and produce alcohol on the basis of volume rather than value, driving more consumption and production of alcohol than is safe or desirable.

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 a 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.

Australia cannot afford to wait for the industry to resolve current issues including the wine glut. Reform of wine taxation arrangements may in fact assist in resolving some industry issues.

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 \$900 million and \$1,500 million 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.

## *Chapter 1*

# Alcohol consumption and taxation

### **1.1 Context of this report**

The Alcohol Education and Rehabilitation Foundation (AER) commissioned the Allen Consulting Group to:

- outline the evidence concerning social harms from alcohol consumption;
- examine the role that taxation plays in addressing harm in relation to alcohol consumption;
- discuss the recommendations regarding alcohol taxation in the recent AFTS Review prepared for the Government;
- provide information on the regime of wine taxation and its likely impact on consumption and production;
- outline the case for reforming the wine alcohol taxation regime; and
- conduct an analysis of changes in the taxation of wine using a sophisticated model of alcohol prices and consumption to assess the likely impacts of reform.

### **1.2 Alcohol consumption in Australia**

Alcohol consumption is a pursuit enjoyed by the majority of Australians. People drink to relax, have fun and celebrate. It is sometimes also part of religious and cultural ceremonies. Places that serve alcohol are traditional community meeting places and centres of activity.

The most recent National Drug Strategy Household Survey results found that alcohol is the most widely used psychoactive drug (mood-changing recreational drug) in Australia. Eighty eight per cent of Australians aged fourteen years or older have tried alcohol at some time in their lives and eighty one per cent had consumed alcohol in the 12 months preceding (Australian Institute of Health and Welfare 2011).

In 2009-10, Australians consumed over 184 million litres of alcohol (ABS 2011). Of all pure alcohol available for consumption in 2009–10, beer contributed 43.3 per cent, wine 37.2 per cent, spirits 12.5 per cent and Ready-To-Drink (RTDs) 7.0 per cent.

While there is evidence that regular alcohol consumption is considered to be acceptable by the majority of Australians, attitudes towards alcohol are changing. Australian society is becoming aware of the problems raised by irresponsible patterns of drinking. In particular, in addition to legal considerations, there is now an expectation in the community that people who drive should not drink.

### 1.3 Harms from alcohol misuse

Improper alcohol use has health, social and economic impacts for both individuals and the community at large. Excessive alcohol consumption is associated with a number of adverse health consequences, including liver cirrhosis, mental illness, and several types of cancer, pancreatitis, and foetal alcohol spectrum disorders.

Adverse social effects related to alcohol misuse include aggressive behaviour, domestic violence, family disruption, and reduced productivity (Ministerial Council on Drug Strategy 2001). Box 1.1 summarises some of the social harms linked to alcohol misuse.

Box 1.1

#### SOCIAL HARMS CASUALLY LINKED TO ALCOHOL CONSUMPTION

Examples of some types of social harms causally linked to alcohol misuse include:

- **Chronic diseases** — Causal links between alcohol misuse and cardiovascular and digestive diseases are widely accepted. In particular diseases, such as liver cirrhosis and pancreatitis can be caused by alcohol (Corrao G., Rubbiati L., Bagnardi V., Zambon A., Poikolainen K. 2000);
- **Cancer** — It is estimated that 5,070 cases of cancer (or 5 per cent of all cancers) are attributable to long-term, chronic use of alcohol each year in Australia (Cancer Council 2011);
- **Mental illness** — Neuropsychiatric disorders (i.e. alcohol use disorders) are caused by alcohol consumption. Other neuropsychiatric disorders (i.e. depression and anxiety) are associated with alcohol but the extent to which they are caused by alcohol consumption is not clear.
- **Relationship breakdowns** — There is extensive evidence that the misuse of alcohol results in domestic violence and the breakdown of the family.
- **Lowered work productivity and job loss** — it has been shown that those individuals considered to be in the harmful alcohol consumption health risk category are about 1.2 times more likely to be absent than other drinkers and those who do not drink (Pidd K et al., 2006). This estimate is at the minimum end of the estimates as it does not take into account alcohol-attributable on-the-job productivity losses;
- **Road traffic accidents** — studies have estimated alcohol-attributable road accident costs in the order of \$3.1 billion are alcohol-attributable (Collins D., Lapsley H. 2008); and
- **Crime** — It is estimated that \$1.7 billion of crime costs are alcohol-attributable (Collins D., Lapsley H. 2008).

Many Australians are at risk of alcohol related harm. One estimate reports the proportion of Australians over the age of fourteen categorised as consuming alcohol at risky levels as 20.1 per cent, approximately forty per cent of which were classified as ‘high risk’ (AIHW 2011). Moreover, it is estimated that over one third of persons aged fourteen years or over put themselves at risk or high risk from alcohol misuse in the short term on at least one drinking occasion during the previous 12 months (AIHW 2011).

As Box 1.1 highlights, the impact of alcohol misuse is so multifarious that it is not easy to clearly separate and identify all its social and economic dimensions. In addition, it can be difficult to individually measure and quantify associated social harms. Putting aside any conjecture about defining the broader costs from alcohol misuse, the costs are relevant because they:

- highlight the importance of developing public policies to address such misuse;
- form a basis for appropriately targeting specific problems and policies; and
- provide a baseline measure for assessing the effectiveness of public policies.

Table 1.1 provides estimates of the cost of alcohol misuse as reported by a variety of studies using various measures.

Table 1.1

**SOCIAL COSTS OF ALCOHOL MISUSE**

Indicator	Estimated cost	Comment
Number of deaths (domestically & worldwide)	<ul style="list-style-type: none"> <li>• 2.25 million deaths each year are attributable to harmful alcohol consumption (WHO 2011).</li> <li>• 3,300 deaths per annum in Australia were attributable to alcohol misuse in 2004, second only to tobacco as a preventable cause of death and hospitalisation (NSW Cabinet Office 2003).</li> </ul>	
Tangible social costs to Australia	<ul style="list-style-type: none"> <li>• \$10.8 billion in 2004-05</li> </ul>	<ul style="list-style-type: none"> <li>• The most recent report from Collins and Lapsley (2008) tallies the cost of alcohol's harm in the billions of dollars, from the perspective of costs to the society, including to the drinker. In this report, alcohol's costs to others around the drinker are tallied for the first time, including many costs which were not included in earlier estimates from Collins and Lapsley. In terms of tangible costs reported by a representative sample of the Australian population, heavy drinkers have cost others around them in excess of \$13 billion in out-of-pocket costs and in forgone wages or productivity. Hospital and child protection costs to the society due to another's drinking sum to a further \$765 million.</li> </ul>
Intangible social costs to Australia	<ul style="list-style-type: none"> <li>• \$6 billion in 2004-05</li> </ul>	<ul style="list-style-type: none"> <li>• Collins and Lapsley (2008) also highlight that there are large intangible costs, estimated at a minimum of \$6 billion dollars.</li> </ul>
Total social costs	<ul style="list-style-type: none"> <li>• 1.3 per cent to 3.3 per cent of GDP</li> </ul>	<ul style="list-style-type: none"> <li>• An analysis of cost studies from four high-income countries and two middle-income countries attributed total costs to alcohol in the order of 1.3 per cent to 3.3 per cent of GDP (WHO 2011).</li> </ul>

