FARE submission to the Wine Equalisation Tax rebate discussion paper





September 2015

About the Foundation for Alcohol Research and Education

The Foundation for Alcohol Research and Education (FARE) is an independent, not-for-profit organisation working to stop the harm caused by alcohol.

Alcohol harm in Australia is significant. More than 5,500 lives are lost every year and more than 157,000 people are hospitalised making alcohol one of our nation's greatest preventative health challenges.

For over a decade, FARE has been working with communities, governments, health professionals and police across the country to stop alcohol harms by supporting world-leading research, raising public awareness and advocating for changes to alcohol policy.

In that time FARE has helped more than 750 communities and organisations, and backed over 1,400 projects around Australia.

FARE is guided by the World Health Organization's *Global Strategy to Reduce the Harmful Use of Alcohol*[i] for stopping alcohol harms through population-based strategies, problem directed policies, and direct interventions.

If you would like to contribute to FARE's important work, call us on (02) 6122 8600 or email info@fare.org.au.

[i] World Health Organization (2010). *Global strategy to reduce the harmful use of alcohol.* Geneva: World Health Organization.

Contents

Summary

The Foundation for Alcohol Research and Education (FARE) welcomes the opportunity to provide a submission to the Treasury on the *Wine Equalisation Tax rebate discussion paper*. Our interest in this issue stems from our mission to stop alcohol harm in Australia.

The alcohol taxation system is a complex arrangement that does not adequately recognise the extent of harms that result from the consumption of alcohol in Australia. It has been described as illogical and incoherent and there have been multiple calls from government reviews for taxation reform. The most illogical part of the alcohol taxation system is the Wine Equalisation Tax (WET). Wine is taxed on an ad valorem basis under the WET, that is, it is taxed on the wholesale price of the product. This is in contrast to all other alcohol products which are taxed on the basis of the volume of alcohol within the product.

The WET provides an incentive to produce large volumes of low quality wine. This is a concern because of the association between low prices and increased levels of consumption which lead to increased harms. The WET favours large producers since only they can afford to produce such large quantities of wine and remain economically viable.

To counter the bias towards large producers, the WET rebate was introduced to support small rural and regional wineries in Australia who were disadvantaged under the WET. This is a clumsy arrangement that has led to a system that is not achieving its objectives, where producers are receiving the WET rebate even though they have not paid the WET, where rorting of the system is occurring, where New Zealand producers have access to a rebate designed to support small regional Australian producers, and which is creating structural problems within the industry and encouraging oversupply of wine.

The WET and WET rebate represent corporate welfare by providing a significant subsidy to the wine industry that supports otherwise unprofitable business to continue operating. The Australia Institute estimates the level of this subsidy to be in the order of $1 billion per year.

Any review of the WET rebate must be considered in the broader context of the WET and alcohol taxation more generally. Taxation of alcohol aims to generate revenue and address the spillover costs associated with its consumption, however the WET and WET rebate run counter to these objectives. They contribute to significant harm within the community and to problems within the industry by favouring the production of cheap wine and supporting uneconomic producers.

There is strong support from the majority of the alcohol industry, public health advocates, economists and government for reform of the WET. The wine industry cannot afford a fragmented approach to reform. The WET is the most incoherent part of the alcohol taxation system and must be reformed as a matter of urgency.

This submission

In responding to the *WET rebate discussion paper*, this submission looks at the broader issue of alcohol taxation in Australia to understand the purpose of the WET rebate, why it exists and whether a review of the WET rebate in isolation is likely to be effective in addressing the problems facing the wine industry. It looks at what these problems are, what contributes to the problems and recommends a way forward.

List of recommendations

FARE makes the following recommendations to the Treasury regarding the *Wine Equalisation Tax rebate discussion paper*:

1. That the Treasury recognise the inconsistencies and distortions associated with the current wine taxation arrangements and recommends that the Wine Equalisation Tax is reformed.
2. That in reforming the current wine taxation arrangements, the Treasury takes into consideration the harmful nature of alcohol and its costs to the community.
3. That the Treasury adopts sound policy principles to guide reform of the current alcohol taxation arrangements in order that a more equitable alcohol taxation system is created.
4. That the Treasury recommends that the Wine Equalisation Tax be abolished and replaced with a volumetric tax rate.
5. That the Treasury acknowledges that the Wine Equalisation Tax rebate is not meeting its original policy objectives of supporting small producers in regional and rural Australia.
6. That the Treasury recommends that the Wine Equalisation Tax rebate be abolished.
7. That the Treasury recommends that an industry assistance package should only be available to facilitate structural change within the wine industry and that it should be independent of the taxation system.
8. That the Treasury recommends that if an industry assistance package is developed, it should be provided for a finite period of time and targeted at businesses that are, or are likely to be, viable and sustainable without government support.

Alcohol taxation in Australia

The alcohol taxation system is a complex arrangement that does not adequately recognise the extent of harms that result from the consumption of alcohol in Australia. It applies different levels of taxes depending on the type of product, their volume of alcohol, the way in which alcohol is packaged, and in the case of wine, the value of the product and the size of the producer. It has been described as illogical and incoherent[1] and there have been multiple calls from government reviews for taxation reform. The Wine Equalisation Tax (WET) is particularly problematic and contributes to significant harm in the community.

The following section outlines current alcohol taxation arrangements in Australia in order to understand the WET, the WET rebate, and the broader issues associated with the taxation of wine.

Taxation of wine

Wine is subject to the WET which is a tax based on the wholesale value of the wine.

The WET was introduced on 1 July 2000 with the Goods and Services Tax (GST) as part of *A new tax system* in order to maintain wine prices and revenue collection from wine sales, following the abolition of the 41 per cent wholesale sales tax that had previously operated. The WET therefore 'equalised' the price of wine to prices at prevailing levels.[2]

The WET applies not only to wine, but also to any other alcohol products made from fruit and vegetables, with greater than 1.15 per cent alcohol by volume. These include drinks such as cider and mead.[ii] The tax is paid by wine producers, wholesalers and importers at 29 per cent of the last wholesale price. [3] This payment usually occurs between the wholesaler and the retailer.

In addition to the favourable tax arrangements for wine, a tax rebate was introduced in 2004 with the aim of supporting small rural and regional wineries in Australia. The WET rebate applies to all products that are subject to the WET.

The WET rebate is payable to eligible wine producers in Australia and New Zealand based on 29 per cent of the wholesale value of eligible domestic sales, up to a maximum of $500,000 each financial year.[4] Eligible producers are those that either manufacture the wine or provide the grapes to a winemaker to make the wine on their behalf. This means that the WET rebate is available to all grape growers and wineries, regardless of their size and location or whether they have paid the WET. It also means that some grape growers and manufacturers effectively pay no tax. This is because the size of their enterprise is small enough so that the amount of WET paid is offset by the amount of WET rebate received.

Taxation of other alcohol products

Beer and spirits are subject to excise duty which is a volumetric tax based on the alcohol content of the product. The rate is adjusted twice a year in line with changes to the Consumer Price Index (CPI).

