Submission to the House of Representatives Standing Committee on Family and Community Affairs

Inquiry into Substance Abuse in Australian Communities

Prepared by:

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(DSICA)

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Executive Summary

DSICA's primary goal is to promote the production and distribution of quality spirit based products in Australia for the enjoyment and responsible consumption of consumers.

DSICA is concerned about the misuse of alcohol in Australia and notes that most drinkers consume responsibly. DSICA also notes that it is clear from recent research that most misuse is not directly associated with the consumption of spirits.

DSICA is also concerned about regressive taxation and excessive regulation by governments based on ill-informed perceptions about the level of harm associated with the consumption of spirits.

As a peak body, DSICA supports the right of the spirits industry to produce, market and promote its products without undue government regulation.

1.1 Recommendations

Alcohol taxation inquiry (see Section 5)

- That a comprehensive inquiry into Australia's alcohol taxation system should be conducted to ensure that the appropriate level of Commonwealth taxation is being applied to each of the major categories of alcohol;

Taxation of spirits (see Appendix B)

- that the overall future level of taxation of spirits should be reduced, in particular, at least to remove the effect of the 80% increase in the taxation of spirits, which occurred in 1978;
- that the future rate of excise duty for spirits should be reduced at least by a dollar amount equivalent to the NTS component of the 1 February 2001 indexation increase; or that the Government adopt an adjusted CPI approach for the period July 2000 to June 2004;
- that the concessional excise rate for brandy should be abolished and that the excise rate for brandy should be set at the same rate as for spirits;
- that the 5% ad valorem protective tariff for imported spirits should be abolished;

Taxation of ready to drink (RTD) beverages (see Appendix B)

- that alcohol beverages below 10% alcohol content should be subject to a similar tiered excise regime as beer, and should have access to the same excise free threshold of 1.15%;
- that traditional cider should be subject to a similar tiered excise regime as beer, and other ready to drink products;
- that the concessional rates for draught beer should apply to draught RTD products. Further, that RTD products should receive the same tiered treatment and the same 1.15% excise free threshold that applies to draught beer.

Taxation of beer (see Appendix B)

- that the dollar rates of excise duty on the three tiers of beer products be amended to remove the current incentive to produce higher alcohol beer products; that lower alcohol ready to drink products receive the same treatment as lower alcohol beer products under any changes in Commonwealth excise duty that are made to replace the existing State low alcohol subsidy schemes;

Non-taxation recommendations (see Section 6)

DSICA's recommendations in relation to non-taxation issues include:

- that there should be no introduction of a warning labelling system for alcohol products;
- that the current system of industry self-regulation of alcohol advertising should be maintained;
- that there should be no restrictions imposed on sponsorship of sporting or cultural events by alcohol producers; and
- that effectively targeted public education campaigns be designed as opposed to broad brush drug prevention campaigns.

April 2001

2 Who is DSICA?

The Distilled Spirits Industry Council of Australia (DSICA) has prepared this submission in recognition of the important social, health and economic issues associated with drug and alcohol use in Australia.

As a responsible peak national organisation committed to a prosperous and healthy Australia, DSICA welcomes the opportunity to have its views considered as part of the *Inquiry into Substance Abuse* being conducted by the House of Representatives Standing Committee on Family and Community Affairs.

DSICA is the peak body representing the interests of distilled spirit manufacturers and importers in Australia. Its goals are:

- to create informed political and social environments that recognise the benefits of moderate alcohol intake and provide opportunities for balanced community discussion on alcohol issues; and
- to ensure public alcohol policies are soundly and objectively formed, that they include alcohol industry input, that they are based on the latest national and international scientific research and that they do not unfairly disadvantage the spirits sector.

DSICA members are committed to:

- responsible marketing and promotion of distilled spirits;
- supporting social programs aimed at reducing the harm associated with the excessive or inappropriate consumption of all alcohol;
- self-regulation and pre-vetting of all advertising; and
- making a significant contribution to Australian industry through primary production, manufacturing, distribution and sales activities.

To do this, DSICA favours a collaborative approach. That is, an approach which sees governments, the alcohol industry and public health professionals collaborate on public health projects that help the community achieve moderate and responsible alcohol consumption, and on programs that assist the alcohol industry to responsibly market its products.

DSICA's community work is not confined to the field of public education about alcohol. In recent years it has developed close links with several leading national and international alcohol agencies concerned with the broader issues of alcohol use and misuse (see further details of DSICA's activities in *Appendix A*).

The primary focus of this submission is upon the taxation of alcohol. This is because DSICA does not believe that the current system of alcohol taxation is designed to encourage drinkers to choose those alcoholic drinks that are least associated with harm. DSICA believes that a comprehensive alcohol tax inquiry is urgently needed to review the current system.

3 What is the alcohol market in Australia?

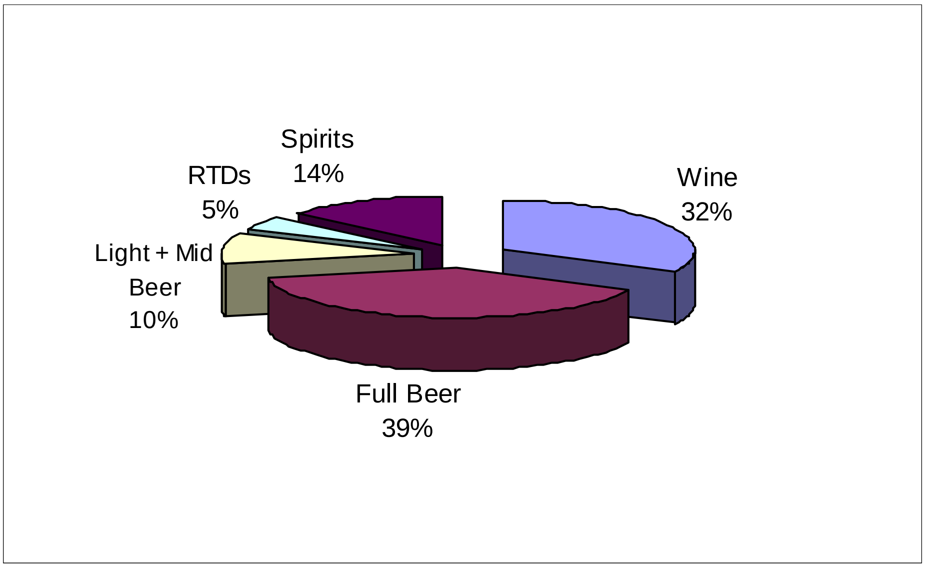
3.1 Current market shares by alcohol category

Beer continues to comprise approximately 49% of the total alcohol market, and wine (including fortified wine) has grown to approximately 32%.

Spirits (other than pre-mixed spirits) continues to comprise a very small 14% of the total market, and pre-mixed spirits accounts for a tiny 5% of the market.

The respective market share of the key alcohol product categories in Australia is illustrated in *Figure 1* below [1]. The measure adopted for comparison purposes is litres of alcohol (Lals) rather than litres of product.

Figure 1: Estimated Australian Alcohol Beverage Market - % share (2000/01)



3.2 Trends in alcohol consumption

Australia is a moderate consumer of alcohol by world standards. Australia is 20th on a league table of total alcohol consumption by country. Per capita consumption is comparable with New Zealand, USA and UK.

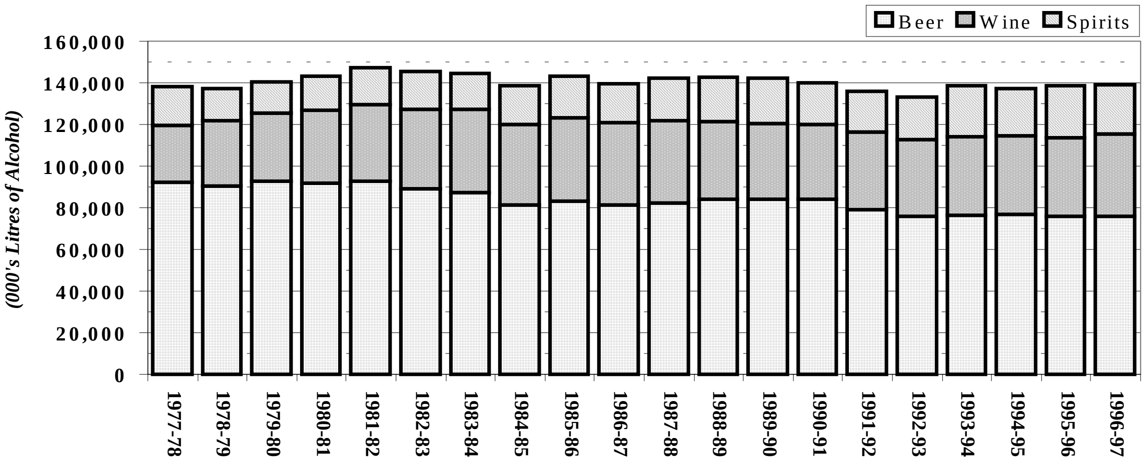
The key trends in Australia for the period 1977/78 to 1997/1998 have been as follows:

- *Total alcohol consumption:* total alcohol consumption has been steadily falling (see *Figure 2* below);
- *Wine (including fortified wine):* steadily gaining market share;
- *Beer:* falling market share, comprising falling sales for full strength beer yet increasing sales of low alcohol beer;
- *Spirits over 10% alcohol by volume (abv):* maintaining market share (1.8% recent average annual growth);

[1] Industry estimates derived from statistics supplied by the Liquor Merchants Association.

- *Ready to drink products under 10%:* there has been significant growth (from a very low base) in the market for Ready to Drink (RTD) beverages, including pre-mixed spirits, and fermented alcohol drinks (such as cider).