Source: Collins and Lapsley 2008, NSW Cabinet Office 2003, World Health Organisation (WHO) 2011

In addition to these studies summarised above, a recent study in Australia estimated the systemic harm to others from individual's drinking using statistics of social agencies and population surveys (Laslett 2010). Although it was not able to estimate the precise magnitude of the harm, it highlighted the broad range of people affected by others' drinking behaviour.

Putting aside debates about specific costing methodologies used and the types of costs included, the basic findings from most studies is that there are costs from alcohol misuse and that these costs are substantial.

Another broad finding in many studies is that the impacts go beyond the immediate consumer, often impacting upon people other than buyers and sellers of alcohol in the market.

The levels of harm from alcohol consumption are unacceptable and reducing this harm should be a major focus of research and policy.

#### **1.4 Role of tax in addressing harm**

Although there are numerous public policies that can be introduced to address alcohol misuse, the taxation of alcohol is an established policy tool that can be applied to all forms of alcohol consumption.

Studies consistently show that higher alcohol prices reduce overall consumption of alcohol. There is also evidence that general price increases are effective in reducing alcohol consumption, health-care costs and health-related quality of life losses in all parts of the population (Wagenaar 2009). To the extent that taxes increase the price of alcohol, consumption is reduced. The impact is not straightforward to predict as alcohol consumption is generally price inelastic. That is, a 1 per cent increase in the price of alcohol produces a less than 1 per cent decrease in alcohol consumption.

The impact is also more difficult to predict across the community because different individuals respond to price changes differently as a result of their individual preferences and circumstances (i.e. income). Putting aside the debate about the magnitude of price sensitivities, the studies clearly show that taxes can be used to change alcohol prices to bring about changes in alcohol drinking behaviour, *albeit* to varying degrees.

Studies show that applying taxation correctly — essentially reconciling the difference between the private costs and social costs in the price paid for alcohol — can be effective in combating alcohol abuse and misuse. In particular Collins and Lapsley (2008) found that higher alcohol taxes provide an effective means of reducing the negative consequences of alcohol consumption borne by society.

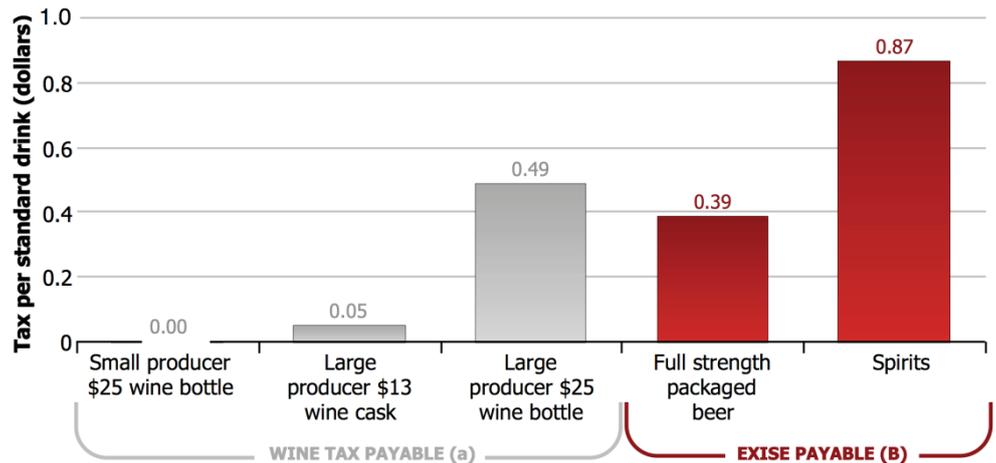
In addition, recent research directly linking the impact of tax on alcohol related morbidity and mortality suggested a doubling of alcohol taxes could reduce alcohol related mortality by 35 per cent, traffic related deaths by 11 per cent, sexual transmitted diseases by 6 per cent, violence by 2 per cent and crime by approximately 1 per cent (Wagenaar et al., 2010).

## 1.5 Problems with the existing tax regime

The current alcohol taxation regime reflects competing policy pressures and compromises. The result is that different amounts of tax are payable on any standard drink depending on the classification of beverage, the alcohol concentration, container size, size of producer and the pre-tax price of the product — see the figure below.

Figure 1.1

### CURRENT INCONSISTENCIES IN THE TAXATION OF ALCOHOL



(a) Assumes 12.5 per cent alc/vol. wine, 750ml wine bottle. The wine equalisation tax (WET) payable is calculated using the half retail price method, with WET liability fully offset by producer rebate for small producers, and no effect of WET producer rebate for the large producer.

(b) Includes 1.15 per cent alc/vol concession for 5.0 per cent alc/vol beer. A standard drink is equal to 12.67ml or 10 grams of pure alcohol.

Source: Treasury, 2009

As highlighted by the above figure, the inconsistency of the alcohol taxation regime results in a confusing bundle of taxes with:

- most beer and spirits being taxed on the basis of the alcohol content, although they are subject to ten different rates based upon the volume of alcohol and how they are packaged; and
- wine being taxed on the basis of price, leaving cheaper cask wine almost untaxed and other wine more heavily taxed, unless it is made in a small winery which receives a rebate.

Consequently confusing signals about alcohol consumption are communicated under the current approach. Some products are favoured over others regardless of the amount of alcohol or harm associated with its consumption. As a consequence of this individual consumers are encouraged to consume:

- a larger volume of cheap wine over quality wines — the WET is a value tax where the amount increases based on the wholesale value and not alcohol content giving consumers the signal and means to purchase more alcohol;

- small producers' wine over larger producers' wine — the current WET rebates implies that small producers effectively do not pay any net WET;
- beer in pubs rather than at home — currently draught beer is taxed at a concessional rate compared to packaged beer; and
- brandy rather than spirits — favouring one product over the other regardless of alcohol content and associated harm.