The excise for beer is imposed at eight different rates according to the volume of alcohol (light, mid strength or full strength), the type of packaging (draught or brewed) and whether the product was

[ii] Note that flavoured and coloured ciders are usually subject to excise rather than the WET, and attract the same excise rate that applies to ready-to-drink products (RTDs).

brewed for commercial or non-commercial purposes. These rates currently range from $2.84 to $47.09 per litre of alcohol with the first 1.15 per cent of alcohol in beer tax-free.[5]

Spirits attract a higher rate of tax in light of their lower costs of production and alcohol content, which can be up to 40 per cent alcohol content per volume. The current tax rate for spirits is $79.77 per litre of alcohol.[6]

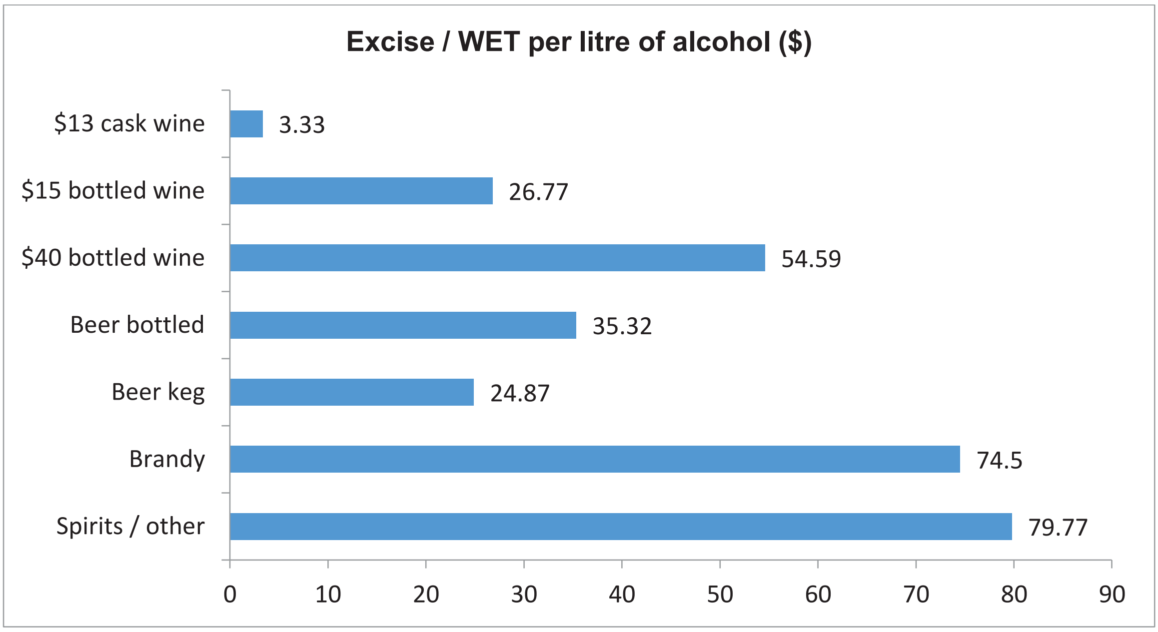
Brandy and '*Other excisable beverages'* (which do not include beer, brandy or wine and exceed ten per cent by volume of alcohol) are also subject to excise duty. The rate for brandy (a spirit distilled from grape wine) is $74.50 per litre of alcohol and the rate for *Other excisable beverages* is the same as for spirits, at $79.77 per litre of alcohol.[7]

Comparison of WET and excise on other alcohol products

While it is not possible to make a direct comparison between the tax paid on wine and the tax paid on other alcohol products because of the nature of the WET where the tax per litre of alcohol varies according to the price point of the product, it is possible to make a comparison by determining the average WET paid on the average litre of wine in Australia. The Australia Institute has calculated the average WET at 13 per cent of the retail price.[iii,8]

Figure 1 provides a comparison of the equivalent tax paid on various alcohol products including a number of different price points for wine. The graph compares the cost of a wine cask and two bottles of wine priced at different levels, based on 12.7 per cent alcohol by volume, with other alcohol products.

Figure 1. Excise / WET before GST by beverage type.[9]



Excise for beer shown accounts for the reduction of 1.15 per cent of alcohol by volume, based on an alcohol content of 4.6 per cent for full strength beer. Full strength represents by far the largest segment of the beer market in Australia.

[iii] The average retail price of a litre of wine sold in Australia is around $11.04 (based on ~$6,000 million in sales, with 543.348 million litres consumed). The average level of alcohol is 12.7 per cent by volume (based on 68.890 million litres of pure alcohol consumed from wine). WET liabilities and Customs collections totalled $1,103 million in 2013-14. So the average litre attracted a WET of $2.03, or 18 per cent of the retail price. However, WET rebates for Australian and New Zealand producers account for $336 million, putting the average net WET at $1.41 per litre, or 13 per cent of the retail price. This gives an average excise per litre of alcohol at $16.01 before rebates, and a net average of $11.13 after rebates.

Challenges presented by the wine industry

The impact of the WET and the WET rebate is significant and needs to be considered not just in terms of the impact on the wine industry but also more broadly. The following section looks at the health harms associated with alcohol and the impact of the WET and WET rebate on the industry, price of alcohol, levels of consumption, taxation equity and the economy.

Impact of wine on health

Wine makes up 40 per cent of the total alcohol available for consumption in Australia. Its contribution to the harms caused by alcohol is significant.

Alcohol is a product based on the toxic chemical ethanol. It acts as a depressant and affects every organ in the body. It has a significant impact on the health of Australians, contributing to 3.2 per cent of the total burden of disease and injury in Australia each year.[10] In 2010 there were 5,554 deaths and 157,132 hospitalisations attributable to alcohol, equivalent to 15 deaths and 430 hospitalisations each day.

Alcohol is associated with over 200 health conditions including strokes, ischaemic heart disease, cancers, liver cirrhosis, respiratory diseases and sexually transmitted infections[11] and if consumed during pregnancy, can lead to Fetal Alcohol Spectrum Disorders (FASD) in the developing foetus.[iv] It is also responsible for short term harms and is associated with road traffic accidents, suicide, homicide, alcohol poisoning, injury and violence.[12]

In addition to harms to the drinker, alcohol also contributes to significant harm to others. These harms include acts of violence on our streets and in our homes, road traffic accidents, child maltreatment and neglect and lost productivity. As a result of other people's drinking, there are more than 360 deaths, 14,000 hospitalisations and over 70,000 victims of alcohol-related assault each year.[13]

The combined cost of both the harms from alcohol to individuals and those incurred on people around the drinker is estimated at $36 billion annually.[14]

Some Australian communities and populations are more affected by alcohol than others. Residents from the Northern Territory for example are three times more likely to die from alcohol use than other Australians. Aboriginal and Torres Strait Islander peoples are 7.5 times more likely to die from alcohol-related causes.[15] Young people also experience a higher proportion of alcohol-related harms as a result of risky consumption, with one Australian teenager dying and more than 60 being hospitalised each week from alcohol-related causes.[16]

Impact of the WET and WET rebate on the industry

It is well recognised that the WET has a significant impact on the wine industry and the type of products that are produced.[17] A value-based tax results in wines with the same alcohol content being subject to different levels of taxation based on the price of the product. Cheaper wines are taxed at a lower rate than more expensive wines, even though the alcohol content is the same.[18] This creates an incentive to produce large volumes of low quality wine and hence encourages an oversupply of wine.