Figure 2: Australian Alcohol Consumption by Beverage type, 1977-78 to 1996-97



3.3 The spirits market

Small growth in total spirits market

The rate of growth in spirits consumption has been very small. For example, in the four years from 1994/95 to 1997/98, the average annual growth rate in spirits consumption was a mere 1.8%.

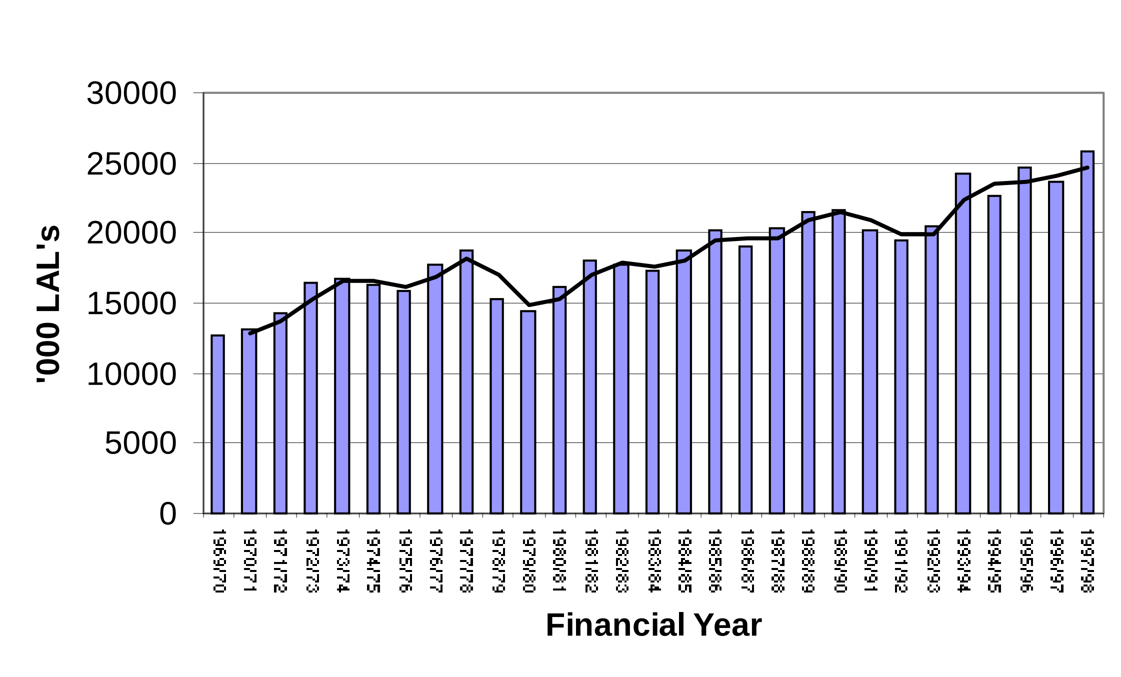
DSICA wishes to qualify the observation made in the submission of the Australian Associated Brewers (AAB)[2] that spirits consumption has grown by 30% in the period 1979 to 1998.

Although the AAB number is technically correct for the period concerned, it gives a potentially misleading picture of the long term changes in spirits consumption.

The fact is that in a period of nearly 30 years (ie between 1969/70 and 1997/98), spirits consumption has only grown at an average annual rate of 2.9% (see *Figure 3* below). As mentioned above, in the four years from 1994/95 to 1997/98, the average annual growth rate in spirits consumption was a mere 1.8%.

[2] See Submission No. 142 at page 9.

Figure 3: Spirits consumption 1969/70 to 1997/98



It should be noted that spirits consumption fell dramatically in 1978/79, as a result of a more than 80% increase in spirits excise in the August 1978 Commonwealth Budget[3]. It took some 7 years (ie until 1984/85) for spirits consumption to return to the levels that existed prior to the 1978/79 year. The AAB time series commences at one of the lowest points of annual sales, that is, in the financial year immediately following the August 1978 Budget (ie the 1978/79 year). Consequently, the AAB presentation unintentionally represents the return to the previous sales levels as growth, when in fact it was not growth at all.

Categories of spirits

The main categories within the spirits market are whisky, bourbon, gin, vodka, rum, brandy and liqueurs. There are similar categories of pre-mixed spirits within the Ready to Drink market.

Sales of pre-mixed spirits have increased since the taxation changes under the New Tax System have taken effect on 1 July 2000.

[3] The excise rate for whisky was increased from $10.29 per litre of alcohol to $18.75 per litre of alcohol.

4 What are the social and economic benefits and costs of alcohol?

4.1 Alcohol and health – use and abuse

Australian Drinking Guidelines

There has been a great deal of discussion in recent years about health and alcohol use. A Consultation Draft of the latest *Australian Drinking Guidelines*[4] has recently been released for public comment by the National Health and Medical Research Council (NH&MRC). The Draft Guidelines are designed to provide Australians with the latest evidence-based knowledge that will enable them to enjoy alcohol while avoiding or minimising harmful consequences.

The Guidelines summarise much of the latest available evidence in relation to the risks and benefits of alcohol consumption. The NH&MRC commissioned a major literature review to underpin the Guidelines. DSICA considers that the Guidelines are a valuable contribution to the debate on alcohol use and abuse. A copy of the Guidelines is attached in *Appendix D*.

The Guidelines are based on an Australian Standard Drink, which contains 10 grams of alcohol.

DSICA Comments

It is now accepted by health experts both in Australia and overseas that alcohol, when used in moderation, has health benefits, particularly for the cardiovascular system. People who drink moderate amounts of alcohol not only live longer, but seem to have healthier lives.

Most alcohol consumers drink moderately most of the time. A minority of drinkers regularly drink excessively and, as a consequence, experience significant health and other harms. The reasons why these people develop destructive patterns of alcohol use are often complex, and are not primarily related to alcohol as a product. Such people need assistance and help to overcome their problems, and DSICA is of the view that this assistance and support needs to be more accessible and effective.

DSICA seeks to encourage the responsible use of its products and has initiated several major projects to educate drinkers about the possible dangers to their health if alcohol is abused. DSICA has also consistently sought to discourage under-age drinkers and has supported efforts to educate young people about some of the harms of alcohol misuse.

It is a matter of some concern to DSICA that the benefits of moderate alcohol use are often not acknowledged. Beyond the cardiovascular benefits, it is important to consider that many people enjoy the relaxation and pleasure that are often associated with the responsible consumption of spirit products.

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[4] See Australian Drinking Guidelines, Consultation Draft, April 2000, National Health and Medical Research Council

The level of alcohol–related harm in Australia

There are many studies that have sought to quantify some of the social and health costs of alcohol misuse in Australia. DSICA is of the view that such studies often present associations rather than causal relationships. In practice, some people who drink alcohol engage in a range of behaviours that cause harm to themselves and others. To suggest that all harms associated with people who have been drinking alcohol are caused by alcohol is to extrapolate from association to causation in a way that serves no useful purpose. Some people involved in alcohol-related harm are involved in similar harms even when they do not consume alcohol (eg violence, crime, vandalism, etc.).

DSICA does believe that the level of alcohol-related harm in Australia should be reduced, but questions the degree to which alcohol actually causes rather than is present or is simply another factor in harm.

4.2 The economic impact of alcohol on Australia

It is very difficult to accurately quantify the economic contribution of alcohol to the Australian community, or the cost of harm arising from the abuse of alcohol. DSICA believes that such costing exercises are usually developed for political purposes rather than to accurately reflect the impact of a legal product such as spirits on the broader community.

The most commonly cited study by Collins and Lapsley (1996)[5] found that alcohol abuse cost the Australian community $4.5 billion in 1992. This estimate allows for the revenue generated from alcohol taxes, and primarily comprises a range of alcohol-related harms (rather than alcohol-caused harms) including premature death, lost productivity, increased hospital and other health costs, road accidents, increased law enforcement costs, etc. This cost estimate does not include the many benefits associated with having a productive alcohol industry in Australia, or the direct benefits to consumers in terms of pleasure or health.

Given the manner in which such figures are publicly used, it is important to place on record DSICA's concern that economic benefits or harms cannot be accurately costed, and if they were, it is arguable that alcohol would have a net positive benefit.

In terms of real and direct economic contribution, it should be noted that, although the spirits industry in Australia is often depicted as primarily being focused on importation of foreign products, there is a very active primary production and manufacturing component of the Australian industry. The production of local spirits products (eg, such as Bundaberg rum) generates jobs in Australia (eg for sugar growers) as well as for production and transport workers, and in local tourism. Similarly, most pre-mixed spirits products are manufactured in Australia, even when the spirits ingredient in the product is imported.

It can be seen that there are significant numbers of people involved in the manufacture, transport, distribution and sales of spirits products in Australia. This involvement constitutes a very significant contribution to the Australian economy.

[5] Collins, D.J. and Lapsley H.M, 1996, *"The social costs of drug abuse in Australia in 1988 and 1992"*, AGPS, Canberra

4.3 Alcohol abuse and road trauma

Background

For many years, DSICA has been concerned about the extent to which alcohol abuse has contributed to the level of road trauma in this country.

DSICA has been actively involved in the development and implementation of a number of national drink-driving education programs.

Home Safely Drink-Driving Campaign

In 1986, DSICA initiated *Home Safely*, a national drink-driving education program that encouraged Australia's teenagers not to combine alcohol and driving, and not to drive with someone affected by alcohol. This program has been conducted for almost 14 years and has only recently been completed.

Home Safely targeted upper level secondary school students across Australia. It was designed to facilitate classroom and family discussion on the important issue of driving and alcohol. It sought to curb the incidence of teenagers drink-driving or being driven by someone affected by alcohol, and it invited teenagers and their families to consider the alternatives. It encouraged teenagers to plan ahead and to take responsible action if they or the person driving them is affected by alcohol.