These complexities and inconsistencies introduce economic problems where some products and some producers are favoured over others. Inconsistent and inefficient treatment in the tax system is not costless.

The AFTS Review (Henry Review) flagged that it was time to shift the taxation of alcohol towards combating the social harms associated with alcohol consumption based on the evidence of those harms. This is consistent with the findings of this report.

Crucially, if alcohol taxation is to better reflect the net marginal spillover cost, or social costs, it will be vital to obtain the community's view about these costs and to seek the evidence on which the policy will be based.

## **1.6 Case for reform**

The distortions outlined in section 1.5 highlight that the current alcohol taxation regime is complex and fails to address the spillover costs from alcohol misuse via effects on consumption choices. The case for reform is not based merely on the observation that current alcohol taxation arrangements are unprincipled, disorderly and expensive. The key point is that rather than actually help in mitigating economic, health and social harms associated with alcohol use and misuse the current arrangements may enlarge these harms.

## Chapter 2

# Starting with reform of wine taxation

Reforming the Wine Equalisation Tax (WET) and the WET rebate should be the first step in pursuing any type of alcohol taxation reform. This chapter outlines the strong case for reforming the WET and WET rebate immediately.

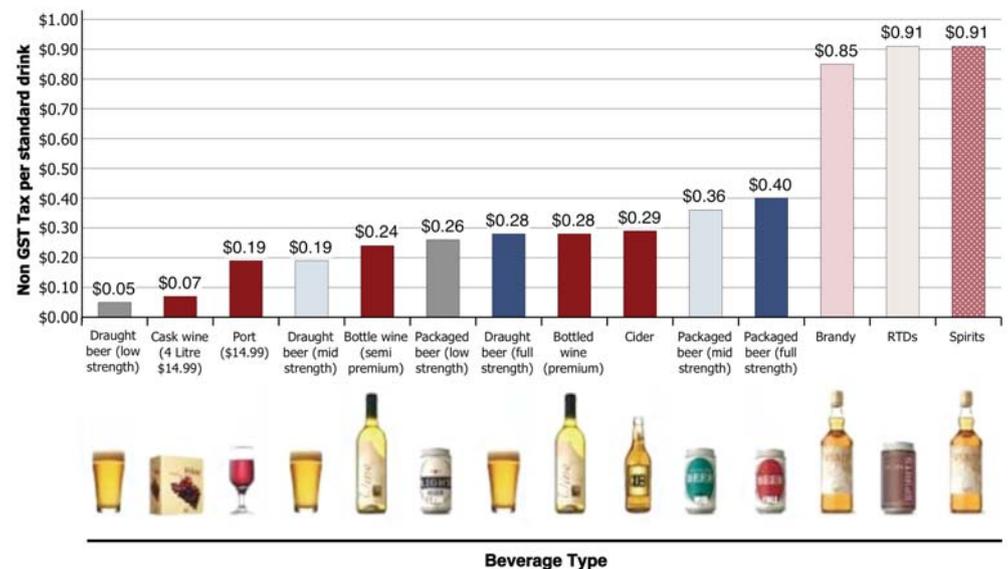
### 2.1 Consumption, social harm and the WET

The WET was introduced from 1 July 2000 to reduce the price impact of the removal of sales tax on wine products with the introduction of the GST. The tax is paid by wine producers, wholesalers or importers and is set at 29 per cent of a wine's wholesale price.

The WET, unlike other forms of alcohol taxes, is based on the product's price rather than its alcohol content. The consequence being that the same amount of alcohol is taxed less when the wholesale price is cheaper. It is also taxed significantly different from other types of alcohol as illustrated in Figure 2.1.

Figure 2.1

#### DOLLARS OF TAX PAYABLE PER STANDARD DRINK



Source: Distilled Spirits Industry Council of Australia, 2011

Drawing upon the Distilled Spirits Industry Council of Australia's (DSICA, 2011) analysis of the amount of alcohol taxation payable per standard drink by type of alcoholic beverage the inconsistency in the tax treatment of particular beverages becomes particularly clear when one considers that:

- cask wine (typically with alcohol by volume of 11 to 13 per cent) pays only 7 cents per standard drink;

- full-strength RTDs (less than half the alcohol by volume of most cask wines) pay 91 cents per standard drink (13 times that paid by cask wine); and
- full-strength packaged beer (at about the same alcohol by volume as full-strength RTDs) only pays 40 cents per standard drink, less than half that paid by RTDs of equivalent alcohol content.

The National Health and Medical Research Council found that drinking greater than two standard drinks per day is strongly associated with increased risks of alcohol-related injury, disease and death (NHMRC 2009). Despite this, cask wine is taxed so lightly that it allows individuals to exceed these guidelines for a little over a dollar for men and fifty cents for women.

In addition to allowing individuals seeking to consume alcohol irresponsibly, the existing wine tax arrangements allows them to do so cheaply. Incongruently the regime also applies tax more heavily to individuals looking to purchase quality wines for the purposes of responsible consumption. The consequence of this is that irresponsible drinkers contribute little to the taxation revenue necessary to address alcohol related harm in the community, whilst responsible drinkers do.

Given that the current taxation imposed on wine also clearly does not reflect the costs of alcohol related harm to the individual, individuals are already consuming alcohol at higher volumes than is optimal or desirable. The level of alcohol related harm is consequently currently higher than it would be if alcohol priced according to its true cost.

Although alcohol related harm may be impossible to eliminate in its entirety, taxation policy can be used to great effect to reduce it. Research focussing on the association between the consumption of cask wine and harmful behaviour was conducted for 130 areas in Western Australia. The study found a clear association between the higher consumption of cask wine and both night-time assaults and alcohol related illnesses (Stockwell et al. 1998).

In July 1995 a levy on cask wine of 35 cents per litre was applied in the Northern Territory by the state Government. An evaluation of the levy suggested that the per capita consumption of cask wine decreased by approximately four per cent with no significant shift in consumption to other beverages (NDRI, 2002).

Finally, Fogarty (2011) recently estimated the social optimal rate of alcohol. The study found that when both the benefits from and costs of responsible alcohol consumption were taken into account the tax applied to cask wine should be 9 to 11 cents per litre, almost three times its current level.

## **2.2 Production, economic harm and the WET**

The WET rebate was introduced on 1 October 2004. The measure was chiefly introduced in response to calls for support from the wine industry for small rural and regional wineries. To satisfy bilateral trade obligations, the WET rebate was also extended to New Zealand producers in 2005 (ANAO, 2010).