[iv] FASD is a lifelong condition characterised by brain damage, cognitive, social, emotional and behavioural deficits.

The production of cheap wine affects not only the wine produced for domestic markets but also those destined for export.[19] This is a risky strategy since this market segment is price sensitive, fiercely competitive on a global scale and operates on low profit margins.[20]

The WET and WET rebate provide an incentive for producers of premium wine to stay small and for large producers to focus on the production of bulk wine.[21] They discourage the production of quality wines for domestic consumption because they are more expensive to produce and therefore attract a higher rate of tax. In addition, they act as a disincentive to respond appropriately to economic conditions and as the Henry Review suggests, they likely increase the costs of inputs to wineries that would otherwise be more successful by supporting uneconomic wineries.[22]

The extension of the WET rebate to New Zealand producers has coincided with wine imports from New Zealand growing by 139 per cent.[23] The impact of this influx on the Australian wine industry is evident in the list of the top 20 wines in Australia, where 30 per cent of wines are New Zealand brands.[24]

Some producers are exploiting the tax advantages of developing products under the WET. For example, TriVoski or Divas Vodkat are wine based products that are produced to imitate traditional white spirits. They are clearly marketed as spirits with advertising stating that Divas Vodkat "…TASTES AND SMELLS EXACTLY LIKE TOP QUALITY VODKA!".[25]

These products pay a much lower rate of tax because they are taxed under the WET and not under the excise that applies to the types of products that they are marketed as. For example, a 750ml bottle of TriVoski containing 13 standard drinks can be purchased for $9.95. This equates to 77 cents per standard drink. Similarly, two 700ml bottles of Divas Vodkat can be purchased for $19.98, equating to 59 cents per standard drink.[26]

These wine based imitation products represent a risk to the image that the wine industry tries to project. They do not fit with the picture of rural and regional wineries that attract tourism to different regions through cellar door sales nor wine as a premium beverage that is consumed 'in moderation' while enjoying a meal. These products are high risk products that are produced and sold cheaply due to the favourable treatment of wine under the WET.

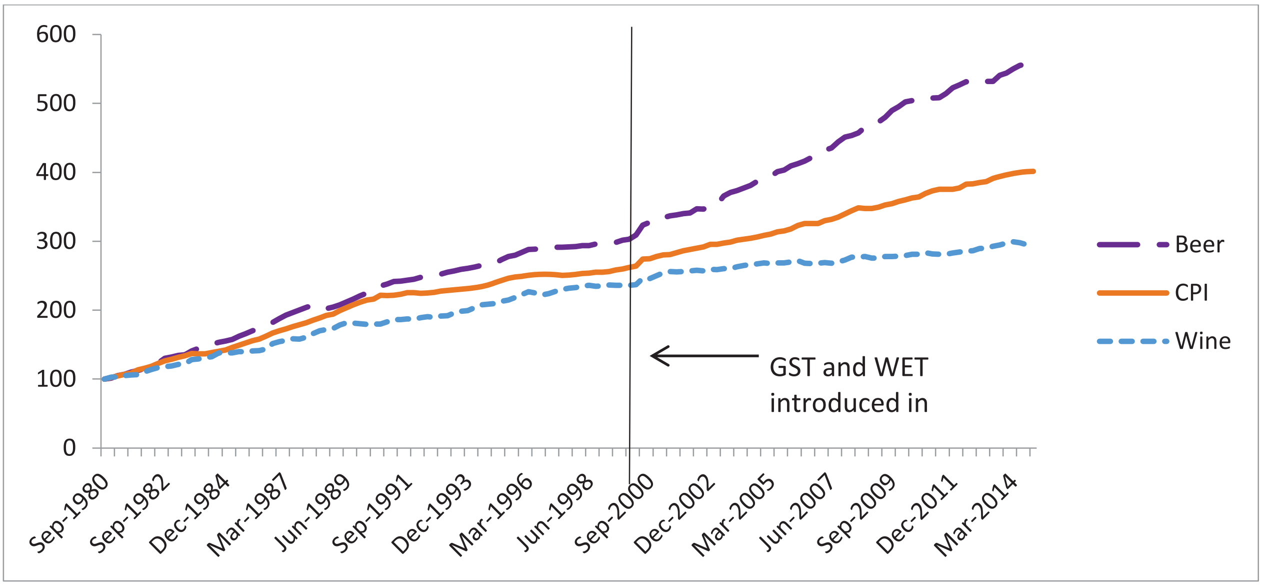
Impact of the WET and WET rebate on price

Because of its bias towards large producers and production of high volumes of cheap wine, the WET has exerted a downward pressure on prices and contributed to wine being the cheapest alcohol product available for sale in Australia. Figure 2 compares the prices of wine and beer from 1980-2014 with the CPI and shows that the rate at which the price of wine lags behind the CPI increases after the introduction of the WET.

Heavy discounting has reduced the price of wine to the point where 65 per cent of bottled wines are sold for under $8.00.[27] However, despite the high proportion of sales, the revenue achieved from the sale of these low priced wines represents just 37 per cent of total revenue.[28]

The price of wine has fallen by 25 per cent relative to the CPI since 1980[29] and the average price per litre of Australian wine in 2012-13 was $4.86.[30] In 2015, wine was available for just 29 cents per standard drink.[31]

Figure 2. Australian wine and beer prices compared with CPI.[32]

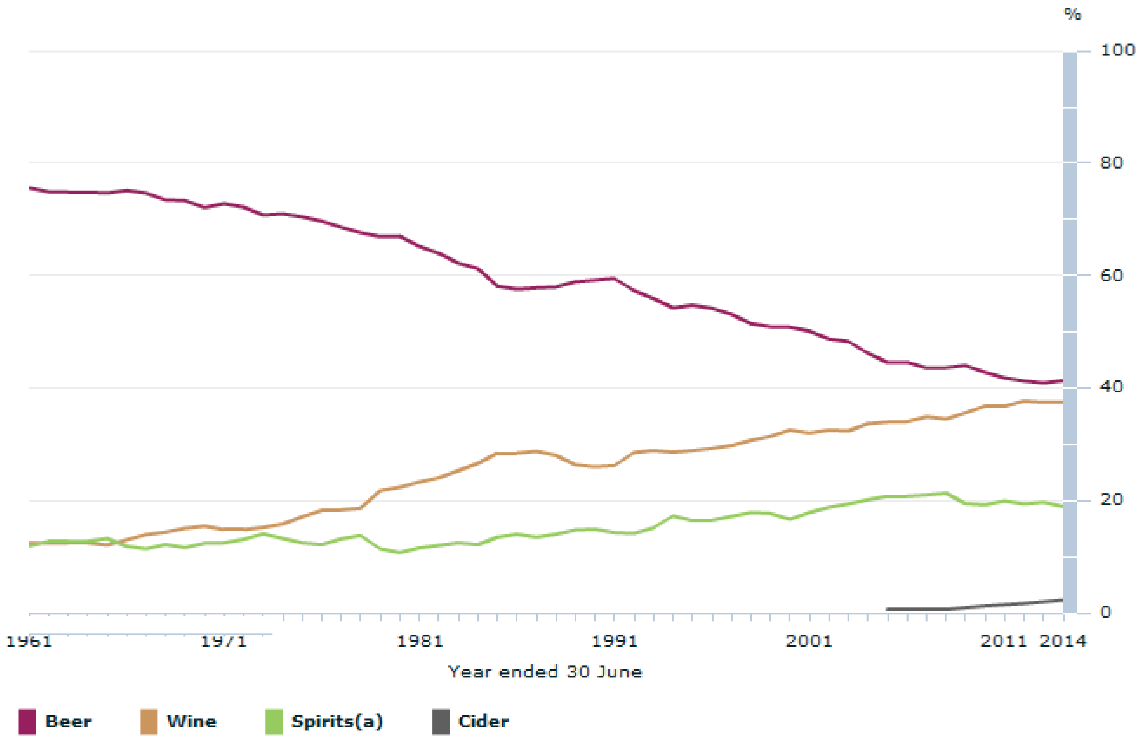


Source: Australian Bureau of Statistics. Figures shown as percentage of index values at September 1980.

