



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

**Reference: Customs Tariff Amendment Bill (No. 2) 2002; Excise Tariff Amendment
Bill (No. 1) 2002**

THURSDAY, 17 OCTOBER 2002

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SENATE
ECONOMICS LEGISLATION COMMITTEE
Thursday, 17 October 2002

Members: Senator Brandis (*Chair*) Senator Collins (*Deputy Chair*), Senators Chapman, Murray, Watson and Webber

Participating members: Senators Abetz, Boswell, Calvert, George Campbell, Carr, Conroy, Cook, Coonan, Eggleston, Evans, Faulkner, Ferguson, Ferris, Forshaw, Harradine, Harris, Kirk, Knowles, Lightfoot, Lundy, Mason, McGauran, Murphy, Payne, Ridgeway, Sherry, Stott Despoja, Tchen and Tierney

Senators in attendance: Senator Brandis (*Chair*), Senator Collins (*Deputy Chair*), Senators Ferguson, Murray and Webber

Terms of reference for the inquiry:

Customs Tariff Amendment Bill (No. 2) 2002; Excise Tariff Amendment Bill (No. 1) 2002.

Committee met at 5.12 p.m.

CHAIR—Good afternoon, ladies and gentlemen. I call to order this public hearing of the Senate Economics Legislation Committee for the purpose of considering submissions into the provisions of the Excise Tariff Amendment Bill (No. 1) 2002 and the Customs Tariff Amendment Bill (No. 2) 2002. The bills were referred to the committee following a report of the Selection of Bills Committee presented on 18 September 2002. The committee is required to report to the Senate by Tuesday, 22 October 2002.

The committee is meeting today during the sittings of the Senate. As such, proceedings may be interrupted from time to time by quorums and divisions that we will be required to attend. If division or quorum bells ring, the hearings will be briefly suspended. The committee is to hear evidence today from a number of associations, health bodies and officers of the Department of the Treasury. I thank you for making yourselves available at such short notice.

Before we commence taking evidence, I state for the record that all witnesses appearing before the committee are protected by parliamentary privilege with respect to their evidence. Parliamentary privilege refers to the special rights and immunities attached to the parliament or its members and others necessary for the discharge of parliamentary functions without obstruction or fear of prosecution. Any act by any person which operates to the disadvantage of a witness on account of evidence given by that witness before this committee is a breach of parliamentary privilege. These privileges are intended to protect witnesses. I must also remind you, however, that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate.

The timetable for the hearings has been circulated and we expect to be through the evidence by about 7 o'clock this evening. There is one addition to the published timetable. We have with us this evening Mr Ken Helm, the managing director of Helm Wines, who wishes to speak briefly to his submission. We will take your evidence, Mr Helm, immediately prior to the Distilled Spirits Industry Council of Australia, who are due at 5.50 p.m.

[5.15 p.m.]

LUBIANA, Mrs Monique Mary, Managing Director, Stefano Lubiana Wines Pty Ltd

LUBIANA, Mr Steve Andrew, Director, Stefano Lubiana Wines

MURPHY, Mr Christopher William, Director, Econtech Pty Ltd, for Gail Kinsella and Co.

PARLETT, Mr John James, Manager, Gail Kinsella and Co.

CHAIR—Our first witnesses are participating in the hearings by telephone link. I welcome to the hearing Mrs Monique Lubiana and Mr Steve Lubiana from Tasmania. They are from Stefano Lubiana Wines and have provided us with submission No. 15. We will take your evidence contemporaneously with the evidence from Mr Parlett and Mr Murphy. I do not see Ms Kinsella. Is she not here, Mr Parlett?

Mr Parlett—No; it is not intended that Ms Kinsella will give evidence.

CHAIR—Mr Parlett and Mr Murphy are from Gail Kinsella and Company, and are present at the table. Welcome. I remind you that the committee prefers evidence to be given in public, but, if at any stage you wish any part of your evidence to be given in private, you may ask that that be done and the committee will consider your request. Do you have anything you wish to add before we consider your submission?

Mrs Lubiana—Unfortunately, Ms Patterson is unable to be with us today.

CHAIR—Are there any corrections or alterations to your written submission No. 15?

Mr Parlett—No.

CHAIR—I suspect that you will do this, Mr Parlett, if you have professionally assisted with this submission, but would any of those appearing on behalf of Stefano Lubiana Wines like to make an opening statement or speak to the submission?

Mr Parlett—I might clarify for the committee that the way in which we intend the presentation to go forward, if it is agreeable to the committee, is that Mrs Lubiana will make an opening statement after which any of the people present will be happy to take any questions from any of the members of the committee.

CHAIR—Thank you, Mr Parlett. Mrs Lubiana, would you care to make the opening statement?

Mrs Lubiana—I would like to make a few small corrections due to typos. The first one is on the page that says ‘Executive summary & recommendations’. In the fourth dot point, I have said:

- To encourage the production of low alcohol wine a base rate for wines with an alcohol content of 6.5% abv ...
- That should read eight per cent, not 6.5 per cent. On the following page—under No. 2, ‘Current Issues’—in the third line from the bottom of that paragraph I have said, ‘\$580,000 of wholesale value’; that should say ‘\$300,000 of wholesale value’. They are the only two typos.

CHAIR—Thank you for that. Now would you care to make an opening statement.

Mrs Lubiana—Firstly, I thank the Senate Economics Legislation Committee for the opportunity to speak here this afternoon and for the opportunity to answer as best I can any questions you may wish to ask. Gail Kinsella and Co. have developed the wine tax ready

reckoner which is attached to our submission. John Parlett is the tax manager of this firm. He is available in the committee room to answer any questions you may have on this calculator. The product has been checked and signed off on by Chris Murphy from Econtech, who is also present. This product helps show winemakers how much more tax they pay so the cask manufacturers can enjoy their concessions.

To give you some background, my husband and I are business partners in Stefano Lubiana Wines. Together we have built and we operate Stefano Lubiana Wines. Steve has been working in the wine industry for all of his life; he is the son and grandson of migrant winemakers. Steve makes wine and oversees the vineyard, is the general manager and promotes our wine interstate, while I look after sales, marketing, personnel and bookkeeping and generally help out in the winery. We first established our business in the Riverland, South Australia, in August 1987 and we were predominantly producing bulk wine. Our markets included bulk wine sales to larger wineries and to smaller wine wholesalers who value added by rebottling and onselling the wine. The size of this business was 2,000 tonnes crush capacity. We employed ourselves plus people in 1.5 full-time positions. We did not own or manage any vineyards in South Australia.

In 1990 we decided to relocate to Tasmania to pursue quality wine production. Initially we supported ourselves by offering a contract winemaking service. We now have 13 hectares of vineyards planted, with about nine hectares now producing. We still employ ourselves plus people in two full-time positions and people in the equivalent of three more full-time positions through contract employment agencies. Our total annual production fluctuates between 75 and 120 tonnes—that is, approximately 5,500 to 8,500 cases annually—depending on how much fruit is bought from other growers and on seasonal conditions.

We sell approximately 17 per cent of our production through our cellar door. The balance is distributed to all Australian capitals. We have exported a few hundred cases to the US and the UK in the past. Just recently we sold 20 cases to Denmark. Export is not a large part of our business; it requires a lot of resources and often the price achieved is the same as what we can sell our wine for in Australia. It is important for us to have good wholesale distribution of our wine to liquor shops and restaurants throughout Australia so that new customers can try our wines. This helps build our cellar door sales.

I hope this gives you some insight into the sort of wine business we own and operate. I think you will find that we are fairly typical of a small family owned winery in Australia. I have been active within the wine industry in one way or another for some years, predominantly in wine tax. Coming from South Australia, I have a very good insight into the industry. We have actively geared our business knowing the statistic that people are drinking less wine but better quality wine. This is the way the whole industry has to move to remain competitive and sustainable.

I will now briefly touch on a few points in my submission. The current WET system is complex, and waiting for quarterly rebate claims can frustrate our cash flow. Apart from our federal rebate, we have to claim separately for our state cellar door subsidy. The current WET favours cask wine producers while penalising premium wine and quality improvements within the industry. Not all winemakers want to be tourist businesses or restaurants but, in order to receive tax relief through cellar door rebates, we have little choice. Our other option to avoid excessive tax is to export, which has its own problems as touched on earlier. While the government continues to preserve the ‘concessional tax treatment of the alcohol content of cask wine’ by giving cask wine producers millions of dollars in tax concessions, non cask

wine businesses like mine will continue to foot the real cost of this concession. Government policy is making us uncompetitive and unprofitable.

The peak industry body claims to represent 95 per cent of the Australian wine industry and over 80 per cent of the Australian wine industry through direct and affiliate membership. In their submission to this committee, the Winemakers Federation have not requested a change to or promoted their 600,000 litre WET exemption policy. The Winemakers Federation regularly communicate to the industry that this is their policy, that they give it high priority and that they are pursuing it vigorously with Canberra. This hearing is proof that the Winemakers Federation of Australia are not representing their stated taxation policy; in fact, they have asked for the status quo. Our submission provides comments on this proposal and puts forward reasons we believe it is not a workable solution.

Many of the recommendations of review reports, such as that on the wine grape and wine industry in Australia released in June 1995, and other inquiries calling for a conversion to a volumetric WET have not been implemented. Why is that? More medium wine businesses are suffering from lower margins and lower profitability as a result. The reluctant move towards a revenue neutral volumetric wine tax is preventing the Australian wine industry from getting on with the job of fulfilling its potential in terms of quality and delivering sustainable benefits to the Australian economy and its 61 regional economies. Steve and I have made time today to further the cause of the majority of winemakers in their pursuit to receive a fair tax outcome. I hope that one day soon large cask-producing wine businesses—in some cases foreign owned—will pay their own taxes so that my colleagues and I no longer have to subsidise them.

Senator MURRAY—This is the first opportunity the Senate Economics Legislation Committee has had to review the very considerable alcohol tax changes made as a result of the new tax system. At the time of the last review of the proposals—I think there were three of us on the committee at that time: I think Senator Collins was but certainly Senator Ferguson and I were—Tasmanian wine producers were very concerned about the WET. Has the introduction of the WET had a worse or a better effect than you expected?