The rebate, similarly to the WET itself, is equivalent to 29 per cent of a firm's assessable dealings. It is claimable by both producers and an associated group of producers for up to \$1.7 million in domestic wholesale wine sales.

*The WET does not reflect the external costs imposed on the community arising from the misuse of wine...*

*-Alcohol and other Drugs Council of Australia, 2003*

Although when it was introduced the rebate provided an important means of supporting domestic wine producers, the distribution of the taxation burden has remained largely unchanged with the largest suppliers still contributing 90 per cent of revenue (Australian Taxation Office, 2011).

Even given this generous assistance provided to small producers, large suppliers still account for the vast majority of Australia's wine production. In fact ninety per cent of production is sourced from only 24 wine companies (Taxpayers Association Inc. 2011).

There have also been allegations of the rebate being exploited to the benefit of retailers. As it stands the rebate is accessible to producers who have their excess fruit turned into wine, an alleged consequence of this has been for retailers to encourage producers to provide their excess fruit to a contractor. Producers are then able to claim a rebate for the WET and retailers are able to produce wine through the contractor at discounted rates (ANAO, 2010). The Winemakers' Federation of Australia recently estimated that such 'rotting' is costing taxpayers in the order of \$50 million per year (Sellars, 2010).

Concerns about industry 'rotting' of the WET rebate have featured in the policy debate including in a recent report from the Australian National Audit Office (ANAO 2010). In response the ANAO has recommended changes directed towards strengthening the Australian Taxation Office's (ATO) compliance arrangements to better support voluntary compliance by taxpayers with the requirements of wine tax legislation. These recommendations are set out below.

Recommendation 1 — To improve the effectiveness of wine tax compliance activities in the light of the heightened risk environment, the ANAO recommends that the Tax Offices reviews: (a) pre-refund integrity checking of wine tax amounts reported on entities' Business Activity Statements; and (b) the annual active compliance program for the wine tax, including coverage of risks associated with international trade in wine.

Recommendation 2 — To resolve unintended outcomes regarding access to the wine tax producer rebate, the ANAO recommends that the Tax Office advises Treasury on options to clarify the definition of a wine producer for the purposes of the producer rebate in the *A New Tax System (Wine Equalisation Tax) Act 1999*.

Recommendation 3 — To provide greater assurance about compliance with Requirements for receiving the New Zealand wine producer rebate, the ANAO recommends that the Tax Office assesses compliance risks associated with documentation provided by relevant Australian entities to New Zealand wine producers claiming the rebate.

Australian National Audit Office, 2010.

The exploitation of loopholes in WET arrangements is not limited to Australian producers. A recent rise in the incidence of New Zealand grape growers, who can access the rebate, using contract winemakers suggests a possible increase in the utilisation of the loophole. This is likely to have both contributed to the oversupply of wine and a doubling of the rebate's cost since its implementation (ibid.).

This practice has prompted the Winemakers' Federation of Australia (WFA) to raise concerns with the Treasurer that the excessive claiming of the rebate is contributing to an excess supply of wine in the Australian market, essentially 'turbo charging' the wine glut (ibid.).

There have also been additional calls to restrict supply by the WGGGA, suggesting the current restructure is not working and the current wine glut is damaging the world's perception of the quality of Australian wines (WGGGA, 2011).

... at least 20% of bearing vines in Australia are surplus to requirements, with few long-term prospects.

-Winemaker's Federation of Australia, 2009

### 2.3 Harms of a bad tax

Preferential treatment of wine as provided by the existing WET arrangements is not costless. Estimates of the cost to taxpayers from the inconsistent and inefficient alcohol taxation arrangements are provided by the Australian Treasury and are summarised in Table 2.1.

The WET rebate costs in the order of \$250 million in foregone revenues per annum. Of this, it is claimed that \$50 million is a result of retailers exploiting the rebate (Sellars, 2010). The \$250 million estimate being based on *minimum cost* is representative of a lower bound of the costs. If the WET was benchmarked against the excise rate for full strength packaged beer, the revenue foregone would be significantly higher.

Table 2.1

#### COST TO REVENUE FROM CONCESSION RATE OF EXCISE LEVIED ON SPECIFIC TYPES OF ALCOHOL (DOLLAR MILLION)

	2010-11 (\$m)	2011-12 (\$m)	2012-13 (\$m)	2013-14 (\$m)
Concessional rate of excise levied on brandy <sup>(a)</sup>	5	5	5	5
Concessional rate of excise levied on brew-on-premise beer <sup>(b)</sup>	6	7	8	9
Concessional rate of excise levied on draught beer <sup>(b)</sup>	160	165	165	175
Concessional rate of excise on low-strength packaged beer <sup>(b)</sup>	10	10	10	10
Consumption tax exemption for privately produced beer <sup>(b)</sup>	45	45	50	50
Consumption tax exemption for privately produced wine <sup>(c)</sup>	10	10	11	12
Wine equalisation tax producer rebate <sup>(d)</sup>	240	250	270	280

Note: (a) Brandy is subject to a lower rate of excise than other spirits. The tax expenditure is measured using the other spirits excise as the benchmark. (b) The tax expenditure is measured using the benchmark excise rate for full strength packaged beer packaged in individual containers not exceeding 48 litres. (c) Wine made for personal use by private individuals is exempt from the wine equalisation tax (WET). The tax expenditure is measured using the WET as the benchmark. This estimate is a minimum estimate because if measured against the benchmark of full strength packaged beer, the tax expenditure would be higher. (d) Wine producers receive a rebate of up to \$500,000 of WET paid per annum. This estimate is a minimum estimate of the cost of the tax expenditure because if measured against the benchmark of full strength packaged beer, the tax expenditure would be higher.

Source: Australian Treasury, 2010

The revenue expenditure costs represent a means of estimating the minimum social costs of the tax arrangements and do not take into account the costs from altering individual consumer decisions that is currently driving hazardous behaviour and consumption and resulting in alcohol related harms. Any reform should be based on the evidence of these identified harms and their associated cost.

### 2.3 Impediments to reform

Despite calls to reform the current regime of wine taxation the Government has suggested there would be no changes in the middle of a wine glut and where there is an industry restructure under way (Australian Government, 2011). Whilst this may present a reasonable case for delaying a reduction in the level of assistance overall, it is not a good reason for avoiding properly targeted changes to the current alcohol taxation regime, particularly given the slow progress of the industry restructure to date.

In November of 2009 the Winemaker's Federation of Australia (WFA) released a statement acknowledging that the industry was producing well in excess of demand, undermining the sector's profitability and devaluing Australia's brand on the world wine market (WGGA, 2009).