Impact of the WET and WET rebate on consumption of wine

An abundance of cheap wine is concerning, as low alcohol prices contribute to increased consumption and harms. Since consumers are drinking more wine than they were previously, this is even more concerning since consumption levels are moving towards becoming the beverage of choice for consumers. Figure 3 shows how consumption patterns have changed over time.

Figure 3. Apparent consumption of pure alcohol, beverage type as a proportion of all alcohol.[# 33]



[#] Includes ready to drink (premixed) beverages

There is strong evidence to show that the lower the price of alcohol, the higher the levels of consumption.[34] Young people and heavy drinkers are particularly sensitive to alcohol price, with the heaviest drinkers more likely to seek out cheaper drinks than moderate drinkers.[35] In 2009, a meta-analysis was conducted of 112 peer reviewed studies on the effects of alcohol price and taxation levels on alcohol consumption which found that there was "overwhelming evidence of the effects of alcohol pricing on drinking".[36] Even small increases in the price of alcohol can have a significant impact on consumption and harm.[37]

Impact of the WET and WET rebate on taxation equity

The current wine tax arrangements result in non-drinkers and moderate drinkers paying a disproportionate amount of alcohol taxation. The significant costs associated with harmful alcohol consumption are spread across the Australian community through the taxation and welfare systems and via the cross-subsidies in Australia's medical and other insurance systems.[38]

The extent to which people pay for the consumption of others or benefit from the current arrangements is determined by whether they choose to consume alcohol, and if so, how much and how frequently they do so. This represents a real opportunity cost for non-drinkers and moderate drinkers who subsidise the cost of alcohol harms caused by the drinking of others. For many, these preferences are influenced by the cost of alcohol.

Because the WET favours the production of low quality low value wine, wine becomes attractive to consumers as it is more affordable than other alcohol products. The recent oversupply of wine has resulted in wine being very cheap. This is a concern not just due to the increasing levels of harm associated with alcohol consumption, but also because of the disproportionate cost of the harm that is imposed on non-drinkers and moderate drinkers.

The Henry Review's recommendation to reform the WET recognised that a volumetric tax rate applied to wine would remove production and consumption biases from the alcohol taxation system, reduce compliance and administration costs, and better target the health and social costs of alcohol consumption.

The WET and WET rebate represent corporate welfare

The current alcohol taxation system provides a significant subsidy to the wine industry.

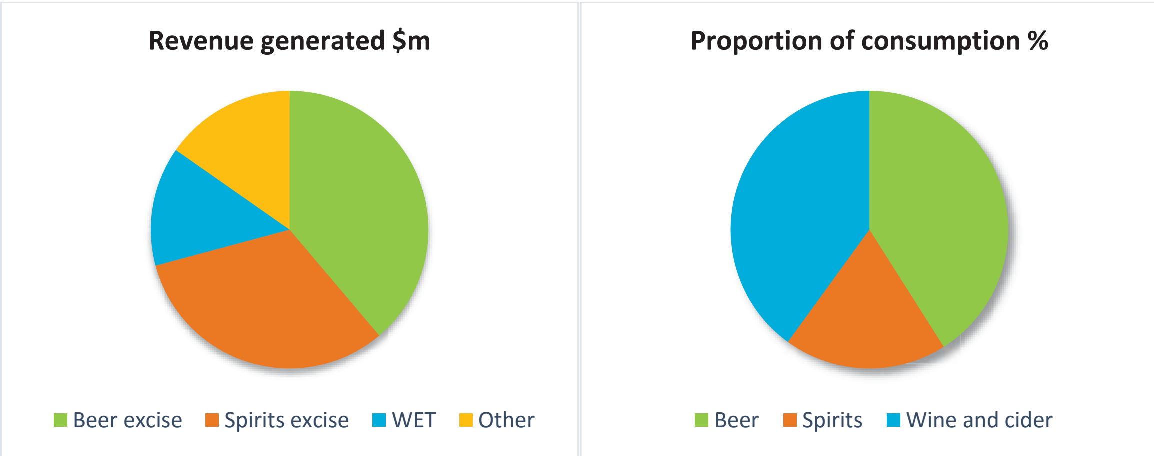
The WET rebate represents one form of this subsidy. In 2013-14, the government paid out a third of a billion dollars ($333 million) to Australian and New Zealand wine producers through the WET rebate. The WET rebate was originally introduced to support small producers in rural and remote areas in Australia. However, it does not appear to have helped smaller producers develop a greater presence in the market in light of the majority of production (90 per cent) is sourced from 24 wine companies.

If you compared the revenue generated by different alcohol products with the proportion consumed, it is clear that the forgone revenue by government under the current tax arrangements is significant. In 2013-14, the tax revenue generated from beer, spirits, wine and cider was $2,307 billion (46 per cent) for beer, $1,902 billion (38 per cent) for spirits, $908 million (18 per cent) for other alcoholic beverages[v] and $826 million (16 per cent) for wine and cider. Of all alcohol consumed, the proportion of beer consumed in the same year was 41 per cent, while the proportion of spirits was 19 per cent

[v] Other alcoholic beverages are those not exceeding ten per cent by volume of alcohol (excluding beer, brandy and wine).

and wine and cider combined was 40 per cent. Figure 4 compares the revenue generated by different alcohol products with their proportion of consumption.

Figure 4. Comparison of revenue generated with consumption of different alcohol products.



Sources: Australian Budget Outlook 2013-14 and ABS Apparent Consumption of Alcohol 2013-14

The Australia Institute modelled possible alternatives to the WET to determine the potential impact of wine tax reform. In the table below, the cost of the subsidy is calculated based on the difference between the revenues that would be generated by being taxed at a level in line with the current excise paid by beer and spirits and the tax that is paid under the WET. It identifies three different excise points to make the comparison: tax as full strength bottled beer, at a point mid-way between the rates for beer and spirits and at a flat rate of $3 per litre of wine.

Table 1. Tax revenue lost due to WET.[39]

Tax scheme compared	Revenue lost ($m)
As beer	1,386
Mid way	1,627
Per litre	688

This table puts the subsidy to the wine industry in the order of $1 billion per year.