Schools included the *Home Safely* program in their curricula and promoted it within their school communities. Community groups, road safety educators, driving schools, road traffic authorities, local councils, community road safety committees, police, and drug and alcohol educators, organised *Home Safely* information sessions and community events.

Home Safely materials were provided free to schools and community groups. *Home Safely* was supported by the alcohol industry, and was endorsed by the Australian Medical Association, and Federal and State Ministers for Health and Education. A copy of the *Home Safely* materials can be provided to the Committee, if requested.

4.4 Alcohol abuse and crime and violence

DSICA has also been concerned about the relationship between abuse of some forms of alcohol and crime and violence.

Cask wine and full-strength beer associated with crime and violence

DSICA is of the view that different forms of alcohol are associated with different levels of alcohol-related harm. Several studies have found that the consumption of regular strength beer and cask wine (particularly the cheap and high alcohol content varieties) is more highly associated with higher rates of assaults and alcohol related hospital admissions than is consumption of low alcohol beer, bottled wine or spirits.

For instance, recent data from Western Australia[6] has shown that local rates of per capita consumption of cask wine and full strength beer are most highly associated with local rates of violent incidents and of alcohol-related hospital admissions. This was a

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[6] *"Consumption of different alcoholic beverages as predictors of local rates of night-time assault and acute alcohol-related morbidity."* Stockwell at al. Australian and New Zealand Journal of Public Health 1998;22: 237-242.

comprehensive study of all liquor sales, violent incidents and alcohol-related hospital admissions for the whole state over one year. By comparison, rates of consumption of bottled wine and low strength beer are weakly or not at all related to local rates of these problems.

> "The beverages most associated with rates of night-time assaults and acute alcohol-related morbidity are those with the lowest federal taxation per standard drink, ie cask not bottled wine and regular-strength not low-alcohol beer."[7]

See the additional comments in *Section 5: Alcohol Taxation.*

"No worries" training video

DSICA has been involved in the development of programs to reduce the levels of violence related to alcohol abuse. For example, in 1994, in partnership with the AAB, DSICA developed and launched *'No Worries' - How Licensees Keep the Peace*, a training video for hotels and large licensed clubs. The video shows industry employees how to serve alcohol responsibly, and how to detect and prevent potentially violent situations that sometimes occur in licensed premises. A copy of the video can be provided to the Committee, if requested.

4.5 Alcohol abuse and young people

Background

There are a number of myths regarding the consumption and use of spirits-based products by young people. DSICA believes that the patterns of consumption of pre-mixed spirits by young people are not well understood by many commentators on alcohol use and abuse. Some of the relevant facts are set out below.

Fact 1: The majority of pre-mixed spirits is consumed by men

There is also a popular misconception that the majority of pre-mixed spirits is consumed by young women.

Recent industry survey data has identified that males consume almost 6 times (85% of sales) the quantity of pre-mixed spirits that females consume (15% of sales).

Fact 2: The majority of pre-mixed spirits are not brightly coloured or sweet

There is also a popular misconception that the majority of pre-mixed spirits are colourful and sweet flavoured, and target young women.

About two thirds of all pre-mixed spirits sold are dark spirits (eg bourbon, whisky and dark rum). These are not known for their sweetness or bright colours. These dark spirit based drinks are predominantly consumed by males over 25 years of age.

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[7] *See Stockwell article*: 237-242.

Fact 3: Spirits is not a primary substance of abuse

DSICA does not accept any proposition that spirits is the main form of alcohol that is abused. DSICA questions the results of the AGB McNair research and the News Limited Readership Survey cited in the Winemakers Federation of Australia (WFA) submission to the Inquiry[8].

That research purports to conclude that "wine is not a ***primary*** substance of abuse" (emphasis added)[9]. The survey is cited as finding that the percentages of the population that consume various beverages are as follows:

- *14 to 17 age category:* beer (16.6%), spirits (10.9%) and wine (9%); and
- *18 to 24 age category:* beer (44%), spirits (34%) and wine (25%).

The WFA seeks to conclude that as the data indicates the preferred alcohol beverage of youths, it "gives significant insight into the likely preferred alcoholic beverage of youth binge drinkers".[10]

The implication is that spirits is more likely to be abused by young people in both the 14 to 17 age category and the 18 to 24 age category than wine.

The flaws in this analysis are as follows:

- the size and methodology of the surveys is not known, so that the reliability of the surveys is seriously questioned;
- the surveys distinguish between cask and bottled wine, but do not distinguish between full strength spirits on the one hand, and pre-mixed spirits on the other (the alcohol content of pre-mixed spirits is approximately 5% alcohol by volume (abv), similar to the alcohol content of full strength beer);
- the surveys do not distinguish between full-strength beer and light beer;
- the results of the surveys cannot be relied upon to conclude that beer and spirits are the likely preferred alcoholic beverage of youth binge drinkers. A survey of binge drinking behaviour would be required to substantiate this conclusion.

DSICA also rejects the WFA contention that there are unquestionable cardio-protective benefits that are unique to wine.[11] DSICA notes that the recently released draft Australian Drinking Guidelines[12] conclude that although the evidence is not conclusive, the protection that alcohol confers against heart disease results simply from the alcohol content and probably has "little to do with the type of drink".[13]

[8] Submission No. 59 to the Substance Abuse Inquiry.

[9] WFA Submission No. 59 at page 34.

[10] WFA Submission No. 59 at page 34.

[11] WFA Submission No. 59 at page 35

[12] See Appendix D, Australian Drinking Guidelines, Consultation Draft April 2000 – National Health and Medical Research Council

[13] See Appendix D, The Australian Drinking Guidelines, Consultation Draft April 2000 at page 16.

Industry education campaigns

DSICA has been involved in the development of a number of industry supported campaigns designed to promote responsible and moderate alcohol consumption amongst 18 to 24 year olds, as discussed below.

"If You're Drinking, Keep Thinking Moderation"

In 1990, in response to community concerns about alcohol abuse amongst young Australians, DSICA implemented a multimedia public education campaign to promote responsible and moderate alcohol consumption amongst 18 to 24 year olds.

Its partners in this campaign were the Media Council of Australia and the Advertising Federation of Australia. The alcohol industry also endorsed the campaign and provided its full support.

The year-long campaign utilised radio, television, print and outdoor billboard advertising. It featured adolescent role models and contemporary Australian musicians Angry Anderson and Kate Cebrano, as well as Olympic basketballer Andrew Gaze.

The campaign was widely considered to be extremely effective.

Standard drinks campaign – "How much alcohol does your drink have?"

In 1995, in collaboration with the Federal Government, DSICA launched *'How Much Alcohol Does Your Drink Have?'* This was a campaign to educate the community about the amount of alcohol in a standard drink, and the equivalency of alcoholic beverages. The campaign supplemented *Alcohol. Go Easy*, the Government's three-year national adult alcohol and risk awareness program with a primary focus on 18 to 35 year olds.

How Much Alcohol Does Your Drink Have? had the full support of Commonwealth, State and Territory Health departments, which were consulted during its preparation.

In its first phase, *How Much Alcohol Does Your Drink Have?* utilised posters and print advertisements to target all drinkers, but had as its primary focus the 18 to 35 year old group.

The second phase of the campaign, a point-of-sale campaign to the liquor industry and the community, commenced in June 1996 with DSICA member companies distributing one million drink coasters and a further 50,000 posters to Australian hotels and licensed clubs. Community groups, community road safety committees and other organisations also distributed the coasters and posters within their support networks.

The campaign ceased in March 1996. However, DSICA continued to distribute its promotional coasters and posters until December 1998.

Products targeting young people

The spirits industry in Australia seeks to maintain the quality of its product and to promote responsible consumption.

Maverick producers and distributors sometimes threaten the reputation of the legitimate spirits industry. These people are very rarely given an opportunity to influence the market because legitimate producers and retailers will not support their products. A good example of this is the alcoholic icy pole product which was withdrawn by the distributor due to public outcry and condemnation by the industry.

It is not in the economic or social interests of legitimate spirits producers to support such products or to encourage consumption by young people. DSICA supports government regulation that upholds the quality standards of the industry and that discourages irresponsible production, marketing and promotion of spirits.

4.6 Alcohol abuse and indigenous communities

DSICA is concerned about the levels of alcohol abuse amongst indigenous communities.

As a responsible industry body, DSICA is concerned that harm associated with the consumption of products such as cask wine is attributed to all alcohol products rather than to those products that are clearly abused by particular population groups in particular circumstances.

DSICA is not aware of any study which shows that spirits, or spirits-based products, are the main form of alcohol abused by indigenous communities.

DSICA believes that the most appropriate means of addressing these problems is through the introduction of a volumetric wine tax, as discussed in *Section 5: Alcohol Taxation.*

5 Alcohol taxation

5.1 Overview

DSICA does not believe that the current system of alcohol taxation is designed to encourage drinkers to choose those alcoholic drinks that are least associated with harm. DSICA believes that a comprehensive alcohol tax inquiry is urgently needed to review the current system.

> " … current taxation arrangements do not provide financial incentives for drinkers to choose alcoholic drinks that are least associated with harm."
>
> *Dr. Tim Stockwell, National Drug Research Institute* [14]

> "The 'random' nature of the current indirect taxation arrangements has resulted in the tax levied on wine being a contentious issue for some years, mainly because of the large discrepancies in the tax treatment of wine and other alcoholic beverages"
>
> *Committee of Inquiry into the Winegrape and Wine Industry* [15]

5.2 History of alcohol taxation

The spirits industry in Australia has paid very high rates of taxation and excise since first settlement when rum shipments were subject to a high level of import duty. In fact, revenue from different forms of taxation on spirits constituted almost 30% of the national budget in the late nineteenth century in Australia.