Although a range of factors were suggested as causing the 'wine glut', both stagnant world demand and a boom in investment in the wine industry in the mid-1990s are cited as major contributors (ABARE, 2006).

Although some of the current conditions faced by the wine industry are outside its control, Australia's wine stocks have been well above other major players in the world wine market from as early as 2002 (ABARE, 2006).

In its recent press release the WGGA argued Australia would not be able to continue to compete in the low value wine market over the long-term. In addition it was suggested that the industry's attempts to compete in the market were harming 'Brand Australia' (WGGA, 2009).

Despite this, concerted calls to address the problem by industry have only been recently addressed with the 'Wine Restructuring Agenda' ('the agenda') in 2009. The agenda was communicated a range of measures aimed at addressing the current wine glut and was communicated through a joint statement from the WFA, the Wine Grape Grower's Australia, the Australian Wine and Brandy Corporation and the Grape and Wine Research and Development Corporation.

Specifically the agenda suggested measures that included:

- a greater sharing of supply data with regional wine bodies to ensure regional production is coordinated with domestic industry's supply objectives;
- discussions with Government as to the provision of exit packages for growers and small wineries seeking to exit the industry;
- engaging the Federal Government as to how the WET rebate may be allowing uneconomic producers to artificially remain in the industry; and
- seeking changes in the regulation of 'Managed Investment Schemes' (WGGA, 2009).

Despite the ambitious aims of the agenda recent concerns raised by the WGGA suggests there has been little tangible progress to date. Evidence of this lack of progress is highlighted by the fact that it is estimated that only 4.5 per cent of vines have been removed to date whereas it is estimated that around 20 per cent of vines need to be removed (WFA, 2010).

A key reason cited for this has been continued production of bulk wine by producers as a consequence of producers overproducing to maintain their individual viability.

However, individual producers are also faced with starkly different incentives, making voluntary restructures of the industry unlikely to succeed.

Although Australia contributes significantly to the world supply of wine, Australian producers are still considered ‘price takers’ (ABARE, 2006). Essentially this means that Australian producers have limited, if any, ability to negotiate the price received for wine, relying on the world price as a benchmark. The impact of this constraint upon individual producers will vary, but it is likely those most able to negotiate a specific price will do so by leveraging the ‘uniqueness’ of their product.

The consequence of this is that it is the producers whom will be most likely be able to negotiate their price will be those who produce premium wines, whereas producers of bulk wine will have little ability to negotiate on the world market.

Consequently producers of bulk wine, receiving blame for the current wine glut have little incentive to reduce the volume of wine they produce for the sake of ‘brand Australia’, making industry calls to restrict production for these purposes likely to fall on deaf ears.

The consequence of WET being based on price is that the tax tends to fall more heavily on higher-quality or ‘premium’ wines. In fact, when combined with the WET rebate, small producers may pay no WET. The taxation of wine also varies significantly from that of other alcohol. This has been illustrated in Figure 2.1.

## **2.4 Structural adjustment and tax reform**

With the Tax Forum the Government has a unique opportunity to continue reforming Australia’s taxation system. Replacing the WET with a volumetric tax would not only follow through with the recommendations of the AFTS review but would also bring the private cost of alcohol consumption closer to its social cost. Furthermore targeted reform can put a stop to the current taxation arrangements that punish domestic industry for producing quality wines and domestic patrons from consuming them.

There is also no reason to believe that targeted Government assistance would be as disruptive as the current system of alcohol taxation. The current WET rebate is available on the basis of a firm’s total sales revenue rather than their profitability. When the rebate is viewed in conjunction with WET there is an incentive for producers of premium wine to stay small and for large producers to focus on the production of bulk wine.

The WET tax provides an illogical and inconsistent basis for the taxation of wine. In addition to encouraging the consumption and production of cheap ‘cask wine’ it imposes a tax on the domestic consumption of quality wines.

Given that at least some of the blame for structural oversupply has been placed on the current wine taxation regime, the Government’s unwillingness to act is likely to only further inhibit the Australian wine industry from responding efficiently to the wine glut (ANAO, 2010).

In the concluding statements on alcohol the AFTS review recognised that even though industry would need time to adapt, immediate changes to the taxation of wine were justified to reduce the gap between the tax rate applied to cask wine and its associated social costs.

Although the Government appears to have hesitated to follow through with the AFTS review's recommendations it is highly likely that the current taxation regime for wine is contributing to the very 'wine glut' being used by the Government to justify delaying reform and a Government assistance is necessary to help the industry adapt.

These twin reasons for reform are therefore inseparable, and a full structural adjustment program may be necessary in order to both reduce the current levels of harm being brought about by the current wine regime and assist producers adjust to current market conditions.

The Productivity Commission (PC) outlined eight reasons a structural adjustment program might be justified. These include:

- Problem: the structural change being substantial;
- Timeframe: the barriers to adjustment being long-term;
- Safety Nets: the existing safety nets such as welfare payments, alternative employment or retraining opportunities being insufficient;
- Unfair Disadvantage: the change burdening a group already disadvantaged in the community;
- Unfair Advantage: the change assisting a group already at an unfair advantage in the community;
- Unexpected Change: the change being unanticipated by market participants;
- Facilitation: there being significant opposition to the necessary changes to warrant pacifying opponents through assistance measures; or
- Transition: the assistance reducing the transition costs attributable to market impediments (PC, 2001).

Using the PC's framework, whether a structural adjustment program for the wine sector is required has been examined in the context of the current market conditions and the clear long-term requirement of excise reform — see Table 2.2.