Mr Lubiana—There is a lot more paperwork and things like that, and a delay in getting our rebates back. The GST also came in and we paid a little bit more tax, so the overall tax increased. I think Monique may be able to explain that a bit better than me.

Mrs Lubiana—We are worse off as an industry—small winemakers in particular—because the larger companies get a concession. They can cross-subsidise with their premium products and cask products, so they effectively already pay a volumetric tax. We do not have the ability to subsidise any product. We only make one product, and that is quality wine, so out in the marketplace we are worse off. In restaurants, for example, our wine sells for \$40, \$50 or \$100 a bottle. It is less affordable than the big companies' products competing in the same marketplace.

Senator MURRAY—Are you telling us that the economic effects have been more detrimental than you expected?

Mrs Lubiana—Absolutely, because remember we are relying on profit to expand our operations. Tasmania is in its infancy as far as a wine industry goes—I understand that we only have approximately 5,000 hectares planted. We do not enjoy the same economies of scale that the larger winemakers enjoy and we are disadvantaged by Bass Strait. Being small players it costs us a lot more to produce a bottle of wine because our labour costs are more expensive, our bottles are more expensive and our corks are more expensive. All these inputs have increased since the introduction of the GST and the new tax system, including the

replacement of the wholesale tax with the WET. We are certainly worse off, and we are suffering.

Senator MURRAY—I will only ask you one more question because we have a very tight program tonight and also because your submission—as you would expect with the two people assisting you who are here in person—is very clear and precise. I was interested by the fact that you indicate that a volumetric tax would encourage lower alcohol wines. There are very few low-alcohol wines in Australia. Do you think there is a genuine market for them and that it would encourage the consumption of lower alcohol products if there were volumetric wines? Is there a genuine market possibility?

Mr Lubiana—I may be able to answer that one on the technical side. Low-alcohol wines that have been out in the market in the last two years have been pretty ordinary in quality. Consumers have not taken them up too well. But new technology in the wine industry in Australia is very strong and is growing in leaps and bounds in terms of finding new ways to make higher quality wine. I believe that, in the future, low-alcohol wines will be tastier and better quality. Tax laws should not discourage the pursuit of those goals.

Senator FERGUSON—I have only one question. I remember at the time of the introduction of tax reform, one of the arguments that was put to us for the retention of ad valorem taxation of wine was that it kept the cost of cheaper wines within the range of those in the lower socioeconomic group. Do you think that that case has lost some of its validity?

Mrs Lubiana—I do because under a volumetric WET cask wine would only rise by 86c per litre. Instead of buying four litres at a time, if people cannot afford that they could buy two litres at a time. There would probably be the introduction of better packaging. In Europe, you can buy one litre of wine at a time. I cannot see how that argument can hold up, particularly when you weigh up the benefit of the introduction of volumetric in so much that it encourages low-alcohol wines—and that is part of the volumetric plan—which would hopefully be offered at a discount rate in the same way that low-alcohol beer is offered at a discount rate.

Mr Parlett—I would like to add a supplementary comment to what Mrs Lubiana has alluded to. It also depends on the context in which you look at the price change. Monique quoted a change on a per litre basis rather than a change in price on the cask.

Senator FERGUSON—The cask itself.

Mr Parlett—Yes. The price increase looks of a lesser magnitude if you consider it on a per litre basis rather than on a product basis—say, a four litre cask as opposed to a 750 millilitre bottle.

CHAIR—Mr Parlett or Mr Murphy, do you have anything further to add?

Mr Parlett—No, nothing further.

Mr Murphy—I would make one comment, and that is that cask wine certainly is a cheap form of alcohol, which, from one point of view, might seem a good thing in making alcohol more easily affordable for some people, but the downside of that obviously is the problem of alcohol abuse. That is the other side of the equation that you need to look at. As was mentioned, a volumetric rate approach would also have the advantage of encouraging the production of low-alcohol wine. For both of those reasons, I think there is a strong argument that volumetric would be good on health grounds.

CHAIR—That concludes the evidence on behalf of Stefano Lubiana Wines and Gail Kinsella and Co. Thank you for your attendance, particularly Mr and Mrs Lubiana. I know that it is very difficult giving testimony to these committees over the telephone.

[5.38 p.m.]

DONOHUE, Mr Geoffrey Alan, General Manager, Public Affairs, Carlton and United Breweries; and Australian Associated Brewers Inc.

MAX, Mr Gary Edward, Adviser, Australian Associated Brewers Inc.

SWEENEY, Mr Phillip Charles, Manager, Planning Service and Networks, Carlton and United Breweries; and Australian Associated Brewers Inc.

CHAIR—I welcome to the table representatives of Australian Associated Brewers Inc. The committee has before it your submission—No. 8. Mr Sweeney, would you care to make an opening statement or to speak to your submission?

Mr Sweeney—Yes. Thank you, Mr Chair. First, I would like to thank the committee for the opportunity to appear here today on behalf of the Australian brewing industry and of course beer drinkers all around Australia.

The Australian Associated Brewers' submission, which you have before you, recognises that the government's intention with these amendment bills in relation to low-alcohol beer is to streamline an administrative system. This follows on from when the states lost the power to implement franchise fees for a range of products, which included liquor. The bills reduce the cumbersome and costly arrangements for the state subsidy on low-alcohol beers, while preserving, as near as possible, existing taxation levels on these products. The Treasury working paper that reviewed the matter determined that it was inappropriate to extend the review to tax on other beverages. Our further comments will address some of the points that have since arisen. I would like to hand over to Mr Max to follow on.

Mr Max—The excise and customs amendment bills deal with low-alcohol beer tax, diesel fuel and oil products. The changes to the tax levels on low-alcohol beer do not introduce a new taxation regime to act as an incentive. The change merely simplifies the administration of former state tax incentives that have existed in various forms since 1982. Consumers will not experience any new substantial incentives to purchase low-alcohol products as a result of the bill. Those, who welcome this as a new health measure, clearly do not understand that intent of the bill.

Low-alcohol beers have been developing on the Australian market to varying degrees of success since the early 1970s. Their high level of acceptance is due to a combination of factors: the development of brewing techniques over those years has been substantial; there has been a strong focus since the late seventies by state governments, in particular, on drink-driving as an issue and these product developments have been coupled with that; and of course there have been favourable tax regimes, which have developed from the early 1980s. Over a period of 30 years, the brewing industry alone has continued to invest in new manufacturing processes and marketing campaigns to grow the low-alcohol category. The below three per cent category now accounts for 14 per cent of all beers and, together with the mid-strength range, those beers add up to 30 per cent of the beer market in Australia. These bills preserve the tax structures which have supported that over the years. At the end of the presentation, I would like to table a list of some of the beers which have developed over that time.

By streamlining the former state tax incentives for low-alcohol beer, the bills will deliver administrative savings for both business and government. Should the states wish to consider tax schemes for other alcohol taxes, that would eventually be a matter for a relevant

ministerial council. The working party appointed by Australia's treasurers to deal with this matter clearly stated that the considerations for this bill should not be extended to other arrangements.

The issue of the complex structure of alcohol tax in Australia has been reviewed extensively and frequently over the last decade. Reviews include the national inquiry into the wine industry in 1995; considerations over a similar amendment to an excise amendment bill in 1997, moved by the Greens in the Senate; and the extensive alcohol tax review, which we all know about, in the process that led up to the government's new 1999 tax package and the ANTS document. At that time the view was that those structures should not change—and I believe that is still the view, from reading other submissions to this committee.

Given the number of reviews on the same subject matter over the last decade, their cost, the work required of government and industry to participate in them and their similar outcomes, the brewing industry would welcome stability in this important area of its business. Significant tax changes will also have competitive marketing and economic impacts which must be balanced against the potential for health impacts. The possible effect of changes in wine taxation on regional areas in particular, both for grape growers and winemakers, has long been a concern of governments.

The brewing industry itself is already painfully conscious of the impact of changes in tax flowing from the ANTS changes which substantially reduce tax on the so-called RTD category in particular while increasing slightly the tax on beer. The areas that have been affected in brewing are employment and suppliers to the brewing industry. Estimates of those impacts are: a loss in related industry economic activity, including rural, secondary and service suppliers; an impact on Australia's balance of trade if substitution from imported spirits has taken the place of lost beer sales; and also a loss in federal revenue which emanates from the lower tax on the RTD category and the lost sales of beer.

Failure to progress these bills now would cost government and industry significantly and would cause an increase in the cost of low alcohol beers, should that progress past February of next year. It would also have an unfair and unintended effect on the tariffs on the other products included in the bill. We believe that the issue of alcohol tax reform has been extensively reviewed over the last decade at not inconsiderable cost to government, the industry and the community. We do not believe it is now appropriate to again commit resources to a further review of an issue that has been exhaustively debated. A new review of alcohol tax is both untimely and costly. These bills do not change tax policy on alcohol products. They are changes to the machinery of government to preserve a tax regime while introducing savings for government and industry.

Senator MURRAY—I agree, I think, with all the submissions, and certainly with the government, that this bill improves the taxation regime for beer. That is an accurate view to take of it. However, there remains a problem with beer, as far as I can see, in that the incentive to produce mid-strength beer is not as apparent as it might be. In other words, it is a bit close in taxation terms to the full-strength beer position. The policy of the government, with which you agree, is to encourage via taxation the production of lower alcohol products—or beer particularly—and I think it has been effective on low alcohol beer. But mid-strength beer is not, from a health perspective, regarded as being better than full-strength beer. Do you not think some further examination of that area is warranted?

Mr Sweeney—With the change to a national system from the previous state subsidy arrangements, there were some swings and roundabouts in the movement in prices between

the states, especially in terms of light and mid-strength beer. Given that the final outcome was more or less revenue neutral, with a slight additional contribution from the Commonwealth, it was inevitable that there would be some trade-off between the mid-strength category and the light beer category. The final wash-up was that a greater incentive was given to light beers on a national basis, compared to the old state based system. So, if anything, the changes have made light beers more attractive, especially in some states, such as Queensland and Western Australia. The trade-off there has been perhaps slightly less incentive for mid-strength as a category. However, as Mr Max commented before, it has been due to the success of 30 years of innovation and ongoing investment by the brewing industry that the light beer category and the mid-strength category combined now account for 30 per cent of beer sales. That shows in its own right that the combination of the state subsidy arrangements that have been in place with the ongoing lower excise for what is now being classified as light beer—beer which is three per cent or less—has meant that there is now a significant market of light and mid-strength beers in the marketplace.