This subsidisation of the alcohol industry represents a form of corporate welfare that supports otherwise unprofitable business to continue operating. In 2013, the Prime Minister announced an end to corporate welfare, saying that his government would be loath to give out any more handouts to business.[40] However, the subsidisation of the alcohol industry continues despite the Prime Minister's comments, despite calls for reform from a range of stakeholders both within and outside the alcohol industry, and despite the fact that the WET rebate is no longer achieving its objectives.

The influence of the wine industry on policy development

The alcohol industry has a significant level of influence on alcohol policy development in Australia. This is a concern because of the conflict of interest that the industry's advice to government presents. While the government is concerned about protecting the public from alcohol harm, as evidenced by the National Drug and National Alcohol Strategies that are currently being updated, members of the alcohol industry are interested in protecting their commercial interests and ultimately profits.

The alcohol industry is not alone in seeking to influence public policy. The public health sector seeks to do the same. The difference is that the public health sector is more aligned with the government's objective to reduce alcohol harm and bases its efforts on the evidence of the most effective strategies to achieve this.

Health sector advocacy, however, is undermined by the alcohol industry. It undertakes activities such as lobbying against and delaying evidence-based policies, developing industry friendly research, providing sponsorship to individuals and organisations from which they can leverage influence, and establishing social aspects and public relations organisations (SAPROs). SAPROs are industry based organisations that on the surface appear to be interested in reducing harm, but in fact focus their efforts on strategies proven to be the least effective in delivering behaviour change. Their tactics reflect those of the tobacco industry in fighting against increased tobacco control over the past 50-60 years.

The *WET rebate discussion paper* is a clear example of the influence that the industry has had on government policy. This paper aims to generate public discussion on the WET rebate. However, in doing so, the paper has a narrow focus and ignores consideration of the context in which the WET rebate operates. In addition to ignoring the WET itself, the paper ignores much of the impact that the WET and WET rebate have on structural problems within the industry and their impact on health and social harms.

This is not surprising when you consider the membership of the WET rebate Consultative Group (Consultative Group). The Consultative Group has 11 members, ten of which are from alcohol industry bodies. The one non-industry member is the Chair, who is a representative from the Department of the Treasury. This Consultative Group appears to be not just an example of the alcohol industry influencing policy, but an example of the alcohol industry 'making' public policy, since this group will consider submissions to the *Discussion paper* and provide advice to the government on options for reform.

The World Health Organization (WHO) has clearly stated that alcohol policy development should be free from industry influence. WHO's Director General, Dr Margaret Chan, expressed this view in the *British Medical Journal*, indicating: "In WHO's view, the alcohol industry has no role in formulating policies, which must be protected from distortion by commercial or vested interests".[41]

FARE agrees with the WHO. The alcohol industry has a role in providing relevant data that will inform policy development and in developing implementation strategies. However, any contribution by the industry must be understood in the context of its vested interest in ensuring that public policy is developed that does not affect its commercial interests or profitability.

The future of the WET rebate

It is clear that the wine taxation system cannot continue to operate in the way that it has in the past. The current system encourages production of large quantities of cheap wine, acts against efforts to address the overproduction of wine, encourages excessive consumption of wine, contributes to alcohol harm, is not sustainable, provides no incentive to change and become profitable and is damaging to the industry.

Change is needed, however a piecemeal approach to change will not be effective.

Reform the wine taxation system

The *Discussion paper* fails to consider the broader context in which the WET rebate operates. A review of the WET rebate on its own does not solve the much bigger problems within the industry that are encouraging the over production of low quality, cheap wine that is not just damaging the reputation of Australian wine in international markets, but is contributing to significant and unacceptable health harms in Australia.

There is strong support from the alcohol industry, public health advocates, government and economists for reform of the WET. Members of the wine industry that support reform include Treasury Wine Estates and Pernod Ricard Winemakers, two of the largest wine producers in Australia. Westend Estate Wines (now Calabria Family Wines) says that "the Wine Equalisation Tax is having a negative impact throughout the domestic market, and virtual wineries with no long-term vision are abusing the system which was put in place to benefit the smaller wineries".[42] Jeremy Oliver, an Australian wine writer and presenter has written: "Is there any sense in any aspect of the current taxation environment? If so, I can't see it. Surely it's time to fix this thing before the collateral damage it directly causes gets even worse".[43]

Ten government[vi] reviews have recommended reforming the wine tax. Specifically they have recommended that a volumetric taxation system should be introduced across all alcohol beverage types.

The Henry Review described the current alcohol taxation system as "incoherent" and stated that the:

> *…current alcohol taxes reflect contradictory policies… As a consequence, consumers tend to be worse off to the extent that these types of decisions to purchase and consume, which may have no spillover cost implications, are partly determined by tax.*[44]

It determined that reforming the WET was a matter of urgency for the Australian Government and should be based on the principle that alcohol tax should be levied on a common volumetric basis across all forms of alcohol, regardless of place, method or scale of production.[45] It went further to say that a common alcohol tax base would better address social harm, better satisfy consumer preferences and effectively introduce a floor price through a common alcohol tax base.[46]

The WET, with its WET rebate, is the most incoherent part of the alcohol taxation system and must be reformed as a matter of urgency. The reasons for this are outlined above and summarised below:

1. The current wine taxation arrangements are bad for Australia's health – the WET contributes significantly to the level of alcohol harm experienced in Australia by encouraging the production

---

[vi] Reviews that have recommended a volumetric tax be applied to wine include:

- the 1995 Committee of inquiry into the wine grape and wine industry
- the 2003 House of Representatives Standing Committee on Family and Community Affairs inquiry into substance abuse
- the 2006 Victorian inquiry into strategies to reduce harmful alcohol consumption
- the 2009 Australia's future tax system (Henry Review)
- the 2009 National Preventative Health Taskforce report on *Preventing alcohol related harms*
- the 2010 Victorian inquiry into strategies to reduce assaults in public places
- the 2011 WA Education and Health Standing Committee inquiry into alcohol
- the 2012 Australian National Preventive Health Agency *Exploring the public interest case for a minimum (floor) price for alcohol, draft report*
- the 2012 Australian National Preventive Health Agency *Exploring the public interest case for a minimum (floor) price for alcohol, final report*
- the 2014 House of Representatives report on the *Inquiry into the harmful use of alcohol in Aboriginal and Torres Strait Islander communities*

of vast quantities of cheap wine that drive down the cost of wine and encourages excessive consumption.

2. The current wine tax arrangements are bad for the wine industry – the WET contributes to distortions in the wine market by creating an incentive to produce large volumes of low quality wine which encourage an oversupply of wine, act as a disincentive to respond appropriately to market conditions and result in the production of wine based products designed to imitate other products such as spirits, which risk damaging the image and reputation of the industry.

3. The current wine tax arrangements are inequitable – the extent to which individuals pay for the costs associated with harmful alcohol consumption is determined by consumer preferences on whether to consume alcohol and if so, how much and how frequently; the WET results in non-drinkers and moderate drinkers paying a disproportionate amount of alcohol taxation.

4. The current wine tax arrangements represent significant corporate welfare – the WET rebate is paid to all producers regardless of their size and whether they have paid the WET; the amount of tax paid by producers is much less than the equivalent amount that would be paid by producers of other alcohol products if they were under the same system, with the revenue forgone (effectively a subsidy) estimated at approximately $1 billion.