Table 2.2

**CASE FOR STRUCTURAL ADJUSTMENT FOR THE WINE SECTOR**

Issue	Application
<b>Problem</b>	<ul style="list-style-type: none"> <li>The current wine glut being faced by industry has been repeatedly attributed to the oversupply by domestic wine producers.</li> <li>The WET is likely a key contributor to the incentives for producers to overproduce wine.</li> <li>Implementing a new wine taxation regime will involve uneconomic producers retiring their vineyards and transitioning to new industries. The transition requirements are therefore significant.</li> </ul>
<b>Timeframe</b>	<ul style="list-style-type: none"> <li>The market conditions currently being faced by the industry are unlikely to lessen within the foreseeable future. Nor is the competition faced by Australian wine producers likely to diminish.</li> <li>The current taxation regime for wine is also not sustainable in the long-term. The existing industry restructure is not effectively dealing with the oversupply problem and the situation will be likely to further deteriorate without assistance from the government.</li> <li>Producers need to focus on their unique strengths in order to find their place in the world market. Current arrangements do not provide adequate incentives for producers to do this.</li> </ul>
<b>Safety Net</b>	<ul style="list-style-type: none"> <li>In addition to existing safety nets it is likely transitional assistance such as loans and additional training will be required to ensure producers and their employees can easily transfer to new industries.</li> <li>This is likely to be particularly relevant for the wine industry where the equipment and skills are in a large part unlikely to be transferable for other purposes.</li> </ul>
<b>Unfair Disadvantage</b>	<ul style="list-style-type: none"> <li>The original WET rebate was designed to assist regional industry. Consequently any restructure may affect individuals in regional communities.</li> </ul>
<b>Unfair Advantage</b>	<ul style="list-style-type: none"> <li>Those most likely to be positively affected by the change are producers relying on 'brand Australia' for their sales who will reap benefits from a resolution to the wine glut.</li> <li>Given that the producers of quality wines do not have access to rebates under the existing tax regime it is difficult to argue these producers are advantaged unfairly under reform.</li> </ul>
<b>Unexpected Change</b>	<ul style="list-style-type: none"> <li>Although some producers may have entered the industry under the assumption of continued assistance, the current taxation arrangements are clearly unsustainable and dependent on the Government's support.</li> <li>It is therefore difficult to argue for assistance on the basis of a right being taken from producers as the current arrangements are clearly concessional.</li> </ul>
<b>Facilitation</b>	<ul style="list-style-type: none"> <li>The wine industry has considerable influence.</li> <li>There is consequently a good argument for providing assistance on the basis of satisfying wine lobby groups, provided this is not done with the consequence of causing additional alcohol and economic harm.</li> </ul>
<b>Transition</b>	<ul style="list-style-type: none"> <li>Producers currently struggling to maintain their viability with the potential to be successful under the new regime may require assistance during initial stages of reform.</li> </ul>

Source: Productivity Commission, 2001.

It is clear that for the wine industry many of these criteria are fulfilled and a structural adjustment package is justified. It is important to note that the aim of the package should be that of assisting the industry to resolve the wine glut while at the same time adjusting wine prices to reflect the social harm of alcohol consumption. Any proposed package should not undermine the ultimate objective of alcohol taxation which relates to addressing the spillover costs from alcohol consumption.

Given that the WET regime is in some part the cause of spillover costs/social harms from alcohol consumption and 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.

## Chapter 3

# Weighing options for reform

In order to contribute to a productive debate about alcohol taxation reform this chapter analyses the impact of three different approaches to reform of the WET.

### 3.1 Reform scenarios

Policy scenarios examined include removing the WET and replacing it with a volumetric tax that:

- applies a rate of taxation for the alcohol in wine products at a rate which does not alter the overall net tax burden of wine producers (scenario 1);
- sets the tax rate for alcohol in wine at the same rate applied for full-strength draught beer (scenario 2); and
- applies tax at the rate that currently applies to packaged full-strength beer (scenario 3).

A summary of the taxation rates that apply under each scenario is provided in Table 3.1.

Table 3.1

#### ALCOHOL TAX RATES UNDER SCENARIOS IN DOLLARS PER LITRE OF ALCOHOL

scenario	Current	scenario 1	scenario 2	scenario 3
Packaged beer low	37.63	37.63	37.63	37.63
Packaged beer mid	43.85	43.85	43.85	43.85
Packaged beer full	43.85	43.85	43.85	43.85
Draught beer low	7.51	7.51	7.51	7.51
Draught beer mid	22.59	22.59	22.59	22.59
Draught beer full	30.86	30.86	30.86	30.86
Wine WET (effective) <sup>a</sup> (% of wholesale price)	21.5%			
Wine excise	0.00	13.03	30.86	43.85
Spirits	74.27	74.27	74.27	74.27
RTDs	74.27	74.27	74.27	74.27

Source: Allen Consulting Group analysis, 2011. Note: <sup>a</sup> Effective WET rate after taking into account the various WET rebates.

For the purposes of the analysis wine has been broken down into:

- cask wine which includes all types of wine (i.e. fortified, sparkling and carbonated, red, white, vermouth and all other wine) sold in a bag in box type of packaging; while

- premium wine which includes all non-cask wine and includes red, white, vermouth, sparkling and carbonated, fortified and all other wine not sold in cask form.

Replacing the WET and WET rebate with a volumetric tax would tend to increase the price of cheaper wines thereby reducing their consumption. Although the exact response of consumers would depend on their preferences under such a scenario it would be expected the consumption would decrease for wines where the price had increased.

### **3.2 A framework for assessment of the impact of tax reform**

The impacts are modelled using the AER Alcohol Model with the latest available data. The AER Alcohol Model is based upon the Almost Ideal Demand system that estimates the demand for groups of alcoholic beverages. The model is a powerful tool for policy analysis, being able to quantify the impact of tax policy on consumption, prices and taxation revenue.

One of the key strengths of the modelling framework is that it allows for the estimation of how the level and composition of alcohol consumption may change given a specific policy. This has been done to provide points of reference for the direction the possible reforms could take and assist in shaping the debate for the meaningful reform of alcohol taxation.

Although the modelling framework applied does not directly estimate the influence of tax policy on alcohol related harm, nor is it the key aim of the analysis, it is assumed the volume of alcohol consumed provides a general proxy for changes in the harmful consumption of alcohol. This is likely to be particularly true where harm and the consumption of alcohol are strongly related, which is likely to be the case with cask wine.

### **3.3 Scenario 1 — replacing the Wine Equalisation Tax with a volumetric tax**

In scenario 1, the AER model estimated the impacts of removing the WET and replacing it with a volumetric tax for wine products which results in no changes in tax revenue, that is, the tax change is *revenue neutral*.

Under this proposal the taxation levied on industry remains constant, whilst the liability of individual producers will change. Producers of low-cost wine would tend to pay more of the WET, whilst producers of premium wines would tend to pay less.