Since those early days of high rum taxes, taxation of spirits has consistently remained much higher than other alcohol products, despite the fact that spirits are not associated with the same levels of harm as are products such as cask wine or full strength beer.

The history of alcohol taxation remains a history of ad hoc political decisions that has resulted in an alcohol taxation system that lacks any sense of consistent purpose or rationale.

If health was the only factor influencing alcohol taxation policy, then the cost per standard drink of alcohol would be the primary factor. In practice, this is not the case.

If promoting effective industry was the goal, multinational cask wine producers who import significant amounts of cheap foreign wine to fill local casks would not pay a fraction of the tax per litre of alcohol that Australian based distillers do.

Different tax rates which apply to different alcohol beverages are the result of a long history of policy decisions whose only consistent rationale has been to raise large amounts of revenue for successive governments. In terms of efficient resource allocation, these tax rates have very little, if any, rational basis to them.

DSICA strongly supports taxation arrangements that will provide a more rational and equitable system of alcohol taxation in Australia, while at the same time producing health outcomes that will benefit the whole community.

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[14] *"Consumption of different alcoholic beverages as predictors of local rates of night-time assault and acute alcohol-related morbidity."* Stockwell et al, pg 242

[15] *Winegrape and Wine Industry in Australia* – A Report by the Committee of Inquiry into the Winegrape and Wine Industry, AGPS, 30 June 1995 at page 8 (Wine Inquiry Report).

The effect of excise duty and wholesale sales tax (WST) on alcoholic beverages has been to favour the consumption of wine and beer, and discourage the consumption of spirits. The introduction of the Goods and Services Tax (GST) has resulted in the abolition of the WST.

A detailed analysis of the taxation of the main categories of alcohol products under the Government's New Tax System, and under changes to the taxation of draught beer made on 4 April 2001, is set out in *Appendix B.* This Appendix also includes a number of more detailed recommendations for changes to Australia's current alcohol tax regime.

5.3 Twice yearly indexation increases in excise duty

Under the alcohol tax arrangements applying under the New Tax System, spirits continue to be strongly disadvantaged from a taxation perspective, especially compared with wine.

Under the current excise duty system, which applies to spirits (and beer), but not to wine, excise duty rates are subject to twice yearly increases to take account of movements in the consumer price index (CPI). The increase in excise duty rates that took effect on 1 February 2001 was 4.0%. This was based on the CPI increases in the two quarters since the New Tax System commenced on 1 July 2000.

This was one of the largest single increases in excise duty rates since automatic indexation commenced in 1983. DSICA is concerned about the impact that such a significant price increase has had on the demand for spirits.

Econtech estimates that had the New Tax System not been introduced, there would have been a fairly normal increase in excise duty rates of approximately 1.0%.

DSICA is concerned that the ad valorem (that is, value based) Wine Equalisation Tax (WET) is not subject to similar indexation increases. This results in a discriminatory situation in which spirits excise duty rates have effectively been increased as a second round effect of the New Tax System, but the ad valorem WET rate (currently 29%) was not subject to a similar increase.

5.4 Need for an alcohol taxation inquiry

Commonwealth taxation discriminates against spirits

This submission focuses on the non-GST revenue collected by the Commonwealth from alcohol taxation. The three key Commonwealth revenue sources from alcohol taxation are customs duty, excise duty and WET.

One simple means of analysing the effectiveness of the Commonwealth's alcohol tax regime is to compare the respective market shares of the three main categories of alcohol (ie. wine, beer and spirits) with the amounts of non-GST revenue collected from those categories.

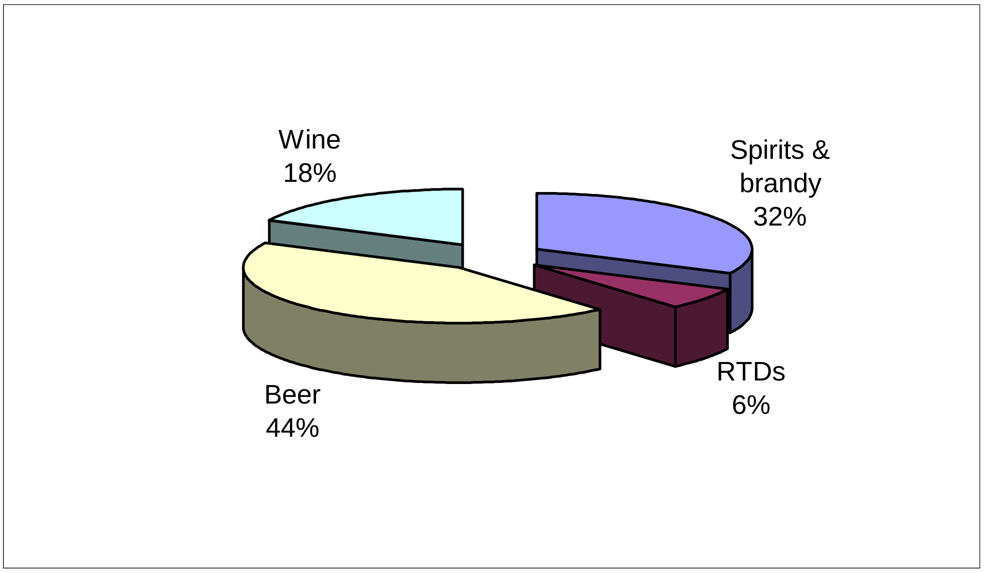
The key conclusion that can be drawn from this analysis is that wine is the category of alcohol that receives the most favourable tax treatment, and that spirits is the category most discriminated against.

As can be seen from *Figure 1 (Estimated Australian Alcohol Beverage Market - % share (2000/01))*and *Figure 4 (Estimated Commonwealth Revenue from Alcohol Taxation (2000/01))*, the respective market and tax shares of the three main categories of alcohol are as follows:

• Beer:	49% of market	44% of non-GST revenue;
• Spirits:	14% of market	32% of non-GST revenue;
• RTDs	5% of market	6% of non-GST revenue;
• Wine:	32% of market	18% of non-GST revenue.

DSICA has prepared a detailed forecast of likely Commonwealth revenue from alcohol taxation for 2000-01, as set out in *Figures 4* and *5* below.

Figures 4 and 5: Estimated Commonwealth Revenue from Alcohol Taxation by Alcohol Category (2000/01)



Estimated non-GST revenue 2000/01

Category	**Revenue**	**%**
Spirits & brandy	1,058,960,920	32.1%
RTDs	209,552,644	6.4%
Beer[16]	1,441,000,000	43.7%
Wine	586,416,667	17.8%
Total	**3,295,930,231**	**100%**

[16] 2000/01 Government Budget estimate

Need for review of wine taxation arrangements

The 1995 Inquiry into the Winegrape and Wine Industry in Australia recommended a composite ad valorem and volumetric tax on wine "to address the external costs associated with alcohol consumption".[17]

The WFA is now opposed to any form of volumetric tax on wine, and is calling for the abolition of the WET.

A volumetric tax on wine would result in price increases for low value wine (such as cask wine) and price reductions for high value premium wine. There are many small independent premium wine producers, such as the Independent Winemakers Association (IWA), who wish to see a volumetric tax on wine[18]. There are also many health groups who support a volumetric wine tax. These include:

- the Alcohol and Other Drugs Council of Australia;[19]
- the National Drug and Alcohol Research Centre;[20]
- the National Drug Research Institute;[21]
- the Australian Medical Association;[22] and
- the Public Health Association of Australia.[23]

DSICA believes that there is an urgent need to review the wine taxation arrangements that will apply under the New Tax System in the future. As can be seen from the submissions to the Inquiry referred to above, there is a wide range of support across many organizations within the health sector for a change to the current wine taxation arrangements.

Current taxation system favours the products that are abused

Ad valorem taxes like WET and GST favour cheap products that are more likely to be misused.

It would appear, therefore, that projected taxation levels for different beverage types under the New Tax System effectively operate so as to favour those beverages which are most frequently misused compared with beverages which are not associated with serious harm.

This is a situation that DSICA believes needs urgent review.

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[17] See Wine Inquiry Report at page 9.

[18] See Submission No. 158 at page 2417.

[19] See Submission No. 61 at page 598.

[20] See Submission No. 72 at page 835.

[21] See Submission No. 110 at page 1381, and Submission No. 123 at page 1506.

[22] See Submission No. 121 at page 1463.

[23] See Submission No. 159 at page 2432.

New Tax System price changes

Under the New Tax System, the WET rate, and the relevant excise duty rates which were set for spirits and beer, were chosen on a basis that related to achieving specified price changes for selected representative products for each category upon abolition of WST. That is, rates were set in order to achieve retail bottle shop (or liquor shop) price changes as follows:

- no price change for scotch whisky;
- no price change (or perhaps a small price fall) for a carton of packaged low alcohol beer;
- a 1.9% price increase for a 4 litre cask of wine; and
- a 1.9% price increase for a carton of full strength packaged beer.

The Government did not provide any specific rationale for the selection of these different price change targets. It could be argued that the "no price change" target for low alcohol beer and for spirits indicated that the Government does not view these two categories of alcohol as posing as much of a possible risk of abuse as is the case for cask wine and full strength beer.

Under the New Tax System, all GST revenues are passed through to the States (less an administrative charge for the costs of collection by the Australian Taxation Office and Customs). The GST applies equally to wine, beer and spirits in the same way as for most other consumer goods (other than fresh food). This GST tax collection mechanism can be viewed, from one perspective at least, as being for the appropriate general revenue raising purposes of the States. That is, for the provision of roads, schools and hospitals.

On the other hand, the WET collected on wine, and the excise duty and customs duty collected by the Commonwealth Government on locally produced and imported beer and spirits is not passed through to the States.