I think the industry is quite happy to see a realignment of the excise to make light beers even more attractive than they have been on a national basis, with some trade-off that mid-strength beers in some areas are not as attractive as perhaps they were. Nevertheless, the way the excise rate works, when you translate the excise rate from a dollar per litre alcohol into a dollar per litre product there is still an incentive to produce lower strength beers than higher strength beers. I have some graphs here, which I would be pleased to table at the end of our presentation, to highlight the point that there is still some incentive to produce mid-strength beers under the proposed excise rates in the new bill.

Senator MURRAY—While you would have to see how it works out, if the consequence of these excise changes was a decline in mid-strength beer, I assume that your main attitude as an industry would be, providing the overall tax take does not increase, that you would always be willing to look at an adjustment which incentivises the lower alcohol product, wouldn't you?

Mr Sweeney—As a general principle we would certainly welcome any reduction in the tax on beer, whether it be light, heavy or anything in between. In terms of this particular bill before parliament, there has been some trade-off and the trade-off has been to further incentivate the production of light beers. There has been some trade-off in mid-strength beers, but there is still a very strong incentive for the industry to continue to produce light beers, and there have been a few released recently—I will give a plug for Carlton Sterling. So on balance, these bills have provided a good incentive for the continued production of lower alcohol beers.

Senator FERGUSON—Mr Max, I was interested in your call for stability in taxation where you say there have been a number of reviews and changes over the past 10 years. Could I take it from that comment then that you support the current inequality in the rate of taxation applied to the alcohol contained in a standard drink?

Mr Max—I think this is a matter that has been reviewed for over a decade without seeing any significant change. This has been for a whole range of complex reasons which relate to health issues, economic issues and, indeed, to the government's wish to provide regional incentives in some particular industries. We all know that the impact of a tax on a particular beverage might be different on another beverage. For instance, low alcohol wine has had a special rate in some states for many years but no successful products have actually been developed over something like 20 years. It is by no means a simple issue and I am not sure

that we should really investigate again the same matters that we have done in the past and as recently as 1999.

Senator FERGUSON—With respect, Mr Max, the question I asked you was: do you support the current inequality?

Mr Max—We do not support any inequality, but we do not see a simple solution. We believe this is an issue that has served the market well.

Senator FERGUSON—I think it is fair to say that no-one supports inequality—

Mr Max—Correct.

Senator FERGUSON—and though it may be complex, if we could come up with a solution which rectified the inequality that was not too difficult, then you would not be unhappy?

Mr Max—Having a complex tax structure means that there are always going to be, apart from any other impacts, lots of losses and gains amongst the various parties in the market, and I think that is the reason we have been coming up with the same solution.

Senator FERGUSON—It just may be that there have been a number of inquiries and reviews because, while you may be satisfied with the current regime, others are not. We have seen in submissions, and we will hear in evidence, that there are others that are not happy, and they will continue to be unhappy while they perceive there is inequality. I also remember, of course, the calling card that your industry sent to me prior to the last election, which I have pinned up in my room.

CHAIR—There being no further questions, thank you for your attendance, gentlemen.

[5.54 p.m.]

HELM, Mr Kenneth Francis, Owner, Managing Director, Helm Wines

CHAIR—Welcome, Mr Helm. The committee has before it submission No. 3 on behalf of Helm Wines. I invite you to speak briefly to your submission.

Mr Helm—Thank you. I am representing Helm Wines and I walk the corridors here lobbying for independent wineries and have done so on a number of occasions. I started back in 1993 with the tax debate and at that time formed the Independent Wineries Association which has fought very hard for various issues, in particular taxation, on behalf of the independent wineries.

I put in a submission to this inquiry because I think it is a very difficult time for independent wineries out there in Australia. It is not just wineries around Murrumbateman or in Western Australia, Tasmania or wherever. Small wineries running cellar doors are having very difficult times and lot of those difficulties have come about since the introduction of WET. The WET, as has been explained quite adequately by Monique Lubiana and in her submission, is about the small premium end of the wine industry subsidising in taxation the cask producers in this country. I think you have to realise that, if something is not done about it in the short term rather than the long term, we are going to lose some of the thousand small wineries which currently exist in Australia.

People say, ‘Who cares if we have fewer small wineries out there?’ But I think it is important that senators realise that there may be a few small wineries out there running cellar doors and contributing premium wines to the industry, but there is more to it than that. It is about regional development and regional economies that rely on these wineries. I am sure that if any of the senators have actually visited any small region where wineries exist, they know they started the tourism and the economic development there. You then have antique shops come along. You have B&Bs, hotels and golf courses. Go to the Hunter Valley. Compare what it was like 30 years ago with what it is like today. An enormous amount of money has been put into the regional economies.

These are the things that I am worried about. Under the current structure, as has been pointed out, with the ad valorem and the rebate system we spend most of our time doing paperwork—paying money, trying to get it back, getting it from the state, doing our BAS statements—and we are distracted from the main game. At the same time, why are we, as small producers, subsidising the large producers with their cask and large production wines?

Currently out there the consumption levels that the AWBC have just released for the last 12 months show that consumption is flat. Tourism is down. Drought is having an effect. September 11 is having an effect. Bali will have an effect. The Ansett collapse is going to have an effect. So here they are at cellar doors—these small wineries set up for regional development and for employment and adding to the economy—now struggling. What are they going to do? They go out into the restaurants and to the liquor shops and they attempt to compete there. Since they do not get a rebate on their wholesale sales, they are out there trying to compete with wines which are landing in the restaurants at reduced cost, and they cannot compete. So they produced a product for regional development, for tourism, for wine tourism, and now they are forced to go into a market that they were never set up for in any way—and, in addition to that, there is taxation.

So there needs to be a solution. This was a grand opportunity, I felt, for small wineries to come along and talk about it. We have the Wine Federation of Australia saying, 'Let us have a 600,000 litre exemption.' I think that is in your dreams. No government is going to turn around and give us a 600,000 litre exemption. I have walked these corridors long enough to know that in reality we are going to have to be a little bit serious about where we are coming from. We need to go and talk to government about a realistic approach. The only realistic approach that a small winery can look at is one where we should be asking government to put in place a volumetric taxation system which is revenue neutral. I feel that if we can do that, we will then be able to survive, to continue to add to regional development, to the regional economy and to employment and have all those knock-on effects that you see in all these areas. I am sure you have been to these regions in your states and have seen them. We do not want to see them go away, and we believe that taxation is a major issue in that regard. Thank you.

Senator FERGUSON—Mr Helm, you talk about the burden of paperwork and the move from ad valorem to volumetric. How will that reduce the paperwork?

Mr Helm—How will the volumetric reduce it?

Senator FERGUSON—Yes.

Mr Helm—For a start, if you look at the very good submission that was put in by Lubiana, you can see that we could do away with one of the rebate systems. Everything could be done on the BAS. If we removed that paperwork system, we would have only one alcohol tax. In other words, a bottle of wine is 12 per cent alcohol. We can multiply 0.75 by 12 per cent by Lal 13.88. We all know what that is. It is very simple. Every bottle of wine that we have of that alcohol content is exactly the same. If I have a bottle of wine at the winery at the moment at \$20 and if I win the Jimmy Watson trophy next week and I want to put that bottle up to \$50, I have to pay more tax. We have to go through the whole calculation, change the computer system, go through all our books and reorganise that. We always hope to win the Jimmy Watson—I would not be sitting here. In their submission, Lubiana have worked out the volumetric system; they show how simple the paperwork will become.

Senator FERGUSON—If there were a move to volumetric, how would it help you when you put wine into a restaurant? You say that the larger wineries can have a bottle of wine for sale in the restaurant at production price. If you are all on volumetric tax, you are still going to be competing for quality. The economies of scale for large production are going to help large companies. How is the change to volumetric going to help you get into restaurants, apart from the removal of that extra tax you have to pay once you have moved away from cellar door?

Mr Helm—At the moment, we pay \$2.90 a bottle on a normal 12 per cent alcohol wine at \$20. I sell that same bottle of wine under volumetric, and the taxation comes down to \$1.29. I have \$1.60 to play with when I am negotiating with a restaurant or a liquor shop. The price can come down, and the profitability comes back into the wineries, which allows us to survive. We would have a bargaining chip, which we currently do not have. We go in there, it is straight there, the taxes are there and, whether I sell it at the cellar door or in the wholesale area, it is the same thing.

Senator FERGUSON—The difference is that at the cellar door you are getting a rebate, but you are not once you—

Mr Helm—You are not getting any rebate in the wholesale area, no. We are asking for it right across the board with a volumetric tax.

Senator FERGUSON—What is your current rate now for rebates at cellar door?

Mr Helm—We have a 29 per cent—

Senator FERGUSON—No, what is the current production level?

Mr Helm—At the rebate it goes up to \$300,000. It cuts off at \$580,000. It is on a sliding scale. People who get into that area also have a problem. Not only do you have to inform taxation that you are going to get to the limit but, if you go over it, you have to pay it back. It is not the first \$300,000. If you sell \$350,000, you fall over the edge, and they write to you and say, ‘Give us back \$80,000.’ I have wineries writing to me and saying, ‘This is not fair.’ With volumetric, that would not happen.

Senator FERGUSON—Currently, there are about 1,400 wineries producing in Australia.

Mr Helm—There are 1,465 wineries but, as we speak, one might open or one might close. That is what is happening; the industry is very dynamic.

Senator FERGUSON—I understand. How many wineries are currently affected by the \$300,000 threshold? How many more would come to the threshold if they were successful in getting that \$600,000?

Mr Helm—I do not have those figures in front of me, but I am quite happy—

Senator FERGUSON—There are a lot under the \$300,000, aren’t there?

Mr Helm—The majority of wineries in Australia are under the \$300,000. About 850 would be under the \$300,000.

Senator FERGUSON—I heard that if they took it to \$600,000 there would be very few that were not subject to the rebate.