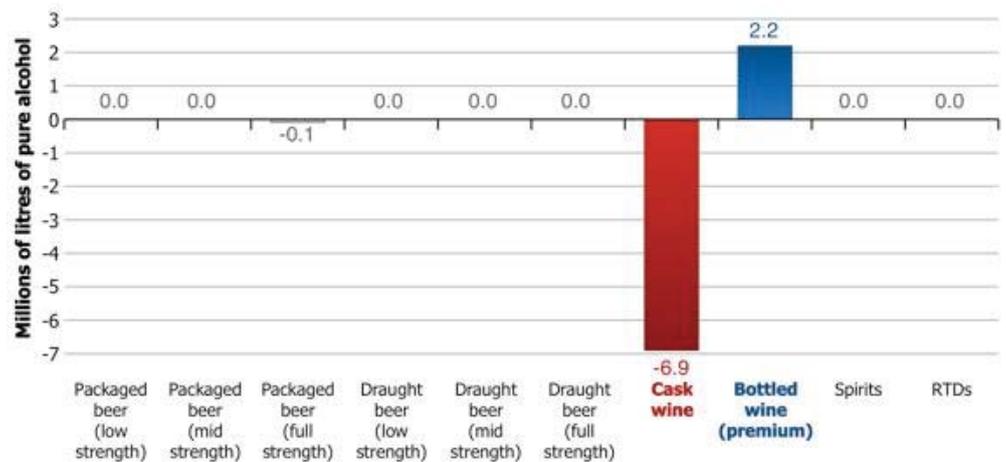
The volumetric tax required to maintain revenue neutrality was calculated as \$13.03 per litre of alcohol. Applying this rate of tax to wine results in the following quantity of consumption impacts (see Figure 3.1 for a summary):

- an increase in the price of cask wine of 24.7 per cent and a decrease in the price of premium wine by 3.9 per cent;
- a decrease in the consumption of cask wine by 26.2 per cent or 6.9 million litres of pure alcohol;
- a 5.1 per cent increase in premium wine consumption, equivalent to 2.2 million litres of pure alcohol;

- substitution towards premium wine from other alcohol types in the order of 1.8 per cent or 0.23 million litres of pure alcohol;
- a decrease in total alcohol consumption of 2.6 per cent or 4.9 million litres of pure alcohol; and
- no change in revenue.

Figure 3.1

**SCENARIO 1 — CHANGE IN ALCOHOL CONSUMPTION COMPARED TO THE CURRENT POLICY (MILLION LITRES OF PURE ALCOHOL)**



Source: Allen Consulting Group analysis, 2011

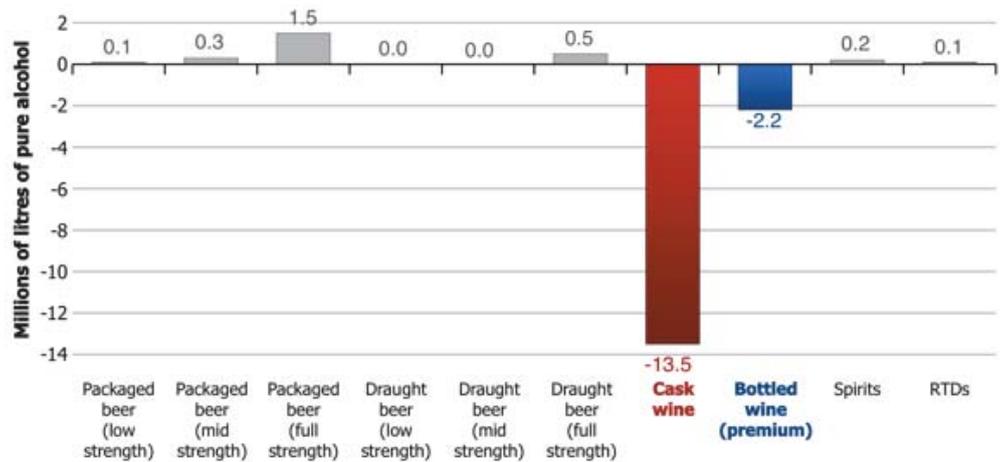
**3.4 Scenario 2 — replacing the WET with the rate for full-strength draught beer**

In scenario 2, the AER model was used to estimate the impact of replacing the WET with a volumetric tax set at \$30.86 per litre, the rate currently imposed on full-strength draught beer.

Applying this rate of tax to wine results in the following impacts (see Figure 3.2 for details):

- an increase in the retail price of cask wine of 76.7 per cent and an increase in the price of premium wine of 8.2 per cent;
- a decrease in the consumption of cask wine of 51.3 per cent accounting for 13.5 million litres of pure alcohol;
- a decrease in the consumption of premium wines of 5.0 per cent or 2.2 million litres of pure alcohol;
- an increase in alcohol consumption as a consequence of substitution away from wine of 22.6 per cent or 2.8 million litres of pure alcohol;
- a decrease in total alcohol consumption of 6.8 per cent or 12.9 million litres of pure alcohol; and
- an increase of revenue of approximately \$1 billion.

Figure 3.2

**SCENARIO 2 — CHANGE IN ALCOHOL CONSUMPTION COMPARED TO THE CURRENT POLICY (MILLION LITRES OF PURE ALCOHOL)**

Source: Allen Consulting Group analysis, 2011

Clearly introducing a volumetric tax on wine equivalent to that currently applied to full strength draught beer results in a significant reduction in alcohol consumption. The main source of the reduction in alcohol consumption is generated from a reduction in cask wine, with a minimal reduction in the consumption of premium wine.

### 3.5 Scenario 3 — replacing the WET with the rate for full-strength packaged beer

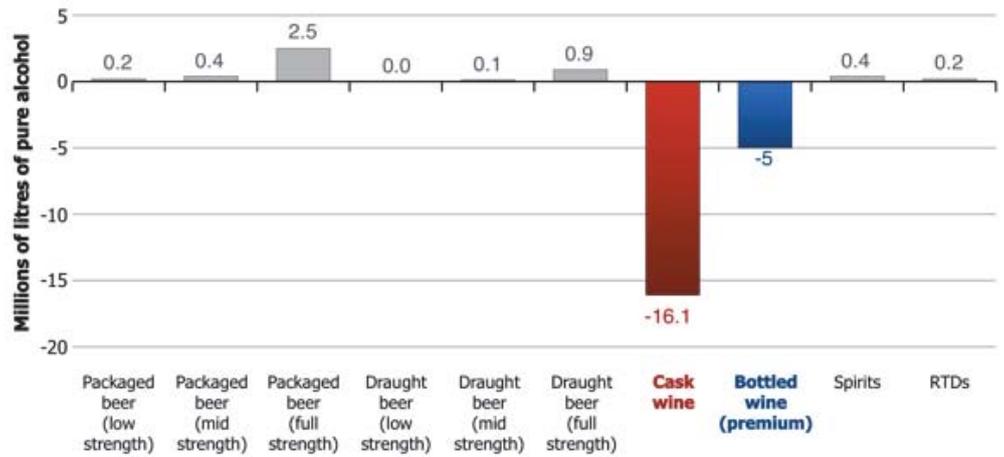
In scenario 3, the AER model was used to estimate the impact of replacing the WET with a volumetric tax set at the rate applied to full-strength packaged beer.