It can thus be seen that there are in fact three quite different methods of collecting Government revenue from alcohol.

DSICA does not believe that the price outcome method of setting WET and excise duty rates is an adequate method for setting these rates for the long term. Such an approach merely entrenches the current taxation disparities, subject to minor incremental adjustments. DSICA believes that the taxation disparities between wine, beer and spirits should be subject to a comprehensive review.

Furthermore, DSICA believes that the total amounts of Commonwealth taxation revenue likely to be collected in the future from wine, beer and spirits should be included in the review. One purpose of the review should be to determine whether the amount of revenue being collected from each category of alcohol is appropriate, and is growing at an appropriate rate.

For example, DSICA is concerned that the 4.0% increase in the spirits excise rate from 1 February 2001 will be automatically built into the base of all future excise duty rate increases. This one-off event has the potential to result in disproportionate increases in Government revenue from spirits, compared to wine, in future years. For example, this is likely to result in the revenue from spirits growing at a greater rate than the rate of growth in spirits sales. Note that in the four years from 1994/95 to 1997/98, the average annual growth rate in spirits sales was a mere 1.8%.

5.5 Recommendations

Recommendation: That a comprehensive inquiry into Australia's alcohol taxation system should be conducted to ensure that the appropriate level of Commonwealth taxation is being applied to each of the major categories of alcohol.

6 Other issues

6.1 Alcohol as a legal substance

DSICA is of the view that alcohol, as a legal substance, should not be targeted in combination with anti-drug campaigns aimed at illicit drug taking. The link between alcohol and illicit drugs has a very negative impact on the industry, which seeks to provide a quality product for responsible use by consumers.

The argument that alcohol use leads to illicit drug use ignores the fact that almost 80% of Australians drink alcohol occasionally, but only a small percentage of these drinkers ever use illicit drugs.

While there may be a stronger correlation between smoking tobacco and smoking of other drugs such as cannabis, drinking alcohol is such a widespread activity that attempts to extrapolate a small correlation into a direct relationship must be seriously questioned.

6.2 Alcohol labelling

DSICA is clearly of the view that labelling of alcohol products will not affect consumption and levels of harm. This view is reflected in all the research conducted around the world on different forms of labelling and its contribution to alcohol consumption patterns. Some international research has concluded that warning labels can be counter-productive in some cases (eg such labels may cause unnecessary distress for women who consume moderate amounts of alcohol and later discover that they were pregnant at the time of consumption, or such labels may encourage young people to attempt to drink to excess in acts of bravado to impress their peers).

Compulsory warnings and other messages on alcohol labels do, however, constitute a significant cost to industry, a cost that cannot be logically justified.

Alcohol labelling has been the subject of recent independent adjudication by the Australia and New Zealand Food Authority (ANZFA). ANZFA rejected an application by the Society Without Alcohol Trauma (SWAT) for mandatory warning labelling on alcohol products. SWAT has appealed that decision, and the matter is currently before the Federal Court.

DSICA does not consider that the Committee should make any recommendations on mandatory labelling pending the court decision on that appeal.

Recommendation: DSICA recommends that there should be no introduction of a warning labelling system for alcohol products.

6.3 Alcohol advertising

As a legal product competing for market share, DSICA members do believe they have a right to advertise their products to potential consumers.

From a health perspective, there is no conclusive study indicating a direct association between alcohol advertising and an increase in alcohol-related harm.

At the same time, DSICA believes it is important to maintain appropriate standards and ensure children and others are not inadvertently targeted through irresponsible or inappropriate alcohol advertising.

In Australia there is minimal legislation and few mandatory requirements governing the advertising of alcohol beverages.

An independent statutory body, the Australian Broadcasting Authority (ABA), regulates the broadcast of advertisements in accordance with the requirements of the Broadcasting Services Act 1992.

The Act allows each broadcasting industry sector to set its own programming guidelines in the form of codes of practice that provide appropriate community safeguards. Such codes operate alongside the ABA's mandatory standards regulating, for example, children's television viewing times.

At the State level, some government departments or statutory bodies have implemented codes of practice to govern alcohol advertising and promotion, while at the local level some municipal councils restrict alcohol advertising in certain residential, educational or commercial precincts.

Apart from this, alcohol advertising is largely controlled by a code of ethics and a self-regulatory system established in 1997 by the Australian Association of National Advertisers (AANA), an industry body representing the interests of advertisers.

Alcohol Advertising Pre-Vetting System

DSICA and the AAB collaborated with the Federal Department of Health, the Advertising Federation of Australia and the former Media Council of Australia, to develop the Alcohol Advertising Pre-vetting System (AAPS).

AAPS uses independent adjudicators to maintain standards in beer and spirit advertising and to ensure that member companies comply in letter and intent with the Alcohol Beverages Advertising Code and other self-regulatory codes of practice.

With the WFA and the Liquor Merchants Association of Australia, DSICA and the AAB also developed the new Alcohol Beverages Advertising Code (ABAC) and Complaints Management System. ABAC is a voluntary code of practice that sets the standard for alcohol beverage advertising in Australia and utilises an independent panel of community members to adjudicate consumer complaints.

Proposed advertisements that do not satisfy the standards set are not endorsed. However, an adjudicator may recommend that changes be made and advertisements be resubmitted for final approval.

AAPS is an outstanding example of the alcohol industry working collaboratively with government and other regulatory agencies to responsibly satisfy community and health authority concerns.

Since its inception, AAPS has virtually eliminated the number of complaints made about alcohol advertisements to the Advertising Standards Council, and the number of unsuitable advertisements being submitted to adjudicators for consideration.

Recommendation: That the current system of industry self-regulation of alcohol advertising should be maintained.

6.4 Alcohol sponsorship

DSICA members are sponsors of many cultural and sporting events. These include the Moet art award, opera, ballet and golf. While some of these sponsorships are primarily targeted at increasing market share within the particular population group, many of these sponsorships are also motivated by a desire on the part of spirit producers to promote cultural and sporting activities in Australia.

As a legal product enjoyed by many members of the community, DSICA members seek to maintain the right of freedom for the industry to sponsor any appropriate event.

DSICA would be opposed to the introduction of any undue regulation of the industry that would hamper its capacity to target particular market groups (except those under the legal alcohol consumption age) through sponsorship.

DSICA would also be concerned if it was not able to highlight its contribution to Australian cultural and sporting activities through restrictions on sponsorship and promotional activities.

Recommendation: DSICA recommends that there should be no restrictions imposed on sponsorship of sporting or cultural events by alcohol producers.

6.5 The need for more preventative and educational programs

DSICA has an impressive record in the field of public education about alcohol. Over five years, it has dedicated more than $5 million to community education campaigns that promote moderate and responsible alcohol consumption and encourage responsible market behaviour by alcohol industry members.

DSICA believes that those most likely to experience alcohol-related harm should be targeted by preventive and educational programs, as opposed to broad brush campaigns aimed at the whole community.

DSICA has contributed substantial funds to promotion of responsible drinking and serving practices. DSICA has put this belief into practice through its educational and prevention campaigns (outlined above).

Recommendation: DSICA recommends that effectively targeted public education campaigns be designed as opposed to broad brush drug prevention campaigns.

April 2001

Appendix A Further information on DSICA

DSICA membership

DSICA was formed in 1982, and the current member companies of DSICA are:

- Allied Domecq Spirits & Wine (Australia) Pty Ltd
- Bacardi-Martini Pacific Pty Ltd
- Brown-Forman Australia Pty Ltd
- Bundaberg Distilling Co Pty Ltd
- Continental Spirits Company Pty Ltd
- Jim Beam Brands (Aust) Pty Ltd
- Maxxium Australia Pty Ltd
- Quality Brands International (Aust) Pty Ltd
- Remy Australie Pty Ltd
- Suntory (Australia) Pty Ltd
- Swift and Moore Pty Ltd
- United Distillers & Vintners (Aust) Ltd
- William Grant & Sons International Ltd.

DSICA operations

DSICA has been an active advocate for its members, participating in Senate inquiries, debates concerning proposed alcohol taxation, the Wine Industry Inquiry and other major reviews. As part of this involvement, DSICA has made a significant contribution to the development of alcohol taxation policy through its own research, economic modelling and support in bringing together key players involved in alcohol policy issues.

To ensure that decisions regarding the marketing and sale of alcohol are made in an informed and reasoned atmosphere, DSICA conducts a comprehensive program of meetings with politicians and decision-makers. DSICA also provides governments and their agencies with information on the most up-to-date scientific research.

It is impossible to accurately quantify the economic contribution of spirits to the Australian economy. Many people are involved in the importation, local production and distribution of spirits. The industry generates hundreds of millions of dollars each year through taxation revenue alone.

DSICA's members are key players in promoting cultural and sporting pursuits in Australia. Many of its members are involved in sponsorship of events such as golf, opera, art and other national and local activities.

International links

Internationally, DSICA is a supporter of the Asia Pacific Alcohol Policy Forum (APAPF). Based in Hong Kong, this international organisation concerns itself with the social issues of alcohol in the countries of Asia and the Pacific Rim.

DSICA also maintains close links with several other major international organisations dealing with the social issues of alcohol. These include:

- the Century Council (USA);
- the Portman Group (UK);
- the Amsterdam Group (Europe);
- STIVA - The Netherlands Foundation for the Responsible Use of Alcohol; and
- Educ'alcool in Quebec.

DSICA also has links with international research centres such as the Centre for Beverage Alcohol (UK) and the International Centre for Alcohol Policies (USA).

Internationally, DSICA maintains close links with similar international liquor industry associations. These include:

- the Scotch Whisky Association (UK);
- the Distilled Spirits Council of the United States of America (DISCUS);
- the Association of Canadian Distillers; and
- the Distilled Spirits Association of New Zealand (DSANZ).