Mr Helm—That is not my area; I am a small wine producer.

Senator WEBBER—My colleague David Cox is much better informed about some of the challenges your industry faces with taxation, particularly for small wineries. Accepting what you have had to say about the impact it has on small wineries, it would seem to me that the drought of the last few years has not allowed us to fully realise the pressure you are going to face. There have been increased plantings but, with the weather conditions, they have not come online. Do you have a view on that?

Mr Helm—With the increased plantings and what effect that is having?

Senator WEBBER—Yes. Is that going to make your current system worse?

Mr Helm—With the increased plantings, in Australia we are now exporting more than half of our production. That is terrific while the Australian dollar is low and while we continue to expand our markets. But we have to continue to expand overseas, and the French, in particular, are losing ground to us in places like England. I do not believe that they will continue to put up with it. We are producing three per cent of the world’s wine and the French produce about 40 per cent. Will they allow us to continue to take that market? It seems from the intelligence we get out of there that they are about to take on the English market in a very big way with lots of money and that we will find it more difficult. So we have to make sure we continue to go and get those markets. If those export markets start to contract we will have a great deal of wine on the Australian market which we will not know what to do with, and we will all have to pack up and do something else. Maybe we could turn it into ethanol—who knows? It is that sort of thing.

The people I am talking about—us guys—do very little export. You heard Monique. She exported 20 cases to Denmark. If we get that, we are thrilled. We develop a product for the domestic market at a premium, so the exports we leave to the big guys and that is where they are doing extremely well. They are holding the charge for Australia and putting wines on the market out there. By the way, with exports they do not pay tax—zilch—so we here at home are stuck with that. If you can come up with an idea allowing us to get out onto the export market and making it easy, we will have to do it. That is the only way of survival.

With the long-term plantings that we currently have in place, I believe the other issue that has to be looked at very seriously is the depreciation allowance on vineyards which was put in place and which is still in place. I think that is something that should be looked at by the government and removed because it is expanding the vineyards. We do not need any more grapes; we need to expand the wineries to process, so why in the hell are we still planting grapes? I do not want to go through what we did in South Australia with the vine pull scheme, Senator Ferguson. Back then we wasted \$6 million pulling out grapevines. It was crazy.

Senator FERGUSON—I remember it well.

Mr Helm—Does that answer your question?

Senator WEBBER—It does. David has been talking to me about it. It seems to me that because there are increased plantings, once we finally get some decent weather—and I presume we will eventually get some rain somewhere in this country—you will obviously then have a much greater crop which I would have thought would put all of you under significant economic pressure. You are saying you are under a lot of pressure now. Just what kind of impact do you think that will have?

Mr Helm—I think you have missed my point. I keep saying it about the small wineries. We are not beverage producers; we are producing a product for regional use, tourism and wine development. We are producing a product which people buy in restaurants. If you want to go out and buy a bottle of wine, you will buy a bottle of wine in your price range—and there is a lot of it below the \$8 mark—or you will buy it in casks. But for a special occasion you will go out and maybe buy a bottle of wine from somewhere like our particular place. Also, you are not going to drive 25 minutes down the road from Parliament House and buy a bottle of wine from me as there are plenty of places in between to buy it—unless you want to have a good time. That is what I am saying: we are in a different market to that.

Senator MURRAY—Mr Helm, I have the very straightforward attitude that it is all about price. You cannot sell alcohol too cheaply, otherwise you will have abuse. If you sell it too high, you lose jobs and there are all the sorts of industry effects that you have outlined. The most equitable way to tax alcohol is through excise, which is a volumetric approach, and that would lower your price and make you more competitive—economic argument fulfilled. I also think that excise is best done on alcohol content and that the product is irrelevant—and I do not care whether it is beer, wine or spirits.

It is unlikely that the government are going to close down the WET. One proposition I have been putting for some time is the creation of excise for wine on two bases: one to be available below, say, 10 per cent or 8 per cent alcohol by volume—so you have the creation of a low-alcohol category—and the other to be available as an option for any wine-producing entity. So let the cask people carry on with WET, but you would be able to access excise if you wished. You would be happy with that approach, wouldn't you? For you, it is irrelevant what the cask situation is; what is relevant for you is what your prices are.

Mr Helm—Excise on the wine industry is something which has been painted as a fearful devil.

Senator MURRAY—But that is what volumetric is; it is excise.

Mr Helm—That is right. But we are asking for volumetric which will be attached to the WET legislation. In terms of excise we have been informed—coerced—that if there is excise then we will have excise officers turning up at the winery in the middle of the night, demanding that they do an audit and all this other crap. That is really what it is.

Senator MURRAY—But that is a myth.

Mr Helm—But that is what the industry is worried about. I am trying to look at a solution that will be acceptable.

Senator MURRAY—Answer the question, Mr Helm. If the law were changed so that WET survived for those who wanted it and you were given the option of an excise, would you take up that option?

Mr Helm—Yes, I would.

Senator MURRAY—That is all I wanted to know.

CHAIR—Thank you very much indeed, Senator Murray. Thank you, Mr Helm, for your evidence.

Mr Helm—Thank you for allowing me to come.

[6.11 p.m.]

BRODERICK, Mr Gordon James, Executive Director, Distilled Spirits Industry Council of Australia Incorporated

POLLAERS, Mr John Carl, Chairman, Distilled Spirits Industry Council of Australia Incorporated

RYAN, Mr Warwick Michael, Director, KPMG

CHAIR—Welcome. Do any of you have any comment on the capacity in which you appear before the committee?

Mr Ryan—Yes. I am appearing as a delegate to the Distilled Spirits Industry Council of Australia Incorporated.

Mr Broderick—Mr Pollaers, as well as being the Chairman of the Distilled Spirits Industry Council—or DSICA, as we call it—is the Managing Director of Diageo Australia. He is appearing as our chairman, but has that direct industry experience.

CHAIR—Thank you. The committee has before it the DSICA submission, which is submission No. 13. I invite you to make a brief opening statement speaking to your submission.

Mr Broderick—Thank you very much. We welcome the opportunity to appear at this hearing tonight and the opportunity for the Senate Economics Legislation Committee to look at yet another step in the reform of alcohol taxation.

If I were one of the brewers, I too would argue that this should be restricted to an exercise on beer, given that I would have 50 per cent of the market—as compared to our 19 per cent of the market—and the effective rate of taxation on packaged full-strength beer per litre was \$25.83, as compared with the effective rate on spirits of \$57.57. If I were one of the brewers, I also would argue that alcohol tax reform had gone about as far as it could go. But I do not think that is the case. It is inefficient government to look at tax reform on alcohol beverages in a piecemeal manner. That is probably why we have arrived at the dog's breakfast that we have today: because it has been looked at on a piecemeal basis. The substantial submission that we have put to the committee deals with a broad range of issues which we believe this committee and the Senate now have an opportunity to look at.

We too would like to enjoy the same incentives that our brewing colleagues have to produce mid- and low-strength products. We think that this inquiry provides you with the opportunity to continue the reform that has been commenced so efficiently in ANTS. The Distilled Spirits Industry Council of Australia represents the major manufacturers and importers of spirits and liqueurs in this country—probably about 90 per cent of the market—as well as making the range of spirits that would be well and truly known to anybody who goes into a hotel or a restaurant. We also manufacture the large range of RTDs which are enjoying so much popularity with the Australian consumer today. We have put forward a substantial submission to you. We believe it canvasses the issues that may come to your mind. As he is the principal architect of our submission, I would like to hand over to Mr Ryan to talk to it.

Mr Ryan—During this presentation I will be referring to a number of attachments which are in the separate attachment document and I will be referring to them by number, so 7.1 will be the first attachment in attachment 7. DSICA supports the low-alcohol beer changes in the

bill. We believe the bill provides the opportunity to fix two problems with Australia's out-of-date alcohol tax system. Firstly, ready-to-drink products, or RTDs, should be taxed at exactly the same rate as beer. This is because they have the same alcohol content and they compete with one another. Secondly, Australia needs a revenue neutral volumetric wine tax as an excise duty.

I will highlight five key facts about the RTD market since tax reform. Firstly—and this is in attachment 7.4—at the moment, low-alcohol packaged RTDs are taxed at 200 per cent of the effective rate of a low-alcohol packaged beer. There is a low-alcohol RTD on the market, and we will show it to you in a moment. Currently, mid-strength RTDs are taxed at 150 per cent of the effective rate of mid-strength packaged beer, and full-strength RTDs are taxed at 130 per cent of the effective tax rate for mid-strength packaged beer. As our colleagues from the brewing industry mentioned before, low- and mid-strength beer makes up somewhere near 30 per cent of the beer market in Australia.

At the moment, low- and mid-strength RTDs make up about one per cent of the RTD market. That is a situation which we think needs to be changed. DSICA believes that alcohol products that are of the same alcohol content and which compete with one another should be taxed at the same rate. A change to complete tax equivalence between RTDs and beer will provide a taxation incentive to produce low-alcohol and mid-strength RTDs. We believe that cider should be taxed at the RTD rate as well.

A small increase in the dollar rate payable on full-strength packaged beer of about \$1.40 per litre of alcohol could be made to offset the revenue cost of complete taxation equivalence with RTDs and it would provide an authentic incentive to produce mid-strength packaged beer, as Senator Murray was asking about before—because, at the moment, the rates for full-strength and mid-strength packaged beer are exactly the same.

Secondly, the growth in the RTD market under tax reform has not resulted in an increase in the overall size of the alcohol market in Australia. On a per capita consumption of alcohol in litres of pure alcohol basis, for the population of age over 18 years, that market has not increased—and that is set out in attachment 8.1. In fact, alcohol consumption has been growing at a similar rate to the growth in the population of over 18-year-olds. That is set out in attachment 8.2. In fact, the changes that have taken place in alcohol consumption over the past 20 or 30 years have followed fluctuations in the economic cycle. Alcohol consumption falls in recessions and grows when the economy is booming. You can see that in attachment 8.3.

The final fact about the RTD market is that the growth in the RTD market has been at the expense completely of full-strength beer and full-strength bottled spirits. In attachment 9.1, we have compared the growth in RTD consumption on a per capita basis, which is placed above the axis, and the fall in consumption of full-strength beer and the fall in full-strength spirits. They have effectively offset each other. So we believe that there has been complete substitution between the two.