The wine industry cannot afford a fragmented approach to reform. A review of the WET rebate in isolation will merely delay meaningful reform of the wine taxation system and the pressure for reform will continue. Consideration must be given to the health, social and economic costs associated with wine consumption.

Recommendation

1. That the Treasury recognise the inconsistencies and distortions associated with the current wine taxation arrangements and recommends that the Wine Equalisation Tax is reformed.

Develop clear policy principles

Taxation of wine and alcohol more generally should be based on public policy principles that acknowledge the harmful nature of alcohol and address the administrative burden that exists within the current taxation arrangements. A new wine tax system should modify health behaviours and maximise the benefits to the community.

The Henry Review identified general principles for good tax system design which include equity, efficiency, simplicity, sustainability and policy consistency.[47] FARE has identified the following principles for a more equitable alcohol taxation system:

- Alcohol taxation must be applied according to the category and volume of alcohol within products and their potential to cause harm.
- The economic externalities of alcohol consumption must be used to inform alcohol taxation rates.
- Alcohol taxation must minimise distortion that may encourage harmful consumption of alcohol.
- Alcohol taxation must ensure the cost of alcohol increases with the cost of living.
- Alcohol taxation must minimise loopholes.
- Revenue collected from alcohol taxation should be used to pay for the costs incurred by government to address alcohol harms.

Recommendations

2. That in reforming the current wine taxation arrangements, the Treasury takes into consideration the harmful nature of alcohol and its costs to the community.

3. That the Treasury adopts sound policy principles to guide reform of the current alcohol taxation arrangements in order that a more equitable alcohol taxation system is created.

Move to a volumetric tax for wine

Taxation of alcohol aims to generate revenue for the government and reduce the social costs of problem drinking.[48] The ad valorem taxation arrangements for wine, which encourage the production of cheap wine and increased consumption, runs counter to achieving these objectives.

The WET must therefore move to a volumetric tax rate as a matter of urgency. A graduated or stepped alcohol taxation arrangement where alcohol products are taxed based on their alcohol content within their product categories is needed. [49] This approach complies with the principles outlined above.

Moving to a volumetric tax will provide consistency with the taxation of other alcohol products and better address social harm by targeting social costs more closely.[50] It also solves the problems associated with the WET rebate since the rebate would no longer be in place.

The Winemakers' Federation of Australia claims that the WET should be retained because the wine industry operates in a fundamentally different way to the production of spirits and beer. However Treasury Wine Estates[51] and Premium Wine Brands (Pernod Ricard) both support the introduction of a volumetric tax for wine. In its submission to the Tax Forum in 2011, Premium Wine Brands said that:

> *To support sustainable value growth of the industry and to incentivise the production of premium products, the existing wine tax system should be reformed so that wine is taxed on a volumetric basis, with the rate set to reflect a revenue neutral approach.*[52]

A phased implementation process could be put in place to achieve this change to a volumetric tax. As a transitionary arrangement, the tax rate for wine could be set at a rate that is revenue neutral. Wine should then be transitioned to a rate that appropriately reflects its alcohol content.

To understand the impact of this transitionary arrangement, the Allen Consulting Group in 2015 modelled the scenario where the WET was replaced with a revenue neutral volumetric tax rate calculated at $14.08 per litre of alcohol. If you apply this rate of tax to wine, the results are:

- an increase in the price of non-premium cask wine of 28.54 per cent results in a decrease in the consumption of cask wine by 8.5 per cent, or 2.3 million litres of pure alcohol
- a small decrease in the consumption of beer by less than one per cent, or 611.67 litres of pure alcohol
- an increase in the consumption of other alcohol types
- a decrease in total alcohol consumption of just under one per cent, or 1.8 million litres of pure alcohol
- no change in revenue.[53]

Recommendation

4. That the Treasury recommends that the Wine Equalisation Tax be abolished and replaced with a volumetric tax rate.

Remove the WET rebate

While the WET rebate was designed to support small businesses in rural and regional communities in Australia by relieving them of some or all of their WET liability, the WET rebate is provided to all producers in Australia regardless of whether they have paid the WET or not. Indeed, 3,517 of the 3,765 producers in Australia receive more money in WET rebate than they pay in WET. [54]

In addition to the rorting of the system outlined in the *Discussion paper*, the WET rebate also supports producers who would otherwise not be able to compete in the market and discourages consolidation because of the way in which the rebate is structured.[55] The WET rebate puts pressure on the middle sized producers who face price pressures from larger producers with sufficient economies of scale to allow them to produce large quantities of cheaper wine at low margins and from smaller producers who are supported by the rebate.

New Zealand producers who import to Australia are also able to get access to the WET rebate. New Zealand wine imports have grown by an estimated 139 per cent since the WET rebate was extended to New Zealand producers in 2005.

The WET and WET rebate perpetuate the circumstances that are damaging the reputation of the wine industry as a whole and grape growers in particular.

Members of the alcohol industry agree that the WET rebate needs to be removed. Treasury Wine Estates says that:

> *The Wine Equalisation Tax (WET) rebate is a damaging subsidy that has negatively impacted the profitability and productivity of the industry. It is preventing consolidation and sustaining uneconomic production, at a time when the industry urgently needs to retire excess supply and rebuild value in the Australian wine category… The WET rebate should be abolished or, at a minimum, fundamentally reoriented to become a cellar door style rebate available only to the retail sales of genuine wine producers.*[56]

Premium Wine Brands agrees, saying that "despite the fact that PWB currently benefits from the WET rebate we believe that its abolition would be in the best interests of the wine industry".[57]

The WET rebate is clearly no longer achieving its policy objectives and should be removed.

In 2013-14, the WET rebate is estimated to have cost taxpayers $333 million[58] and is forecast to increase to $350 million in 2015-16.[59] This money represents revenue forgone by the government which could be used to address the health and social costs associated with alcohol consumption. This would provide a further cost saving for government since investment in prevention, early intervention and treatment for alcohol and other drugs will ameliorate the need for later stage treatment for alcohol-related harm which is more intensive and costly.

Recommendations

5. That the Treasury acknowledges that the Wine Equalisation Tax rebate is not meeting its original policy objectives of supporting small producers in regional and rural Australia.

6. That the Treasury recommends that the Wine Equalisation Tax Rebate be abolished.

Phase out industry support

It is expected that any reform of the wine taxation system will result in some disruption to the industry. Transitional assistance may be needed to support the industry through this change. In particular, smaller producers who are potentially successful but need temporary assistance, regional areas in which smaller growers and producers are located, and those who entered the industry on the basis that assistance was available and ongoing, may need some form of assistance as the industry adjusts to the new arrangements.

The Productivity Commission has identified reasons why a structural adjustment package might be warranted. The Allen Consulting Group has summarised these in Table 2.

Table 2. Reasons warranting an industry structural assistance package.[60]

1. Problem	The structural change needed is substantial.
2. Timeframe	The barriers to adjustment are long-term.
3. Safety nets	The existing safety nets such as welfare payments, alternative employment or retraining opportunities are insufficient.
4. Unfair disadvantage	The change burdens a group already disadvantaged in the community.
5. Unfair advantage	The change assists a group already at an unfair advantage in the community.
6. Unexpected change	The change will be unanticipated by market participants.
7. Facilitation	There will be significant opposition to the necessary changes to warrant pacifying opponents through assistance measures.
8. Transition	The assistance reducing the transition costs attributable to market impediments.