Appendix B: Alcohol Taxation – Further information

The purpose of this Appendix is to outline the key features of the current alcohol taxation regime in Australia. The main features discussed in the *Appendix* include:

1 Alcohol taxation under the New Tax System;

2 Wine Equalisation Tax;

3 Taxation of spirits and other products over 10% alcohol content;

4 Taxation of other ready to drink beverages below 10% alcohol content; and

5 Taxation of beer.

1. Alcohol taxation under the New Tax System

Under the Government's NTS , which applied from 1 July 2000, WST was abolished and replaced with a GST. All categories of alcohol are subject to the GST at the general rate of 10%.

However, wine, beer and spirits are subject to different Commonwealth taxation regimes.

All wine (including cask and bottled wine) is subject to the WET. Unlike the situation in relation to beer and spirits (see below), there is no automatic indexation of the WET rate. This is because it is levied on an ad valorem basis (ie it is a tax on value) rather than a volumetric tax (ie a tax, like excise duty, which is levied on the volume of alcohol in the product).

Beer, spirits and ready to drink alcoholic beverages below 10% alcohol content are subject to excise duty. Excise duty rates are automatically increased twice a year (1 August and 1 February) to take account of movements in the consumer price index in the previous 6 months.

Each of the differing alcohol tax regimes is discussed below.

2. Wine Equalisation Tax

Background

All wine (including cask and bottled wine) is subject to the WET.

WET is a single stage tax, not a multi-stage tax like GST.

WET applies at the rate of 29% of the last wholesale selling price (ie usually the sale from the last wholesaler to the retailer). The WET is an ad valorem tax. Other products which are subject to the WET include:

- grape wine products (ie products which contain more than 70% wine by volume, such as vermouth, marsala, and wine-based imitation liqueurs);
- fruit or vegetable wine (eg strawberry wine);
- cider (made from 100% apples) or perry (made from 100% pears);
- mead and sake.

A generous rebate scheme of some $14.7m applies to wine producers through the cellar door/mail order Commonwealth rebate.

As outlined in the submission, DSICA considers that there is an urgent need to review the wine taxation arrangements that will apply under the New Tax System in the future (see *Section 5: Alcohol Taxation*).

3. Taxation of spirits and other products over 10% alcohol content

The New Tax System documents recognised that spirits are currently "heavily taxed" in Australia.[24] The documents set a price target of no change in the retail bottle shop price of scotch whisky.

Australian produced spirits (other than brandy), and other alcoholic products over 10% alcohol content (not covered by the WET) are now subject to excise duty at the rate of $54.56 per litre of alcohol (Lal).

Imported spirits (other than brandy) are subject to customs duty at the same volumetric rate, and are also subject to a 5% ad valorem customs duty (ie a protective tariff). As discussed above, spirits excise (and the volumetric component of the customs duty) is automatically indexed on 1 August and 1 February each year.

3.1 Reduction in the overall level of spirits taxation

DSICA believes that the existing level of taxation of spirits is unacceptably high. The total level of Commonwealth and State taxation on spirits is in the order of 66% of the total retail price of an average bottle of scotch whisky.

DSICA believes that the overall level of spirits taxation should be reduced in the future. This unacceptably high level of spirits taxation in Australia is, in part, the legacy resulting from the 80% increase in spirits excise that took place in the August 1978 Commonwealth Budget[25]. As mentioned earlier, it took some 7 years (ie until 1984/85) for spirits consumption to return to the levels that existed prior to the 1978/79 year.

DSICA does support the principle of automatic twice yearly indexation of spirits excise.

However, DSICA believes that the introduction of the current system of automatic twice yearly indexation of spirits excise in 1983 unfairly discriminated against spirits because it came shortly after the 1978 excise hike. This has meant that automatic indexation increases have built upon an unfair taxation base. Consequently, spirits taxation in Australia has been too high since 1978, and this unfair level of taxation has been perpetuated since that time.

DSICA believes that the alcohol taxation inquiry recommended earlier is one means by which the unacceptable level of spirits taxation can be reviewed and reduced.

The imposition of twice yearly excise indexation increases in the future will result in an ever-widening gap between the price of spirits and the price of wine.

See *Figure 6* below, which shows the extent of the price differentials concerned. The graph compares, commencing with 1 July 2000, the price of a bottle of whisky ($29.21) and the price of a bottle of wine ($8.32). The graph illustrates that by 1 July 2005, the price of the bottle of whisky is estimated to have risen by 8.2% (to $31.60).

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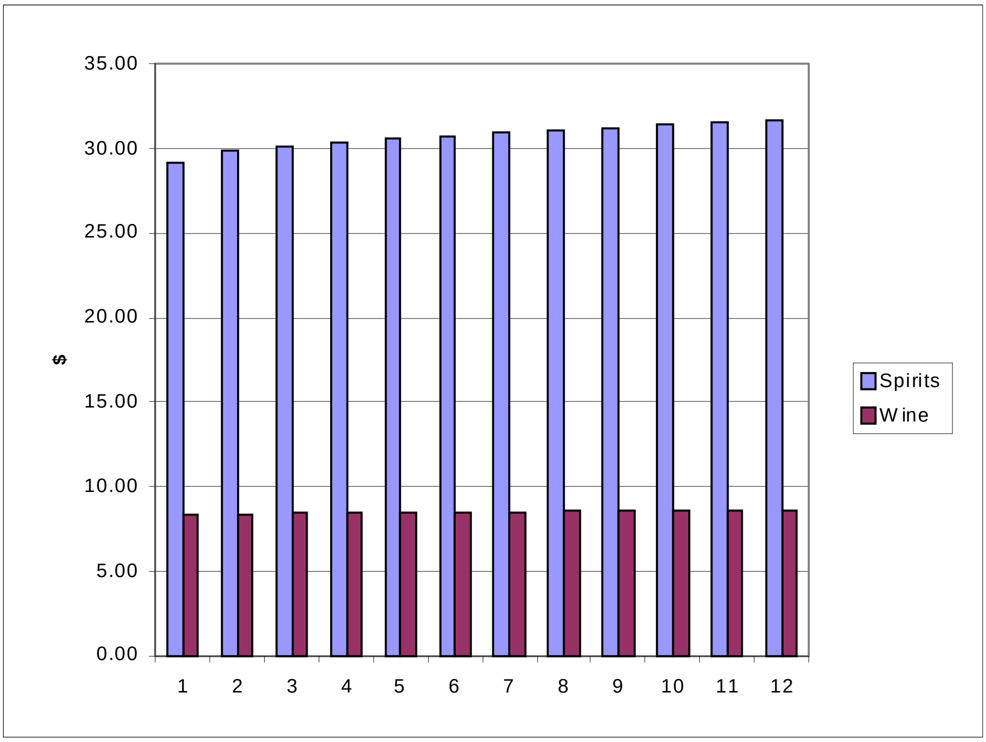
[24] *Tax Reform: not a new tax, a new tax system. AGPS*, 1998 at page 87.

[25] The excise rate for whisky was increased from $10.29 per litre of alcohol to $18.75 per litre of alcohol.

However, the price of the bottle of wine is estimated to only have increased by 2.9% (to $8.57). DSICA believes that this is a further form of discrimination against spirits which should be removed. See below for further discussion regarding the taxation of wine.

Figure 6: Estimate of future price differentials between spirits and wine[26].



Recommendation: That the overall future level of taxation of spirits should be reduced, in particular, at least to remove the effect of the 80% increase in the taxation of spirits, which occurred in 1978.

3.2 Reduction for the second round effect of the New Tax System

Under the NTS, the spirits excise duty rate increased by more than 35% on 1 July 2000, and Commonwealth revenue from spirits excise duty alone is estimated to increase by more than 60%.

DSICA strongly believes that the forward estimates underlying the 1998 NTS documents were prepared on the basis that the Government would discount the 2000-01 automatic excise indexation increases for the impact of the NTS (that is, that there would be no second round effect of the NTS on excise duty rates). This view is supported by Mr Chris Murphy, of Econtech.

DSICA believes that the revenue estimate tables in the NTS documents clearly show that the 2000-01 and the 2001-02 excise revenue estimates were discounted for the

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[26] *Figure 6* has been prepared in six-monthly intervals, commencing on 1 July 2000, utilising CPI forecasts from Econtech, which have been applied to the spirits excise rate and to the production cost base for the bottle of wine.

estimated impact of the second round NTS effect.[27] This can be seen in that the estimate for the increase in excise collections from beer and spirits between the 2000-01 and the 2001-02 years was only estimated to be $50 m[28]. Given the small annual growth of spirits volumes of only 1.8% pa, and the likely low underlying inflation figures for these periods, this figure is only compatible with a fully discounted indexation increase on 1 February 2001.

Consequently, DSICA believes that the recent indexation increase on 1 February 2001 should have been discounted for the impact of the NTS component of the consumer price index in the first half of the 2000-01 financial year. The Government's own figures indicate that the NTS component of the 1 February 2001 indexation increase was approximately 3.0%.[29]

DSICA therefore submits that spirits taxation should be reduced by at least a dollar amount equivalent to the 3.0% NTS effect. DSICA estimates that this amount is approximately $1.58 per Lal.

The imposition of twice yearly excise indexation increases in the future on a much higher base of spirits excise duty than DSICA believes should have been the case, will necessarily result in unjustifiable future increases in Commonwealth revenue from spirits. This will occur at a time when total spirits consumption is growing at less than 1% per year, and when there is no evidence that the health costs of spirits consumption are increasing appreciably.

If the Government is concerned about the long term impact on the Budget of a one-off reduction of $1.58 per Lal in spirits excise, then an alternative approach would be to adopt a longer term adjusted CPI approach. Under this approach, the headline CPI is adjusted for the impact of the NTS in each quarter from September 2000 to June 2004.