The full-strength beer market is falling at about three per cent a year and the full-strength bottled spirits market is falling at about six per cent. A lot of the growth in RTDs is coming from the full-strength spirits product that it has as an ingredient. Two-thirds of the RTD market is dark spirits—bourbon, rum and scotch. These products are preferred by males over 25 years of age.

With respect to wine tax issues, as we said in our submission, DSICA believes that there should be a revenue neutral volumetric wine excise to replace the value based WET. We

believe that alcohol products should be taxed on the basis of their alcohol content and not their value. We do not support the current inequalities in the amount of non-GST tax per standard drink—and they are set out in attachment 7.1. Apart from draught low-alcohol beer, cask wine pays 6c tax per standard drink; spirits pay 71c tax. We think these differences are inequitable and should be reviewed. We know that a change is supported by ADCA and the other key health groups. We believe that a volumetric wine tax should have different excise duty rates, depending upon the alcohol content: for low-alcohol wine, a lower rate; for table wine, a revenue neutral rate; and for fortified wine, a higher rate to represent the higher alcohol content.

At the moment, under the WET—as we have heard from a number of winemakers—quality bottled wine is paying an effective tax rate similar to that for spirits. Once you get over \$30 in retail value, a bottle of quality wine pays a similar effective tax rate as spirits do. We do not seek to impose a flat rate of tax on wine; we accept that a wine tax change could only occur if there was a revenue neutral change in tax. The modelling that we have done has identified a revenue neutral excise duty rate for wine of about \$13.80 or \$14 per litre of alcohol. That would see the price of most quality bottled wine fall by the order of five per cent to 11 per cent. It would see cask wine prices increase somewhere between 15 per cent and 40 per cent, depending upon the alcohol content of the cask. We do not propose that that change be made overnight; we think it would need to be phased in. We support a lower rate for low-alcohol wine.

We make three final recommendations in our submission. We believe that brandy should be taxed at the same rate as spirits. As there is no five per cent customs duty for imported beer, we think that the five per cent customs duty for imported spirits and RTDs is an anomaly and should be removed. We do believe that these inequalities justify a comprehensive alcohol tax inquiry. We realise that this committee does not have the terms of reference to conduct that inquiry, but we do believe the changes which we are recommending are relevant to the issues that you are looking at, because of the nature of the bill.

I will now show the committee a number of RTD products that we can compare in terms of low-alcohol and mid-strength rating. There is a low-alcohol RTD product on the market called *Brewers Lite*. It is 2.2 per cent alcohol by volume. It has an alcohol content of only 0.6 per cent of a standard drink. It comes in a number of different colours and flavours. At the moment, the same rate of tax is paid on that product as for a full-strength RTD, which is higher than the rate of tax for full-strength packaged beer. DSICA's proposal is that that product should be taxed at the same rate as low-alcohol packaged beer. We have for you an example of the *Carlton Sterling* product, which has 2.5 per cent alcohol by volume. On the back of each of those bottles we put a small label summarising the number of standard drinks in the bottle, the current retail price that we paid for the products and by how much the price would fall under RTD equivalence.

The key point we make is that, even with complete tax equivalence between full-strength, mid-strength and low-alcohol RTDs and beer, the prices will never be equal. The cost of the ingredients and the cost of production will always be higher for RTDs than it will be for beer, because of the nature of the ingredients and the economies of scale. At the moment, the beer market is 10 times the size of the RTD market, and the volumes are significant. There is concern about growth in the RTD market. One fact people miss is that the premium beer market is 70 per cent of the RTD market by volume, and so the beer market is very, very big.

The next products I have to show you are a 3.5 per cent *West Coast cooler*; a *Bundaberg Rum Gold*, a 3.5 per cent RTD; and a bottle of *Brewers Black Lite*, a 2.2 per cent RTD. Our

key proposition is that all of these products should be taxed at exactly the same rate as packaged beer is. There are a small number of draught RTD products coming onto the market. We believe that they should be taxed at the same rate as draught beer as well. Thank you, senators.

CHAIR—Thank you, Mr Ryan. We will now have questions.

Senator MURRAY—Mr Broderick, I would summarise your submission this way: you want the bill passed and you do not expect there to be amendments to the bill but you would like the committee to endorse as many of your recommendations as it sees fit so that progress can be made in reform. Is that right?

Mr Broderick—That is a very succinct synopsis of our submission.

Senator MURRAY—I will tell you what my own bias is and ask how you would react to the proposition. From my perspective, the greatest need is to encourage low-alcohol products. To me, that would mean addressing the low-alcohol RTD problem and the low-alcohol wine problem—providing incentives for those two areas to match the kind of policy attitude which is there for low-alcohol beer. My other bias would be to reduce the price of high-value wines, which I think are overpriced as a result of the value added effect of the WET. Those would be my priorities and I would look at other issues afterwards. How do you react to those priorities?

Mr Broderick—My colleague Mr Ryan has corrected me about my response to your first question, which leads on to your second, so I will ask him to respond to that.

Mr Ryan—On the issue of whether we wish the bill amended, we do not seek any amendments to the provisions of the bill insofar as they relate to low-alcohol beer rates. We support those provisions of the bill. But we do believe that the bill should be amended to provide for complete taxation equivalence between RTDs and beer. So we have no objection at all to the existing clauses in the bill but we do believe that amendments should be moved. We recommend to this committee that it recommend amendments to the bill in these two areas supplementary to what is in the bill at the moment.

Senator MURRAY—So it is not an attack on beer.

Mr Ryan—Not at all. The point of clarification is that we do not see these two issues that we have raised as issues to be dealt with another day. We think they are issues that should be dealt with when this bill returns to the Senate for debate.

Senator MURRAY—How do you react to my priorities? I could summarise these as being from a health perspective in relation to a low-alcohol approach and an economic perspective in relation to that section of the industry—by which I mean beer, wines and spirits—which I see as hurting the most: the high-value product end of the market.

Mr Ryan—We certainly agree that equivalence at the low-alcohol end of the spectrum is the highest priority of the three issues of RTD equivalence. We do not really see equivalence at the mid-strength level as any less a priority. We now have a three-tier structure for the taxation of beer. The difference in alcohol content between a low-alcohol beer—if we are talking about beer—under the new structure and a mid-strength beer is not a wide range of alcohol content. Low-alcohol beer is usually 2.7 or 2.8 per cent alcohol by volume. Sterling is 2.5 per cent and a mid-strength beer is 3.5 per cent. That is a very small breadth of difference in alcohol content. Our proposition is that, if you wish to say that low-alcohol products are the top priority, we see little reason to differentiate between mid-strength and low-alcohol products.

Senator MURRAY—I would remind you that the difference between a five per cent beer and a 5.7 cent per cent beer is a big hangover—which of course I am not familiar with!

Senator FERGUSON—You mentioned the amendments that you would like to see made to the bill. Have you put in your submission the amendments that you would like the committee to consider?

Mr Ryan—We have put in the principles which believe the amendments should reflect.

Senator FERGUSON—The principles but not the actual amendments.

Mr Ryan—We have not drafted an amendment, no.

Senator FERGUSON—It has been 10 years since I saw DSICA's first submission to an inquiry like this, and you are as concise as ever. The thing that interested me was the support that you have, when you are talking about a volumetric tax, from the Alcohol and Other Drugs Council of Australia, the AMA and the Public Health Association of Australia. I think all of us in this room are aware that alcohol can be a pleasure or a curse. One of the reasons that it is a curse could be the unequal way the alcohol volume is taxed. In other words, we know of the pantechnicons of cask wine that go out of the cities and into the rural areas in Australia and the damage that causes to the community. When you talk about the products that we have in front of us—I do not know whether we are having a break for an hour or two while we clean things up—the one thing about an RTD is that it has a measured amount of alcohol.

Mr Ryan—That is correct.

Senator FERGUSON—And the lower the measure of alcohol, the more we can encourage both young people and older people to lower the rate of alcohol that is consumed. How much difference is there, as far as the Distilled Spirits Industry Council is concerned, in the effect of the production of a low-alcohol RTD—it should actually impact on your sales of spirits in the long run, shouldn't it?

Mr Broderick—As we said in our submission, the growth in the RTD market has started to take from the full-strength bottled market, but we support the responsible consumption of alcohol. We support the National Health and Medical Research Council proposition of a standard drink, and we think any measure that encourages that mode of consumption is to be encouraged.

Senator FERGUSON—So if we are considering a volumetric taxation of alcohol per se across the whole industry, what advantages do you see in that for DSICA? Are you looking for a significant decrease in the amount of taxation paid by the spirits industry?

Mr Ryan—No, we are not seeking a reduction in the total tax burden on the spirits industry. In relation to wine tax, our proposition is that the amount of revenue that the government currently collects from wine tax should continue to be collected in a revenue neutral way—so our modelling does not suggest any increase in the tax on the wine industry. In relation to the tax burden on the spirits industry, the facts are clearly that people are buying spirit based RTDs at the expense of the full-strength bottled product. There is absolutely no doubt about that. Full-strength bottled sales are falling in the order of five or six per cent on an annual basis.

Senator MURRAY—Is that full-strength spirits?

Mr Ryan—Yes. In the submission we have worked through an example where somebody who wants to go to a party can either spend \$30 and buy a full bottle of bourbon and a two-litre container of cola and go to the party or buy two sixpacks of bourbon and cola in a can.

The number of standard drinks they are consuming is significantly less when they decide to buy the product premixed in a can. If they buy the bottle, it is either 22 or 24 standard drinks; if they buy the 12 cans, it is only 18 standard drinks. They have actually got more liquid to drink; they have 4½ litres to drink, which is in a measured dose—that is the equivalent to the contents of a cask—whereas with a full bottle they only have 700 millilitres plus two litres of cola. It is the same with beer: if you only have \$10 to spend, you can buy either a sixpack of packaged takeaway beer or a fourpack of RTDs. So for \$10, you get four cans of RTDs or six cans of beer with exactly the same alcohol content.