If an industry assistance package is required to support the wine industry, the policy objectives that underpin the support package should be clearly defined, based on identified policy principles associated with identified need and developed independently of the alcohol taxation system.

The Productivity Commission has developed a set of general principles to guide selection of specific structural adjustment measures. Measures should:

- be targeted to those groups where adjustment pressures are most acutely felt and operate proactively as well as retrospectively
- facilitate, rather than hinder, the necessary change
- be transparent, simple to administer and of limited duration
- be compatible with general ‘safety net’ arrangements.[61]

However, assistance should not be given ad infinitum. These transitional arrangements should be time limited and should avoid supporting those producers whose businesses are uneconomic and unsustainable.

Recommendations

7. That the Treasury recommends that an industry assistance package should only be available to facilitate structural change within the wine industry and that it should be independent of the taxation system.

8. That the Treasury recommends that if an industry assistance package is developed, it should be provided for a finite period of time and targeted at businesses that are, or are likely to be, viable and sustainable without government support.

References

[1] Australian Treasury, (2010). *Australia's future tax system.* Report to the Treasurer, Part Two, Detailed analysis, Volume 2 of 2. Canberra: Commonwealth of Australia

[2] Australian National Audit Office. (2011). *Administration of the Wine Equalisation Tax Australian.* ANAO Audit report No. 20 2010-11

[3] Australian Taxation Office. (n.d.) *Wine equalisation tax – rulings and definitions*. Retrieved 12 May 2015 from: https://www.ato.gov.au/Business/Wine-equalisation-tax/How-WET-works/Rulings-and-definitions/?anchor=Taxable_value#Taxable_value

[4] Australian Taxation Office *Wine equalisation tax – Calculating your producer rebate* viewed on 12 May 2015 at https://www.ato.gov.au/Business/Wine-equalisation-tax/Calculating-WET-and-producer-rebates/Calculating-your-producer-rebate/

[5] Australian Taxation Office. (2015). *Excise Tariff Working Pages Schedule at 3 March 2015*. Retrieved from: http://law.ato.gov.au/atolaw/view.htm?Docid=PAC/BL030002/1&PiT=99991231235958

[6] Australian Taxation Office. (2015). *Excise Tariff Working Pages Schedule at 3 March 2015*. Retrieved from: http://law.ato.gov.au/atolaw/view.htm?Docid=PAC/BL030002/1&PiT=99991231235958

[7] Australian Taxation Office. (2015). *Excise Tariff Working Pages Schedule at 3 March 2015*. Retrieved from: http://law.ato.gov.au/atolaw/view.htm?Docid=PAC/BL030002/1&PiT=99991231235958

[8] The Australia Institute. (2015). *The goon show: How the tax system works to subsidise cheap wine and alcohol consumption.* Canberra: The Australia Institute.

[9] The Australia Institute. (2015). *The goon show: How the tax system works to subsidise cheap wine and alcohol consumption.* Canberra: The Australia Institute.

[10] Begg, S., Vos, T., Barker, D.C., Stanley, L. & Lopez, A. (2007). Burden of disease and injury in Australia in the new millennium: Measuring health loss from diseases, injuries and risk factors. *Medical Journal of Australia*. 188:36−40. Retrieved from: www.mja.com.au/public/issues/188_01_070108/beg10596_fm.html

[11] World Health Organization (WHO). (2014). *Global status report on alcohol and health*. Geneva: WHO. Retrieved from: http://www.who.int/substance_abuse/publications/global_alcohol_report/en/

[12] World Health Organization (WHO). (2010). *Global strategy to reduce the harmful use of alcohol*. Geneva: WHO. Retrieved from: http://www.who.int/substance_abuse/alcstratenglishfinal.pdf?ua=1

[13] Laslett, A-M., Catalano, P., Chikritzhs, T., Dale, C., Dora, C., Ferris, J., Jainullabudeen, T., Livingston, M., Matthews, S., Mugavin, J., Room, R., Schlotterlein, M. & Wilkinson, C. (2010). *The range and magnitude of alcohol's harm to others*. Fitzroy, Victoria: Centre for Alcohol Policy Research, Turning Point Alcohol and Drug Centre, Eastern Health, and the Foundation for Alcohol Research and Education.

[14] Laslett, A-M., Catalano, P., Chikritzhs, T., Dale, C., Doran, C., Ferris, J., Jainullabudeen, T., Livingston, M., Matthews, S., Mugavin, J., Room, R., Schlotterlein, M. & Wilkinson, C. (2010). *The range and magnitude of alcohol's harm to others.* Fitzroy, Victoria: Centre for Alcohol Policy Research, Turning Point Alcohol and Drug Centre, Eastern Health, and the Foundation for Alcohol Research and Education.

[15] Steering Committee for the Review of Government Service Provision. (2011). *Overcoming Indigenous disadvantage: Key indicators 2011*. Canberra: Productivity Commission.

[16] National Health and Medical Research Council. (2011). *Alcohol and health in Australia. Retrieved from:* http://www.nhmrc.gov.au/your-health/alcohol-guidelines/alcohol-and-health-australia

[17] Attorney General's Department. (2010). *Australia's future tax system.* Report to the Treasurer, Part Two, Detailed Analysis December 2009. Commonwealth of Australia.

[18] Attorney General's Department. (2010). *Australia's future tax system.* Report to the Treasurer, Part Two, Detailed Analysis December 2009. Commonwealth of Australia.

[19] Attorney General's Department. (2010). *Australia's future tax system.* Report to the Treasurer, Part Two, Detailed Analysis December 2009. Commonwealth of Australia.

[20] Sternberg, J. (2013). *The grapes of Australia's wrath*. 16 January 2013. Retrieved from: http://www.wsj.com/articles/SB10001424127887323468604578245153725900818

[21] The Allen Consulting Group. (2011). *Alcohol taxation reform starting with the Wine Equalisation Tax*. Canberra: Foundation for Alcohol Research and Education.

[22] Attorney General's Department. (2010). *Australia's future tax system.* Report to the Treasurer, Part Two, Detailed Analysis December 2009. Commonwealth of Australia.

[23] Winemakers' Federation of Australia. (2015). *Winemakers' Federation, Wolf Blass Foundation to build case to end rebate going to New Zealand.* Retrieved from: http://wfa.org.au/information/noticeboard/winemakers-federation-wolf-blass-foundation-to-build-case-to-end-rebate-going-to-new-zealand/

[24] Chung, F. (2015). Tax dollars going sideways: New Zealand wine makers taking the piss with 'perverse' rebate. N*ews.com.au.* 14 February 2015. Retrieved from: http://www.news.com.au/finance/small-business/tax-dollars-going-sideways-new-zealand-wine-makers-taking-the-piss-with-perverse-rebate/story-fn9evb64-1227219430090

[25] Old Richmond Cellars. (2015). *Diva V Kat.* Retrieved from: http://www.oldrichmondcellars.com/spirits/vodka/divas-v-kat/

[26] Aussie Discount Liquor Discounts. (2014). *Divas V Kat*. Retrieved from: http://www.aussieliquor.com.au/showProduct/Spirits/Vodka/34432341213/DIVAS+V+KAT+NEW+700ML

[27] IBISWorld. (2015). *IBISWorld Industry Report C1214 Wine production in Australia.*

[28] IBISWorld. (2015). *IBISWorld Industry Report C1214 Wine production in Australia.*

[29] Commonwealth of Australia. (2014). *Official Committee Hansard*. House of Representatives Standing Committee on Indigenous Affairs. Harmful use of alcohol in Aboriginal and Torres Strait Islander communities, Thursday 4 December 2015.