Under the CPI Adjuster developed by Econtech, the longer term effect of the NTS in reducing the CPI below where it would otherwise have been is taken into account. This means that the headline CPI for the 1 February 2001 indexation increase is reduced by the 3.0% effect of the NTS, but the headline CPI figures for those half years nearer June 2004 are actually increased to take account of the long term cost savings that have resulted from the introduction of the NTS.

Recommendation: That the future rate of excise duty for spirits should be reduced at least by a dollar amount equivalent to the NTS component of the 1 February 2001 indexation increase; or that the Government should adopt an adjusted CPI approach for the period July 2000 to June 2004.

3.3 Concessional rate for brandy

Australian produced brandy is subject to excise duty at a concessional rate of $50.95 per Lal. Imported brandy is subject to the same concessional customs duty rate, plus a 5% ad valorem customs duty.

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[27] *Tax Reform: not a new tax, a new tax system. AGPS*, 1998, *Revenue Measures Tables: indirect tax* at page 100 and 101.

[28] That is, the difference between $1.27 billion additional excise revenue estimated for 2001-02 compared with $1.22 billion additional excise revenue estimated for 2000-01.

[29] See the Treasurer's Press Release of 24 January 2001, 12 noon.

DSICA believes that this concessional rate for brandy can no longer be justified, and should be removed. DSICA notes that the Winegrape and Wine Industry Inquiry made a similar recommendation in 1995.[30]

Recommendation: DSICA believes that the concessional excise rate for brandy should be abolished and that the excise rate for brandy should be set at the same rate as for spirits.

3.4 Removal of 5% protective tariff

DSICA is extremely disappointed that the Government has decided not to remove the 5% protective component of the customs duty applying to spirits.

DSICA lodged a submission with the Productivity Commission Inquiry into nuisance tariffs seeking the abolition of the 5% ad valorem customs duty rate. However, the Federal Government has recently announced its decision to retain the 5% ad valorem component.

With a very few notable exceptions, there is no domestic spirits industry which Australia needs to protect. Consequently, there is no defensible policy rationale for continuing to retain the existing 5% "protective" tariff.

DSICA does not accept the argument that the Government wishes to retain the tariff to use as leverage in future world trade negotiations. That is no justification for continuing to retain a tariff that operates effectively with no other purpose than as a revenue raising device. Its retention simply results in Australian consumers paying higher prices for spirits than they otherwise should.

Recommendation: That the 5% ad valorem protective tariff for imported spirits should be abolished immediately.

4. Taxation of other ready to drink beverages below 10% alcohol content

All other Australian produced alcoholic beverages below 10% alcohol content (other than beer and products covered by the WET) are subject to excise duty at $32.22 per Lal. These products are referred to as "other excisable products". However, these products are not subject to the same 3 tiered structure as beer (see below), and they do not receive the benefit of the 1.15% excise free threshold that applies to beer (see below).

Other excisable products which are imported are subject to customs duty at the same volumetric rate of $32.22 per Lal, as well as a 5% ad valorem customs duty.

This new regime has been a major reform of the alcohol taxation system. It has removed the taxation incentive to substitute different forms of alcohol in ready to drink products. All ready to drink products (other than beer and products, such as cider, which are covered by the WET) are now subject to the same excise duty regime.

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[30] *Winegrape and Wine Industry in Australia* – A Report by the Committee of Inquiry into the Winegrape and Wine Industry at page 20.

4.1 The need for full alignment

DSICA believes that all alcohol beverages below 10% alcohol content (including the products covered by the WET) should be subject to a similar tiered excise regime as beer, and should have access to the same excise free threshold of 1.15% as applies to beer (this preferred taxation treatment is referred to as "full alignment").

DSICA believes that the fundamental underlying principle that should be applied in the development of all alcohol taxation systems is that alcohol products of similar alcohol content should be taxed at similar rates.

There is no policy justification for taxing ready to drink beverages at a different rate to beer. There is clear evidence that these products are direct substitutes for one another and compete for market share.

Full alignment will encourage the production of lower alcohol ready to drink products, such as the 3.5% alcohol content pre-mixed spirits drinks that have recently been released.

The Government's own NTS document drew no distinction between the proposed taxation rate for beer and the proposed taxation rate for "other beverages with less than 10% alcohol content". In fact, the NTS document implied that the excise rate for beer would apply to the other ready to drink beverages.

DSICA does not support the final outcome, under which ready to drink beverages are taxed at the dollar rate for full strength beer, without the provision of any tiering and without the benefit of the 1.15% excise free threshold that applies to beer.

The excise free threshold exists for the purpose of encouraging the production of lower alcohol strength beer within each of the three tiers concerned (see further discussion below regarding beer taxation). There is no defensible policy rationale for not applying a similar taxation incentive in the case of ready to drink beverages.

Recommendation: That alcohol beverages below 10% alcohol content should be subject to a similar tiered excise regime as beer, and should have access to the same excise free threshold of 1.15%.

4.2 Removal of cider taxation anomaly

DSICA does not accept the current situation under which traditional cider is covered by the WET, and is not subject to a volumetric taxation regime along with other ready to drink beverages of similar alcohol content.

Traditional cider is an alcohol product of less than 10% alcohol content.

The Government's NTS documents had proposed that cider would be taxed, at the beer rate, on a similar basis as the other ready to drink beverages.[31] This approach was good policy, because it proposed to remove the taxation incentive to produce cider, compared with other ready to drink products.

The Government subsequently reversed the NTS policy after the 1998 election, and determined that traditional cider would be taxed under the WET. This decision has resulted in an ongoing anomaly under which cider enjoys a taxation advantage, simply because it is fermented using a particular method that bears some similarity to how wine is fermented.

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[31] *Tax Reform: not a new tax, a new tax system. AGPS*, 1998 at page 87.

DSICA does not support the retention of any anomalies in the alcohol taxation system which rely upon particular methods of production. This creates an unfair system which discriminates between production methods on an ad hoc basis.

DSICA believes that cider should be subject to excise duty on the same basis as all ready to drink products under 10% alcohol content. However, it would be technically possible for a similar tiered taxation approach to be introduced into the WET without the necessity of subjecting cider to excise duty.

Recommendation: That traditional cider should be subject to a similar tiered excise regime as beer, and other ready to drink products.

5. Taxation of beer

Under the NTS, beer is subject to a tiered excise (and customs duty) regime as follows:

- *Low strength (0% to 3%)* $44.08 per Lal
- *Mid strength (above 3% to 3.5%)* $37.42 per Lal
- *Full strength (above 3.5%)* $32.22 per Lal

Beer produced in Australia is subject to excise duty at the above rates. Beer imported into Australia is subject to customs duty at the same volumetric rates as set out above. However, imported beer is not subject to the same 5% ad valorem customs duty that applies to spirits.

All beer has access to a 1.15% excise free threshold.

The Government has also introduced a special rebate of excise duty for micro-breweries.

DSICA strongly supports the tiered excise regime which now applies to beer, subject to correction of the anomalies discussed below The tiering regime partially resembles the taxation regime recommended by DSICA in its earliest submissions to the tax reform process that culminated in the release of the NTS documents. However, DSICA believes that a similar tiered regime should apply to the ready to drink sector. (see above).

5.1 Anomalies in tiered rates

It has come to DSICA's attention that the current dollar excise rates that apply to the differing tiers of alcohol content effectively operate to provide a taxation incentive to produce higher alcohol beer products. DSICA's preliminary analysis indicate that the current dollar rates create a "shadow" effect. This results in less excise duty being payable as the alcohol content of a beer product moves into the higher tier. For example, less excise duty is payable in Queensland on a 3.6% abv beer product than is payable on a 3.5% abv beer product. This effect also occurs in both Queensland and NSW when the alcohol content moves slightly above 3.0%. See *Appendix C* for detailed graphs depicting these taxation effects.

DSICA understands that this unintended consequence of the current beer taxation regime has already resulted in an increase in the alcohol content of at least two major beer brands. These changes may be focussed on the Queensland market.

DSICA believes that this is an unintended consequence which needs to be rectified immediately.

One option for rectifying this anomaly could be to revert to a single excise rate for beer, with differing excise-free thresholds in each of the tiers.

DSICA also understands that the Commonwealth Government has agreed with the State Governments to review the taxation of low alcohol beer, with effect from 1 July 2001. The objective of the review is to replace the existing low alcohol subsidy schemes currently implemented by the States. The review of these subsidy schemes provides the Commonwealth with a unique opportunity to fully align the taxation of ready to drink beverages with the taxation of beer.

Many of the low alcohol subsidy schemes operated by the States, other than Queensland, apply to products of 3.5% abv or less (lower alcohol products). This means that they effectively apply to the two lower tiers of the Commonwealth beer excise regime.

DSICA strongly believes that any changes to the excise duty regime for lower alcohol beer products should also be applied to lower alcohol ready to drink products.

There is at least one 3.5% abv ready to drink product utilising distilled alcohol. This is the *Bundaberg Gold* product.

It would be highly inequitable if the current taxation discrimination in favour of mid-strength beer (compared with similar strength ready to drink products) were to be further exacerbated by an excise reduction that applied only to beer.

The taxation of ready to drink products should, as outlined above, be fully aligned with the taxation treatment of beer. This is DSICA's preferred method of ensuring that the taxation regime continues to provide an authentic incentive to produce lower alcohol ready to drink products.

There are significant community and health benefits to be obtained from encouraging the production of lower alcohol products. These benefits are not limited to the production of low alcohol beer. It is only with full alignment that any taxation discrimination in favour of beer, at the expense of ready to drink products, will be completely removed.