Senator FERGUSON—There is one other question I want to ask. I think there has been for a long time a common belief in the community that RTDs are designed to capture the youth market because they taste nice—people do not taste the alcohol; they taste the lemon or the orange or the other drinks—and in fact they are encouraging younger people to consume more alcohol. Somewhere in your submission I noted that that may be a misconception in the community. I wonder whether for the record you could state what the actual case is.

Mr Polers—I could speak to that, and also refer to the previous question, as a manufacturer. Going first to the point of what is described as the ‘youth market’, 65 to 70 per cent of our sales of dark spirits are to males over the age of 25. When we look at RTD consumption, we have to remember that it is still only seven per cent of total alcohol consumption. When we have done research, which we can make available, it shows that the average RTD consumption in a four-week period is six cans.

Senator MURRAY—When you say seven per cent of the alcohol market, do you mean the alcohol LAL market or the total—

Mr Pollaers—Yes, the LAL market.

Senator MURRAY—So it is a much smaller percentage of the amount consumed?

Mr Pollaers—Yes, it is. In standard drinks terms, it is much smaller. The average RTD consumption, if you take those statistics, is about six cans per month. The maximum RTD consumers are consuming 12 to 15 cans per month. If you put it in that context, that only accounts for 40 per cent of their alcohol consumption. Those very same consumers—the other 60 per cent—are being accounted for with beer and wine. Even for those consumers who are heavy RTD consumers, we are only talking about a relatively small amount over a monthly period. There is often a distortion when we hear other industry segments talk about this, when they say it has increased or decreased. We have to remember the relative scale.

There is no evidence that suggests that alcohol consumption has increased at that level. In fact, 90 per cent of the marketing investment in our industry goes against brands like Bundaberg and Jim Beam—the dark spirit products. In fact, CUB’s own RTD product, which is Cougar Bourbon, is currently running the largest campaign in the market. Again, it is targeted at above 25-year-old males. We think that is a distortion; we think it is something that is being put out there for commercial reasons as opposed to reasons of reality. We are seeing more choice—there is no question about that—but there is no evidence to say that levels of consumption are increasing. They are, in fact, switching.

Senator WEBBER—I neglected to bring my copy of your submission with me from the office. I had enough bits of paper to remember. You will have to forgive me if the question I am about to ask is covered in your submission. This is the first time I have had to look at this particular taxation regime, and it is already far too complex for me. The mind boggles at the way Senator Ferguson and Senator Murray have been able to get their heads around it.

Before we can have an overall inquiry into the taxation regime that you have alluded to, we accept as a given the existing regime that has three different ways of doing things, depending on the section of the market. We also accept that there is a social good in providing some kind of taxation incentive for consumption of low-alcohol products—and I certainly do. What I would be really interested to hear from all sectors of the industry is how they propose to restructure their bit of the taxation regime to have that incentive for the consumption of low-alcohol products without changing the relativities between them so that the incentive for their own product is not at the expense of another sector of the industry?

Mr Broderick—You must have been listening to Mr Cox in another place yesterday when he made exactly that proposition in his speech.

Mr Ryan—The proposition that the shadow Assistant Treasurer put into *Hansard* yesterday on some excise amendment bills was that each sector of the industry should be prepared to examine how its own tax regime could be adjusted to encourage consumption of low-alcohol products without altering the relativities between different sectors.

I will make two points. The reason we have suggested a slight increase in the per LAL rate for full-strength beer to fund full equivalence with RTDs is to address the issue that Senator Murray identified, and that is that, at the moment under the structure, full-strength packaged beer and mid-strength beer are taxed at exactly the same rate. We do not think that provides an authentic incentive to produce mid-strength packaged beer. In our submission, we identify a number of options to deal with that. One is to increase the rate on full-strength beer so that creates an authentic incentive. The other, obviously, is to reduce the rate on the mid-strength packaged beer, which would cost some revenue.

The second point in terms of this proposition, now that we have seen the shadow Assistant Treasurer's comments, is that DSICA are prepared to take that idea away and think about it and come back with a response. We are not in a position to talk about it today.

Senator WEBBER—It is just a thought that occurred to me while I am getting my head around the fact that, until we have a big inquiry perhaps some time in the future, we have to put up with those three.

Mr Pollaers—Again, I need to remind us that the spirits industry is still a very small proportion of total alcohol consumption. The scale economies that come with the major brewers and some very significant players will always mean that we will have to sell our products at a price premium to the major brewers. What we have in the current discrepancies is a market distortion that prevents fair competition, if you like, between those two product categories. We have the one drink driving law, one driving age, we have one set of licensing laws, but we have three different tax structures. So, while we will look at that and should consider that, it would be wrong for us to suggest that we want to lock in that kind of distortion.

Mr Broderick—Given that you say that you are new to this alcohol tax proposition, I think it would be unfortunate if you started off with the premise that we are looking at three different regimes and three different segmented markets. I think that is why we have come to the distorted situation we have today. Senator Murray made the comment that he views alcohol as alcohol and it does not matter whether it is made from grape or grain. The sooner that the alcohol tax issue is looked at in that way the sooner we will get true reform. Then the consumers will get to choose the beverage of their preference on the basis of choice rather than on taxation.

Senator WEBBER—I agree, but that is a little way down the track. I am trying to look at it in terms of an existing regime in the short term.

CHAIR—Thank you, Mr Broderick, Mr Ryan and Mr Pollaers, for your evidence.

Before we move on to our next witnesses, I would like to invite one of our earlier witnesses, Mr Sweeney, from Australian Associated Brewers, to return to the table. Mr Sweeney, you indicated in your oral evidence that you wanted to table some documents and I neglected to give you the opportunity to do so. Would you like to do that?

Mr Sweeney—Certainly.

CHAIR—For the sake of the record you could identify the documents that you are tabling.

Mr Sweeney—One of the documents we mentioned is an outline of the history of the development of light beers from 1973 to 2002. That is a summary document. The other document is in graph form, highlighting that the current proposal before the parliament does not necessarily discriminate against mid-strength beers. There are three graphs here, converting the excise from a figure of a dollar per litre of alcohol to a dollar per litre of product, for both spirits and beers, to give a comparison of the current tax scales.

CHAIR—Thank you very much, Mr Sweeney.

[6.43 p.m.]

CROSBIE, Mr David William, Chief Executive Officer, Odyssey House, Victoria; Representative, Alcohol and Other Drugs Council of Australia

WILSON, Ms Cheryl, Chief Executive Officer, Alcohol and Other Drugs Council of Australia

CHAIR—Welcome. The committee has before it submission No. 2 from Mr Crosbie and submission No. 12 from Ms Wilson. Do you wish to make an opening statement?

Ms Wilson—Thank you very much for having us here today to meet with the committee. ADCA is the peak body representing the interests of the alcohol and other drugs sector nationally. I am relatively new to ADCA and completely new to the issue of alcohol taxation—although it has obviously been a major issue for the sector for many years—and ADCA has drawn upon the knowledge within the sector in developing our submission.

The things that have struck me the most in trying to understand how alcohol taxation works are, firstly, the complexity of the system and, secondly, the number of apparent inconsistencies that seem to form an inherent part of the current approach. While I am sure that these make sense when placed in an historical context, for someone trying to get their head around the alcohol taxation system for the first time it is difficult to understand why brandy made from grapes has a lower excise rate than other spirits; why beer enjoys a 1.15 per cent tax-free threshold, which does not apply to other products of similar alcohol content; and why wine does not have a volumetric tax similar to beer and spirits but rather enjoys the wine equalisation tax, which provides a financial incentive to the industry to produce cheaper cask wines and to consumers to drink these products. This is despite research from Western Australia that clearly shows that local rates of per capita consumption of cask wine and high-strength beer are most highly associated with rates of violent incidents and alcohol related hospital admissions.

It is because of these complexities and apparent inconsistencies, which do little to further the health and safety of the community, that ADCA is calling for a major overhaul of the alcohol tax system. ADCA recommends the introduction of a volumetric tax for all alcohol products. The volumetric tax would result in the abolition of the wine equalisation tax, which favours cask wine; the removal of the approximate \$4 per litre of alcohol concession on brandy made from grapes; and a simplified system whereby all alcohol products, regardless of type, would be taxed according to alcohol content. The current 1.15 per cent tax-free threshold for beer should also be reviewed in terms of its continued effectiveness and the impact of extending it to all alcohol products.

With respect to the specific amendments to the Excise Tariff Act and the Customs Tariff Act being considered by the Senate Economics Legislation Committee today, ADCA is supportive of the amendments as they will provide a simplified taxation system and take into consideration, to some extent, public health concerns. ADCA is pleased that the proposed amendments will result in low alcohol beer being taxed at a significantly lower rate than the full strength product. However, ideally, ADCA would also like to see a taxation differential between midstrength and full strength packaged beer so as to provide incentives for the production and consumption of midstrength products compared to full strength.

A tiered excise system, with full strength beer taxed at a greater rate than midstrength beer, which in turn would be taxed at a greater rate than low strength beer, makes good sense from

a public health perspective. A tiered system could be achieved in a number of ways: for example, removing the 1.15 per cent tax-free concession from full strength beer or increasing the excise rate for full strength beer above the proposed \$33.75 per litre of alcohol.

In conclusion, while ADCA is supportive of the proposed amendments it remains concerned that, even with these changes, the alcohol taxation system will continue to provide incentives for the production and consumption of some products, such as cask wine, which have been associated with the most harm to the community. As such, we would urge a thorough review of the alcohol taxation system to ensure that it takes account of the needs of industry and consumers but also has the capacity to address the broader health and social impact on the community of the misuse of alcohol.

Mr Crosbie—Very briefly, my organisation is a large treatment and prevention organisation in Melbourne. We have over 80 people in a residential treatment program and we run another 25 halfway houses and a whole range of prevention programs with families. We do training—we are a registered training organisation—and we do research. A lot of our work is actually dealing with people who experience significant alcohol problems.

I am a member of the Prime Minister's National Council on Drugs, a member of the National Expert Advisory Committee on Alcohol and an executive board director of the Alcohol Education and Rehabilitation Foundation. I have been involved in these discussions, sometimes with some of the senators here, over the past 10 years.