[30] Australian Bureau of Statistics. (2013). *Australian grape and wine industry, 2012-13.* Catalogue number 1329. Canberra: ABS.

[31] Dan Murphy's. (2015). Retrieved 26 May 2015 from: https://www.danmurphys.com.au/product/DM_771/berri-estates-traditional-dry-red-cask-5l

[32] The Australia Institute. (2015). *The goon show: How the tax system works to subsidise cheap wine and alcohol consumption.* Canberra: The Australia Institute.

[33] Australian Bureau of Statistics (2015) *Apparent consumption of alcohol, Australia, 2013-14*. Retrieved 7 September 2015 from http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/4307.0.55.001Main%20Features62013-14?opendocument&tabname=Summary&prodno=4307.0.55.001&issue=2013-14&num=&view=

[34] Wagenaar, A.C., Salois, M.J. & Komro, K.A. (2009). Effects of beverage alcohol price and tax levels on drinking: A meta-analysis of 1003 estimates from 112 studies. *Addiction.* 104: 179-190.

[35] World Health Organization (WHO). (2012). *Addressing the harmful use of alcohol: A guide to developing effective alcohol legislation.* Geneva: WHO.

[36] Wagenaar, A.C., Salois, M.J. & Komro, K.A. (2009). Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies. *Addiction.* 104: 179-190.

[37] Babor, T. et al (2010). *Alcohol: No ordinary commodity. Second edition.* New York: Oxford University Press.

[38] Marsden, J. & Jones, P. (2012). *Bingeing, collateral damage and the costs and benefits of taxing alcohol rationally*. Canberra: Foundation for Alcohol Research and Education. Retrieved from: http://www.fare.org.au/wp-content/uploads/2012/10/FINAL-MJA-Report-Bingeing-Collateral-Damage-and-Taxation-2012.pdf

[39] The Australia Institute. (2015). *The goon show: How the tax system works to subsidise cheap wine and alcohol consumption.* Canberra: The Australia Institute.

[40] Taylor, L. (2013). Tony Abbott declares an end to 'corporate welfare'. *The Guardian.* 18 December 2013. Retrieved from: http://www.theguardian.com/world/2013/dec/18/tony-abbott-declares-an-end-to-corporate-welfare

[41] Chan, M. (2013). WHO's response to article on doctors and the alcohol Industry. *British Medical Journal*. 2013;346:f2647

[42] National liquor news. (2012). *Westend Estate Wines.* Volume 31 number 1 February 2012.

[43] Oliver, J. (2013). *Tax reform and the broken model behind Australian wine*. Retrieved from: http://www.onwine.com.au/tax-reform-and-the-broken-model-behind-australian-wine/

[44] Henry, K., et al. (2009). *Australia's future tax system (Henry Review).* Report to the Treasurer. Canberra: Commonwealth of Australia. p 436-437

[45] Henry, K., et al (2009). *Australia's future tax system (Henry Review).* Report to the Treasurer. Canberra: Commonwealth of Australia.

[46] Department of Treasury. (2009). *Australia's future tax system.* Report to the Treasurer, Part Two, Detailed Analysis December 2009. Commonwealth of Australia.

[47] Department of Treasury. (2009). *Australia's future tax system final report overview.* Retrieved from: http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/Publications/Papers/Final_Report_Part_1/Chapter_2.htm

[48] The Australia Institute. (2015). *The goon show: How the tax system works to subsidise cheap wine and alcohol consumption.* Canberra: The Australia Institute.

[49] Department of Treasury. (2009). *Australia's future tax system report to the Treasurer: Part two detailed analysis.*

[50] Department of Treasury. (2009). *Australia's future tax system report to the Treasurer: Part two detailed analysis.*

[51] Treasury Wine Estates. (2011). *Submission prepared by Treasury Wine Estates Ltd for the federal tax forum: Tax reform for a sustainable Australian wine industry.* Retrieved from: http://www.tweglobal.com/wp-content/uploads/2011/09/TWE-Submission-for-Tax-Summit-Oct-2011.pdf

[52] Premium Wine Brands Pernod Ricard. (2011). *Premium Wine Brands' submission to the Federal Government tax forum.* Retrieved from: http://www.treasury.gov.au/~/media/Treasury/Policy%20Topics/Taxation/Tax%20Forum/Statements%20and%20Submissions/Submissions/PDF/Premium%20Wine%20Brands.ashx

[53] The Allen Consulting Group (2015) *Alcohol tax reform* Canberra: Foundation for Alcohol Research and Education, July 2015.

[54] The Australia Institute. (2015). *The goon show: How the tax system works to subsidise cheap wine and alcohol consumption.* Canberra: The Australia Institute.

[55] Premium Wine Brands. (2011). *Premium Wine Brands' submission to Federal Government tax forum.* October 2011.

[56] Treasury Wine Estates. (2011). *Submission prepared by Treasury Wine Estates Ltd for the federal tax forum: Tax reform for a sustainable Australian wine industry.* Retrieved from: http://www.tweglobal.com/wp-content/uploads/2011/09/TWE-Submission-for-Tax-Summit-Oct-2011.pdf

[57] Premium Wine Brands Pernod Ricard. (2011). *Premium Wine Brands' submission to the Federal Government tax forum.* Retrieved from: http://www.treasury.gov.au/~/media/Treasury/Policy%20Topics/Taxation/Tax%20Forum/Statements%20and%20Submissions/Submissions/PDF/Premium%20Wine%20Brands.ashx

[58] Senate Economics Legislation Committee. (2014). *Answers to questions on notice Treasury portfolio budget estimates 2014 3 June to 5 June 2014*. Retrieved from: http://www.aph.gov.au/~/media/Committees/economics_ctte/estimates/bud_1415/Treasury/answers/BET720_Edwards_supp_response.pdf

[59] Ferguson, A. (2015). Wine war afoot as tax reform looms. *The Australian Financial Review.* Monday 18 May 2015.

[60] The Allen Consulting Group. (2011). *Alcohol taxation reform – starting with the Wine Equalisation Tax*. Canberra: Foundation for Alcohol Research and Education.

[61] Productivity Commission. (2004). *Background notes for APEC high level conference on structural reform, Tokyo, September 2004*. Australian Government. Retrieved from: http://www.mofa.go.jp/policy/economy/apec/conference/present0409/session4-5.pdf

Foundation for Alcohol Research & Education
PO Box 19, Deakin West ACT 2600
Level 1, 40 Thesiger Court Deakin ACT 2600
Ph 02 6122 8600
info@fare.org.au
www.fare.org.au

ISBN 978-0-9944181-1-1