Recommendation: That the dollar rates of excise duty on the three tiers of beer products be amended to remove the current incentive to produce higher alcohol beer products; that lower alcohol ready to drink products receive the same treatment as lower alcohol beer products under any changes in Commonwealth excise duty that are made to replace the existing State low alcohol subsidy schemes.

5.2 Taxation of draught beer

The Parliament recently passed the *Excise Tariff Amendment Act (No. 1) 2001* and the *Customs Tariff Amendment Act (No. 2) 2001*. These Acts implemented new concessional excise (and customs) duty rates for draught beer which apply from 4 April 2001. These new rates were developed on the basis of hypothetical rates that, if they had applied on 1 July 2000, would have resulted in:

- no price increase for draught low and draught mid-strength beer on 1 July 2000; and
- a 1.9% increase for draught full strength beer at the time of the introduction of the GST.

The new draught beer rates still include a 1.15% excise free threshold for each tier. The rates that have applied from 4 April 2001 are as follows:

- *Low strength (0% to 3%)* $15.96 per Lal
- *Mid strength (above 3% to 3.5%)* $17.33 per Lal
- *Full strength* (*above 3.5%)* $22.68 per Lal

It is DSICA's view that this special arrangement for draught beer is, in effect, a subsidy for beer sold on-premise. DSICA believes that a similar taxation regime should apply to draught RTDs sold on-premise. Draught RTD and draught beer are products of similar alcohol content. Under the principle of tax equivalence for similar products of similar alcohol content, draught RTDs should be subject to the same tiering and the same rates that apply to draught beer, including the 1.15% excise free threshold.

Recommendation: That the concessional rates for draught beer should apply to draught RTD products. Further, that RTD products should receive the same tiered treatment and the same 1.15% excise free threshold that applies to draught beer.

5.3 Removal of anomaly for imported beer

Imported beer is subject to customs duty at the same volumetric rate as excise duty. However, it is not subject to a similar 5% ad valorem customs duty as applies to spirits.

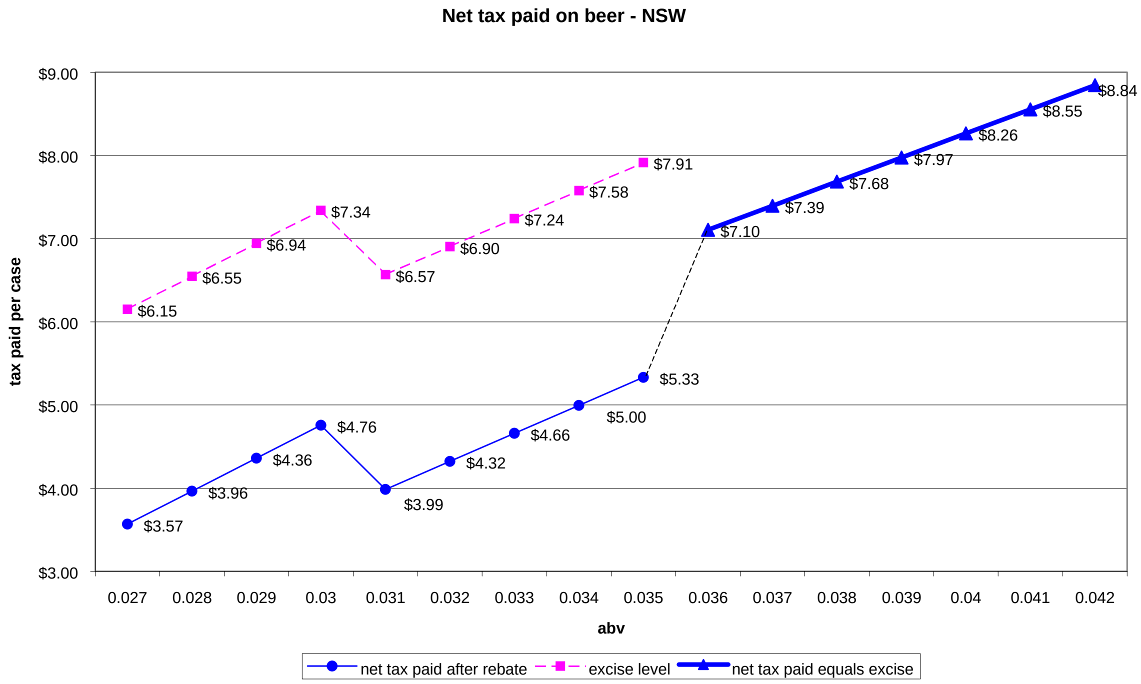
This is a major anomaly which should be rectified at the earliest opportunity. If the Government is not prepared to remove the 5% ad valorem protective tariff that applies to spirits (as discussed above), then it should impose a similar 5% protective tariff to imported beer.

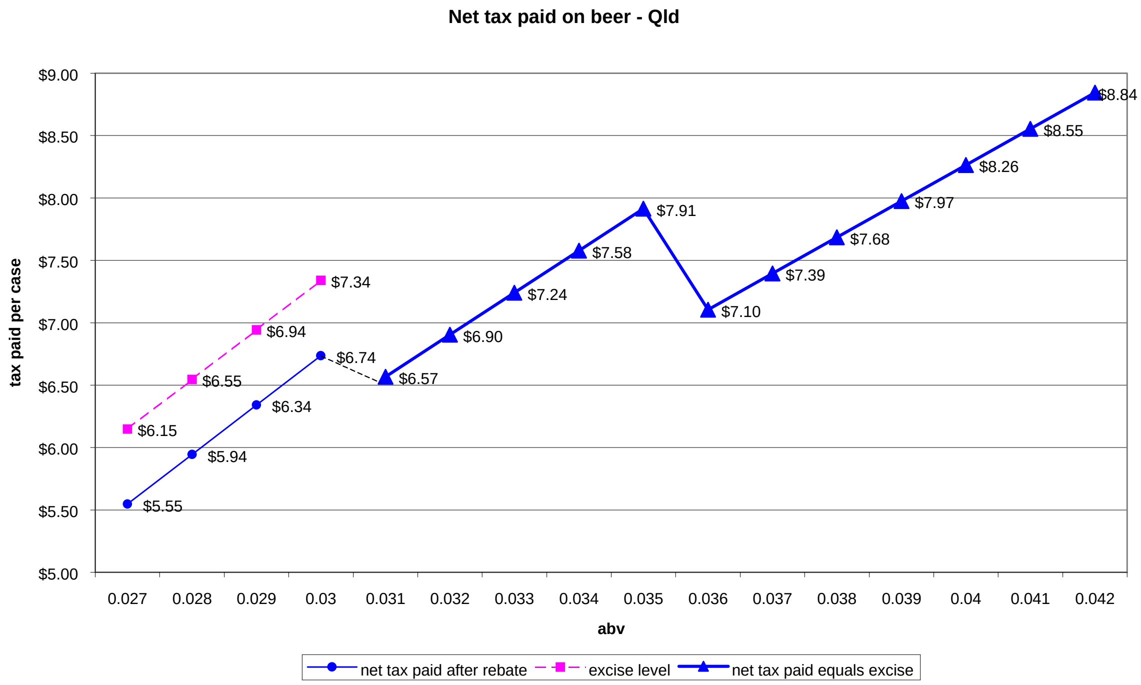
Recommendation: That if the Government is not prepared to remove the 5% ad valorem protective tariff that applies to spirits, then it should impose a similar 5% protective tariff in the case of imported beer.

Appendix C: Beer excise rates encourage production of higher alcohol beer

DSICA has undertaken an analysis of two examples of the interaction of the Commonwealth excise rates and the State low alcohol subsidy regimes for beer, that is, for Queensland, and for NSW. These are set out on the following pages. The conclusions from this analysis include:

- ***Queensland:*** it is understood that, since 1 February 2001, there is a rebate payable at the rate of 2.8% of the wholesale selling value of beer products of 3.0% alcohol content or less. The attached graph shows that the net amount of tax payable (after the payment of the rebate) is less for 3.1% beer than for 3.0% beer, and is also less for 3.6% to 3.8% beer than for 3.5% beer;
- ***NSW:*** there is a rebate payable at the rate of 12% of the wholesale selling value of beer products of less than 3.5% alcohol content. The attached graph shows that the net amount of tax payable (after the payment of the rebate) is less for 3.1%, 3.2% and 3.3% beer than it is for 3.0% beer. There is no similar problem at the 3.5% mid-strength point as in Queensland.


Net tax paid on beer - NSW
tax paid per case
abv
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
0.027
0.028
0.029
0.03
0.031
0.032
0.033
0.034
0.035
0.036
0.037
0.038
0.039
0.04
0.041
0.042
$6.15
$6.55
$6.94
$7.34
$6.57
$6.90
$7.24
$7.58
$7.91
$3.57
$3.96
$4.36
$4.76
$3.99
$4.32
$4.66
$5.00
$5.33
$7.10
$7.39
$7.68
$7.97
$8.26
$8.55
$8.84
net tax paid after rebate
excise level
net tax paid equals excise


Net tax paid on beer - Qld
tax paid per case
abv
$9.00
$8.50
$8.00
$7.50
$7.00
$6.50
$6.00
$5.50
$5.00
0.027
0.028
0.029
0.03
0.031
0.032
0.033
0.034
0.035
0.036
0.037
0.038
0.039
0.04
0.041
0.042
$6.15
$6.55
$6.94
$7.34
$5.55
$5.94
$6.34
$6.74
$6.57
$6.90
$7.24
$7.58
$7.91
$7.10
$7.39
$7.68
$7.97
$8.26
$8.55
$8.84
net tax paid after rebate
excise level
net tax paid equals excise

Appendix D: Draft Australian Drinking Guidelines

Attached is a copy of the Australian Drinking Guidelines, Consultation Draft April 2000, issued by the National Health and Medical Research Council.