I want to say that I think the legislation is an amazing achievement. I think to get all the states and territories to agree to this legislation is beyond anything I have ever experienced, particularly in the alcohol tax area, but even in government when there are very different regimes in the states and territories. I must commend Treasury officials and everyone else who managed to achieve such an outstanding result. I certainly think it is much more effective and more equitable and a vast improvement on the absolute mess we had before where we did not even know whether the state rebates were being passed on, at what measure, to whom and how. It is an incredible achievement and I think we should note that. I certainly support the passing of the legislation.

The broader context is that the alcohol tax system is a mess. I notice that Mr Broderick used the term 'a dog's breakfast' and I think that had been used by a CUB official at a previous inquiry. I do not think anyone argues that the taxation system makes sense economically or from a health perspective. It is obviously a fundamental issue for alcohol producers, and I suppose the history is that no-one wants to put any of the alcohol producers offside. The reality is that alcohol producers are interested in ensuring that their products are not taxed higher than they currently are. It is a competitive industry—although there seems to be some merging, with some sections of the industry that were previously exclusively brewers buying into spirits and wine, and it is becoming a bit more confused. Fundamentally, it is a very difficult area politically because these industry groups put an incredible amount of effort, money and resources into advocating for their interests. In contrast, those of us in the health sector lack that kind of resource backing, and our capacity to conduct detailed modelling and present economic arguments is less than the alcohol industry's capacity.

Nonetheless, alcohol is clearly a major public health issue in Australia, within the community—and anyone who thinks that it is not is completely ignoring the statistics and probably has not spent Friday or Saturday night in a local casualty unit or out on patrol with police. I do not particularly want to read through sections of my submission except to say that I hope that, as well as passing this amendment, the whole health issue is considered. We

previously heard the argument, ‘We can’t have health drive taxation policy.’ Where does that leave us? In the case of alcohol tax, where we continue to pick winners and losers on the basis of the strength of the vested interest groups to lobby, it is about time that health became a more significant factor in determining the way in which we price these products and the kinds of taxation regimes we apply to them.

Senator MURRAY—Mr Crosbie, your submission is one of a number of well presented submissions. What has characterised you and many leading members of what I might call the health alcohol industry has been that you are sensitive to the economic and social realities of alcohol use, that you have not adopted a wowsler approach and that you have been prepared to accept an incremental advance in the healthier promotion of alcohol. Of all the submissions the DSICA one is the most comprehensive. If you had to name a priority for further advancement which you regard as politically achievable—because that is an important component here—what would it be? I agree with you that the bill before us advances better beer taxation—undoubtedly.

Mr Crosbie—That is a very difficult question and I do not thank you for it. In asking, ‘What is your priority; what is achievable,’ you are really asking me what is achievable politically. I could happily talk about what I want, but I am not sure what is achievable politically. I am using the word ‘politically’ when you use the word ‘realistically’. I know that during the WET debate there was quite a degree of cooperation between health, brewing and distilling in recognising that cask wine was a significant issue. At that stage, we were actually close to getting some sense, following on from the wine industry inquiry in the mid-nineties, that went part way towards the findings of that inquiry. It was very disappointing to find that overturned late in the discussions about the introduction of the WET.

There is still a lot of common ground about the harm being done by cask wine, and I think there is a great capacity to put in place taxation and excise requirements which would create significant incentives for the production of lower alcohol cask wine. The reality is that those people who are abusing alcohol and who are using cask wine—and really it is an intelligence test: if you want to buy as much alcohol as you can and you have got \$10 or \$20 or you have pooled \$50 or \$100 or whatever it is, you buy cask wine; you get more standard drinks and more bang for your bucks—tend to put as much money as they possibly can into that effort. In some communities, people often pool money.

Senator MURRAY—By ‘people’ you mean ‘abusers’?

Mr Crosbie—Yes. People who are keen to get as much alcohol as they possibly can. If we could significantly reduce the alcohol content of cask wine while still maintaining its competitive advantage in terms of bang for the buck—and that would not be that hard to do—instead of buying 40 standard drinks with their 10 bucks, people might only be able to buy 30 standard drinks. Given that people are going to spend the \$10 anyway, I think what we would be doing effectively is increasing the floor price of alcohol and, in doing that, we would reduce the harm for those people whose sole purpose in buying alcohol is to get as much alcohol as they can, often because they are dependent on it and their pattern of drinking is to consume as much as they possibly can in a given time.

Senator MURRAY—So, without leading the witness too much, you support my campaign for a lower alcohol wine excise category?

Mr Crosbie—I am not sure that I support your campaign—

Senator MURRAY—Which is a volumetric tax.

Mr Crosbie—I certainly support the notion of a volumetric tax. Many people in this room—and, frankly, many of us know each other from discussing these issues in these kinds of hearings over a long period of time—would agree that we need to do something about cask wine if we had to choose a priority, and to me there are a number of options for doing that. I would certainly support a volumetric tax at some level on cask wine, with incentives to produce lower alcohol cask wine. All health groups would support that.

Senator FERGUSON—I am interested in a heading of one of your chapters which says ‘Increased premixed spirit sales may not be harmful’. That is not the sort of headline that you would expect from a submission from the drug and alcohol council. Is that because there is a current move amongst RTDs, which are premixed spirit drinks, to provide on that market low and measured amounts of alcohol, which would mean that responsible drinking is encouraged rather than what occurs when people buy, as you say, casks or bottles of spirits?

Mr Crosbie—The increase in premixed spirits that has happened since the introduction of the WET has sometimes been characterised in the media as a negative thing. We need to get the data, and some of the information presented today fills in some of that data. I personally would prefer that people drank premixed spirits than buy a bottle of spirits and mixed it themselves. I have stood in shopping centres and done tests—I have done it with the previous health minister—asking people to pour a standard drink of spirit. It was the thing they most likely exaggerated significantly. In fact, the previous health minister poured two standard drinks in his estimation of a standard drink of alcohol.

Senator FERGUSON—I am not sure that we should put that on the record!

Mr Crosbie—In shopping centres and in the broader community, people tend to think, ‘That’s a standard drink of spirits,’ and pour out what they see as a measure in a glass, regardless of the diameter of the glass or whether there is ice in it. I can remember having an argument with the distillers about their putting out a standard drink poster in which they had ice in their glass and then had filled up around the ice so that the glass looked fuller. We have those kinds of discussions about what a standard drink is. People, particularly young women—who have always preferred spirits as long as we have been looking at the consumption patterns of young women—do not pour standard drinks. It would be lovely if they did but they do not. And mixing it themselves obviously creates a higher alcohol intake over a shorter period of time, which leads to more intoxication and more harm. So premixed spirits from that perspective are not necessarily a negative.

I think we also need to recognise this: my reading of the figures is that the brown spirits and the full-strength spirits—the Jim Beam and Cokes—are clearly for older men. When I say ‘older’, I mean that they are above 20 and they are people who would otherwise be drinking beer.

Senator FERGUSON—I am worried about this category of ‘older men above 20’!

Mr Crosbie—We are just talking about young people, that is all. They all seem incredibly young to me, Senator.

Senator FERGUSON—And to me. I am actually old enough to remember one of the early mixed drinks called a screwdriver, if I remember rightly. Thankfully, in those days, I used to drink beer.

Mr Crosbie—A screwdriver is vodka and orange. The other very quick point about this is that I have not met a lot of young people who drink for aesthetic reasons. The idea that ‘I’m drinking this creme de menthe because I really like this green, sticky, sugary liquid’ is

completely ridiculous. You drink creme de menthe because it is what you can get out of your parents' cupboard that no-one would notice had any missing from it. The pattern of drinking of young people is not about going out there and trying to have an aesthetic experience of good taste. Generally, it is more informed by social patterns and wanting to look cool; whatever drink happens to be the drink that makes you look cool or is available, people will drink. I would hesitate to ask about this, but I am sure the senators' initial consumption of alcohol was not informed by aesthetics any more than mine and that of most of the people I know; it was really an experiment and then it was often drinking to get drunk until people learned how to manage that.

Senator FERGUSON—I have one final question. I said earlier that we probably all would agree that alcohol can be a pleasure or a curse. I think that has been proved over and over again. One of the things that I wonder whether you have done any research on is this: if we were to make the cask of wine at its current strength more expensive, is it likely to change the buying pattern so that people who now drink cask wine may return to drinking fortified wines or spirits?

Mr Crosbie—The short answer is that there has been a mini-experiment around that in the Northern Territory where a levy was put on cask wine and people drank less cask wine. We are currently looking at the data about the increase in fortified spirits. In the past when there have been restrictions—not so much to do with price; in this case I am talking about the restrictions that have been introduced in Alice Springs in the last couple of months—according to anecdotal evidence from talking with people who work in the alcohol and drug treatment field in Alice Springs, there has been an increase in what we used to see as 'flagon drinking'. What people were doing was watering down port so that it got to be of a constituency and an alcohol concentration similar to that of cask wine. I think we would have to look at any shift in changing the availability of cask wine—what else is the floor price or how else people can get large amounts of alcohol very cheaply.

CHAIR—Thank you very much indeed for your evidence, Mr Crosbie and Ms Wilson. I now invite to the table officers of the Treasury.

[7.04 p.m.]

COLMER, Mr Patrick, General Manager, Indirect Tax Division, Department of the Treasury

FREE, Mr Anthony John, Manager, Excise Unit, Indirect Tax Division, Department of the Treasury

WEBSTER, Mr Tony, Senior Policy Analyst, Tax Analysis Division, Department of the Treasury

CHAIR—Welcome. The committee has before it submission No. 14 on behalf of the Treasury. Do you have any comments to make on the capacity in which you appear?

Mr Webster—I was on the working party of officials which reported to the ministerial council.

CHAIR—If you wish to speak to your submission or make a brief opening statement, please feel free to do so.

Mr Colmer—We will not take much time with an opening statement. First of all, I would like to highlight a slight error in our submission. On page 7 we stated that there were no light—

CHAIR—An error from the Treasury, Mr Colmer!

Mr Colmer—I know it is unusual.

CHAIR—I have never heard of such a thing.

Mr Colmer—We were not aware of the existence of Brewers Black Lite at the time that we prepared the submission, so we incorrectly stated that there were no low-alcohol RTDs on the market.

Senator FERGUSON—Which paragraph is that?