Under such a scenario a tax rate of \$42.85 per litre of alcohol would be applied to wine. When compared to the current alcohol taxation regime it would be expected that the price of cask wine would increase while the price of premium wines would decrease. Specifically estimates suggest the policy would result in:

- an increase in the retail price of cask wine of 114.6 per cent and an increase in the price of premium wine of 17.0 per cent;
- a decrease in cask wine consumption of 61.2 per cent or 16.1 million litres of pure alcohol;
- a decrease in premium wine consumption of 11.2 per cent or 5.0 million litres of pure alcohol;
- an increase in alcohol as a consequence of people switching from wine to other forms of alcohol of 38.0 per cent or 4.7 million litres of pure alcohol;
- a reduction in overall alcohol consumption of 8.6 per cent or 16.3 million litres of pure alcohol; and
- an increase in tax revenue of approximately \$1.5 billion.

Figure 3.3

**SCENARIO 3 — CHANGE IN ALCOHOL CONSUMPTION COMPARED TO THE CURRENT POLICY (MILLION LITRES OF PURE ALCOHOL)**



Source: Allen Consulting Group analysis, 2011

Clearly introducing a volumetric tax on wine equivalent to that currently applied to full strength packaged beer results in a significant reduction in alcohol consumption. The main source of the reduction in alcohol consumption is again generated from a reduction in cask wine, with a minimal reduction in the consumption of premium wine.

**3.6 The overall impacts**

Replacing the WET with a volumetric tax seeks to address the current disparity between the purchase price of cask wine and its associated spillover costs. In doing so, it is clear that replacing the existing the wine tax arrangement with any of the proposed three scenarios would result in increased prices for cheaper wine (i.e. cask wine) and reduced total 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.

The scenarios highlight the potential for a significant change in the composition of alcohol consumption — see Table 3.2:

- Under all three scenarios the most significant change is a reduction in consumption of alcohol in cask wine. The reduction is most pronounced in scenario 3 where the consumption of cask wine falls by 16 million litres of pure alcohol. This reflects the point that the scenarios remove the favourable tax treatment provided to cask wine in the current tax system. This is likely to reduce particular harms associated with cask wine consumption.
- There are small changes in the other categories of alcoholic beverages – sometimes the consumption of premium wines decline (in scenarios 2 and 3) and in the other revenue neutral scenario there are small declines in the consumption of alcohol in other product categories.

- The increase in the price of cask wine results in switching away from its consumption to other forms of alcohol, but in all cases net alcohol consumption decreases. For scenario 1 the switching mainly occurs within the wine category, with movements from cask wine to that of premium wine. Whilst substitution is larger for both scenario 2 and 3, the change is insignificant and offset by significant decreases in the consumption of cask wine.
- The results clearly show that it is feasible to change the composition of consumption within the wine category. In scenario 1 the reduction in alcohol consumption in cask wine is offset by an increase in premium wine consumption. In addition
- While the reduction in alcohol consumption may impact producers, it is likely to be at least partially offset by a greater consumption of premium wines which are sold at higher prices than cask wines. This is most likely in scenario 1 where there the most significant increase in the consumption of premium wines.

Table 3.2

**SUMMARY OF CHANGES IN ALCOHOL CONSUMPTION FOR CHOSEN SCENARIOS  
(MILLIONS OF LITRES OF PURE ALCOHOL)**

	scenario 1	scenario 2	scenario 3
Packaged beer low	0.0	0.1	0.2
Packaged beer mid	0.0	0.3	0.4
Packaged beer full	-0.1	1.5	2.5
Draught beer low	0.0	0.0	0.0
Draught beer mid	0.0	0.0	0.1
Draught beer full	0.0	0.5	0.9
Cask wine	-6.9	-13.5	-16.1
Premium wine	2.2	-2.2	-5.0
Spirits	0.0	0.2	0.4
RTDs	0.0	0.1	0.2

Source: Allen Consulting Group analysis, 2011

The taxation revenue consequences of the three scenarios have also been examined. The scenarios presented also show the capacity the Government to raise additional revenue as part of the scenarios. The impact on revenue for all three scenarios is reported in Table 3.3.

Table 3.3

**REVENUE IMPACTS OF CHANGING ALCOHOL TAXATION FOR SELECTED  
SCENARIOS**

	scenario 1	scenario 2	scenario 3
Revenue Impact (\$ billion)	0	1.0	1.5

Source: Allen Consulting Group analysis, 2011

Both scenarios 2 and 3 reduce total alcohol consumption while at the same time raising considerable additional taxation revenue in the order of \$900 million and \$1,500 million respectively. These reforms to the existing taxation of alcohol may be justified on the basis that they seek to address the negative externality (spillover costs) from alcohol misuse.

The revenue impacts that result from the tax changes should be seen as a by-product of reform. As outlined previously, any revenue gains should be redeployed to assist in combating alcohol related harms while also assisting with principled industry structural adjustment in the short to medium term. This would assist wine producers to meet the current challenges in the sector and to adjust to the changed taxation arrangements.

### **3.7 Achieving change**

While it is not a core objective of the change, the analysis shows that reform of the WET can produce an increase in government revenue providing funds that could be used to assist transition. The previous chapter identified that there is a need for industry to adjust to new market circumstances resulting in a wine glut. In addition, industry will need to adjust to new market circumstances with changes taxation arrangements. The revenue raised from alteration of the WET provides a natural source of funds to assist industry and community throughout the adjustment.

A key issue is to ensure that using the proceeds derived from reducing harms involved in alcohol taxation are not recycled in such a way as to perpetuate harms associated with misuse of alcohol and its consumption. Producers seeking assistance frequently seek subsidies or compensation for continued production. In this case, the focus should be upon providing assistance to enable the industry and the community to adjust to new arrangements where there is less production and consumption of harmful products.

It is recognised that alcohol taxation reform will not happen overnight. It is a tax reform that will take time to achieve and should be introduced over a period of time. This should include phasing of changes and provide industry with the time needed to more easily adjust.

This chapter and the previous chapter have focused upon reforming the worst part of existing alcohol taxation arrangements — namely the WET and WET rebate. While it is a fairly large change that produces large taxation revenue gains while simultaneously addresses the spillover costs from alcohol consumption, this is not the only reform that should be pursued. Similar and significant social and economic gains from pursuing additional reforms to the outstanding alcohol taxation arrangements still remain and should be pursued once the existing wine tax arrangements have been reformed.

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