Mr Colmer—It is in about the middle of the page. It starts off: ‘Previously, RTDs ...’

CHAIR—You mean the words in parentheses in the middle of that paragraph.

Mr Colmer—That is right.

CHAIR—Thank you. We will straighten that out.

Mr Colmer—The only other point I would like to make is that the bill as it stands on alcohol is really not changing the tax regime; it is merely changing the administrative arrangements. In effect, it is not changing the alcohol burden on any of the various products, and it is smoothing out some administrative arrangements which flow from Commonwealth-state arrangements. The tariff changes in the bill are in place and have been in place since 1 July as a result of the proposal mechanism. The purpose of the bill is to formally validate those tariff changes. The bill really deals only with beer in terms of alcohol. I would like to acknowledge that there have been some interesting discussions from some of the other parties at the table. We have been following that debate quite closely. Apart from that, we are here to answer any questions if we can.

CHAIR—Is there a working group within Treasury or, if not a working group, is there a body of people within Treasury that is looking at this broader question, with which the other witnesses were concerned, of the fundamental restructuring of the alcohol tax regime?

Mr Colmer—The short answer is no. The current alcohol tax regime has grown up over a number of years, but some fairly significant changes were made to that as part of the ANTS package. At this stage, there is no plan to change those arrangements, although we are aware of people's concerns.

Senator MURRAY—I appreciate that alcohol policy, whether from a revenue, industry or health basis, is the province of government and you cannot really comment on that, so I will ask you a couple of questions on practical issues. My assumption—I used the word politically with Mr Crosbie—is that the government, having introduced WET just a couple of years ago, is unlikely to change that regime in a hurry. I have advocated, as you might know or might have gathered today, that the ability to access a volumetric excise for wine should be made available. That would be an option.

What I propose is that any wine-producing entity—and that obviously prevents people divvying it up into vineyards or that sort of thing—would as a whole be able to opt for an excise rate which would be established. The consequence of that for those who opted for it would obviously be a lowering of their taxation. The reason I propose that is that at the upper end of wine the value added rate is proving economically inefficient; namely, it is resulting in a loss of productive opportunities, capacities and jobs—in the manner outlined by Mr and Mrs Lubiana and Mr Helm earlier. Practically speaking, is there much difficulty for Treasury or the tax office in being able to administer a wine excise parallel with a WET—bearing in mind that the wine excise would operate with no rebates whatsoever and would simply be an excise rate and there would be no other administrative work?

Mr Colmer—That would depend on the exact form of the system that you were proposing. As a theoretical concept, it would be possible to do that. How much would be involved in that would depend on the precise detail. If there were different rates and different outcomes available, I am not quite sure what the point of that would be. My guess—and it is only a guess—is that people would choose the lower rate.

Senator MURRAY—Exactly. And that is the point of it. It is to lower the price of higher value wine products. That is an economic need expressed, as I said, by wine makers such as Mr Helm and the Lubianas, who are representatives of the high value added sector, who find that the value added tax—onto which, incidentally, you have the GST added—is proving economically costly to them, because they are reaching a level at which they cannot secure sales and market opportunities.

Mr Colmer—That was their argument. I am not sure that that is necessarily the outcome of the tax system alone.

Senator MURRAY—From your perspective, depending on how it is designed, it is feasible to do, isn't it?

Mr Colmer—In a theoretical sense it is feasible, but I am not quite sure how that would work in practice without seeing a little more detail around it. I suspect that, if the rates were different, people would select into the lower rate and we would end up with one system.

Senator MURRAY—Let me now go to the other end of the proposition, and that is to create a more attractive low-alcohol regime. It is obviously easy to do for RTDs, because that simply means a choice as to the level; but, with respect to low-alcohol wine—and there are prospects there for low-alcohol cask wine—you plainly could not do it with the WET: if you affect the WET price, it goes all the way up the spectrum. You would have to create a volumetric excise for low-alcohol wine. That is feasible as well, is it not?

Mr Colmer—It is possible to do anything along that line, if you choose to. What the compliance impact might be depends on the circumstances. I presume it would be possible to include in the excise system, for argument's sake, wine below a certain alcohol content. But whether or not that would meet people's needs remains to be seen.

Senator MURRAY—Let me put this proposition to you. The industry figures are that virtually no volume of importance is produced in low-alcohol wine. If you created such a category and nothing happened, there would be no consequence. If you created such a category and in fact encouraged the consumption of low-alcohol wine, there would be a consequence: presumably, a substitution of—from your perspective—a higher revenue product to a lower revenue product.

Mr Colmer—I was talking about the compliance cost for industry. I was not actually concerned about—

Senator MURRAY—How can there be a compliance cost for industry?

Mr Colmer—If industry has to maintain two systems, for argument's sake, then that will be a cost. It would depend on the nature of how such a proposal was designed and what exactly was in it. If we were to have an excise system, for argument's sake, on one type of wine and a WET system on another, then presumably there would be some additional compliance cost for the industry that was trying to manage those arrangements.

Senator MURRAY—Take a winery that is currently producing both brandy, which is wine based product, and wines. It is running two systems; it has excise on its books and it has WET on its books. Angoves would be a typical example.

Mr Colmer—Most wineries do not produce brandy as well as a wine label. To my understanding, the vast majority do not produce brandy. The Australian brandy producers are rapidly reducing in number.

Senator MURRAY—I would suggest to you that most of the 465 independent wineries are unlikely to go for low-alcohol wine, as well.

Mr Colmer—That may be right.

Senator MURRAY—Do you have a negative attitude to all these things, Mr Colmer?

Mr Colmer—No.

Senator MURRAY—Just as long as I get your tone right.

Senator FERGUSON—Mr Colmer, you have listened to all the evidence this afternoon and you would have heard the comments by Mr Helm, as a small winemaker, about the impact of the paperwork that is involved with the current taxation system. Would you like to comment on that?

Mr Colmer—The comment I would make is that there did seem to be some mixing of issues around compliance and overall taxation rates, and I must say that I was not sure that the argument around the compliance costs and the impact on the marketplace was particularly compelling.

Senator FERGUSON—But you do not have to fill out the forms, do you?

Mr Colmer—No, I do not have to fill out the forms. If there is an issue about the way in which the system is designed and the way in which it operates, we can look at that. But tying that in with an argument about the overall tax rate confuses the issue, and I am not sure that it actually makes it very easy to deal with.

Senator FERGUSON—You heard the evidence of representatives from the Distilled Spirits Industry Council. At the end they said they had a recommendation or an amendment they wanted to put to this bill, which is:

That packaged RTD products below 10% alcohol by volume (abv) be subject to excise duty at exactly the same three tiered rates as packaged beer with effect from 1 January 2003. [Estimated revenue cost: \$42m in the second 6 months of 2002/03 (FY03). \$100m in 2003/04 (FY04)]

Have you done any figures on that yourselves? This proposal has been around for some time.

Mr Colmer—That proposal has been around, and those figures are fairly accurate, to our understanding.

Senator FERGUSON—It would seem that there is a definite inequality, if we are talking about the taxation regime as it applies to RTDs in relation to packaged beer. Having heard what the health lobby has said about measured amounts of alcohol, there may be some savings in the health area that are unidentifiable.

Mr Colmer—There may be. I would not be able to comment on that.

Senator FERGUSON—What about their other proposal, which is:

That draught RTD products below 10% abv be subject to excise duty at exactly the same three tiered rates as draught beer. [Estimated revenue cost: Negligible]

Is it your understanding as well that that cost would be negligible?

Mr Colmer—I am a bit confused about the two different proposals you are suggesting there. Our understanding is that their proposal to put the RTDs on the same regime as beer would cost significantly—although there is a question around how much substitution there might be for RTDs and beer. That can confuse the issue.

Senator FERGUSON—Mr Free, do you want to comment?

Mr Free—I was not a member of the working party. My colleague Mr Webster was a member of the working party, and they commented that issues about equivalence were raised with respect to mid- and low-alcohol RTDs. They acknowledged them but considered they were not within the ambit of the working party, whose recommendations were agreed to by the Commonwealth Treasurer and the state Treasurers and are being delivered by this. But I think the principal revenue area that would suffer from equivalence would be full-strength RTDs. If you had complete equivalence with beer, the 1.15 alcohol-free threshold would be the main contributor to that revenue loss that you identified before.

Senator FERGUSON—Regardless of whether the government would accept such an amendment, would you agree that it does put some equity and fairness back into taxation?

Mr Free—I think that, from a pure taxation perspective, there is some attractiveness in the arguments that have been put that, irrespective of the source of alcohol, it should have similar tax rates. But I think that, in the taxation of alcohol, you have existing markets that have been developed over many years. Major shifts in those, for various reasons, are very difficult to achieve and I do not think you can fully divorce the taxation of alcohol from social and health policy reasons. I would not like to speculate too much; I am not an expert on health policy. All I will say is that this particular bill delivers the decision that the government made, which was agreed unanimously with the states and with a working party. I think one of the other witnesses said that he was quite amazed that the working party was able to achieve a unanimously agreed outcome and he was quite complimentary to them.

Senator MURRAY—It was a good job; I agree.

Senator FERGUSON—The other thing is that we heard from the brewers who made an appeal for some stability in the taxation of alcohol, saying, ‘We have had enough reviews; we have gone through all this for the past 10 years.’ It is true. We have probably actually been doing it for a lot longer than 10 years, if the truth be known. But if we find that, because of the taxation regime that is in place, we are causing health problems in the community or we are distorting the market, surely taxation measures on alcohol should be an ongoing review rather than something that stops once you think you have achieved something.

Mr Free—I could only say what decisions the government has made: that, as set out in our submission, this is not an attempt to change current alcohol taxation policy in any major way but is very specifically to deliver an administrative arrangement for low-alcohol beer through a national excise scheme.

CHAIR—Thank you, gentlemen. That concludes this public hearing into the provisions of the [Excise Tariff Amendment Bill \(No. 1\) 2002](#) and the [Customs Tariff Amendment Bill \(No. 2\) 2002](#). On behalf of the committee, I thank all witnesses for their submissions and contributions, the secretariat, the Hansard staff and others who have assisted in this hearing.

Committee adjourned at 7.23 p.m.