

May 2008

**Questions to those making submissions to the Senate Community Affairs
Committee inquiry into Ready to Drink Alcohol beverages**

1 The Government has increased the excise on ready-to-drink (RTD) alcohol beverages. Do you agree with these broad propositions made in the general debate with respect to this alcohol policy?

- Price is an important tool in reducing alcohol abuse;
- Higher prices for alcohol reduce consumption;
- There are anomalies in the taxation of alcohol that need fixing; and
- Binge drinking needs to be addressed by increasing the price of ready-to-drink pre-mixed spirit-based beverages.

Yes – AER agrees with the decision to tax all spirits at the same rate. Studies both in Australia and internationally have shown that alcohol consumption is price sensitive – therefore making it more economically unavailable will reduce consumption, hence reduce harms. AER believes that excessive alcohol consumption can be partially addressed by increasing the price of RTD spirit drinks. However, there is the potential for cross-substitution between different types of alcoholic beverages.

There are significant anomalies in the alcohol taxation system:

1. Wine-based products are taxed on an ad valorem basis, as opposed to spirits and beer.
2. Draught beer is taxed at a different rate to packaged beer
3. Beer has a 1.15% tax free alcohol content
4. Brandy is taxed at a discount to other spirits.

AER believes these anomalies need to be fixed and a revenue-neutral volumetric taxation regime should be implemented.

2 Do you agree that the price of alcohol affects consumption? Do you support the specific taxation of alcohol products (through customs and excise duties and through

the Wine Equalisation Tax (WET)), all of which have the effect of raising the price of alcohol products? If you do agree with these statements do you support:

- Some alcohol types being tax-free? Why/why not?
- Some higher alcohol products being taxed less than some lower alcohol products? Why/why not?
- Different tax rates for the same product? Why/why not?

AER believes price is one of the determinants of alcohol consumption. As outlined above, and in our submission to the committee, AER believes in uniform volumetric taxation of all alcohol and, therefore, does not support any of the dot points listed.

3 With respect to your answers to Q2, are you aware that - and what is your opinion of these policies:

- A rebate of \$500 000 is payable in WET paid annually by any producer or producer group, the effect of which is to make tax-free wine bought at the cellar door of small producers?
- All wines, meads, perries, ciders and sakes are subject to the WET, and this means that these products are often taxed less than lower alcohol products subject to customs and excise duties?
- Where beer is consumed on the premise, such as a bar, a draught beer is taxed less than the same beer in a bottle?

AER agrees that the above statements are correct.

4 Do you think there is a case for beer products with the same alcoholic content being taxed at different rates? How do beer products that have the same alcoholic content being taxed at different rates contribute to less alcohol abuse? In answering these questions please give your views on low-strength packaged beer paying 5 times the tax of low-strength draught beer; mid-strength packaged beer paying 1.9 times the tax of mid-strength draught beer; full-strength packaged beer paying 1.4 times the tax of full-strength draught beer?

AER does not believe beverages should be taxed at differing rates. As outlined in our submission – we have called for uniform volumetric taxation across all alcoholic beverages.

5 Do you think there is a case for spirit products that have the same alcohol content being taxed at different rates? How does a concessional tax rate for brandy reduce alcohol abuse when it has the same alcoholic content as rum or any other spirit? What is the justification for brandy not paying tax equal to the spirits rate?

There is no case to tax the same alcohol content at different rates. The concessional tax rate does not reduce alcohol abuse. There is no economic or social justification for it being in place.

6 What is the justification for having a 5% ad valorem (value-added) customs duty payable on imported RTDs and imported spirits but not on imported beer? Why should only some imported alcohol products pay customs duty but not others? Should all imported alcohol products pay customs duty, or none? Why?

AER believes there is no justification. It is discriminatory and all alcoholic beverages should pay the same customs duty.

7 Do you agree that alcohol is alcohol, whatever its source, and that ingestion of (say) alcohol at 5% by volume, will have the same or very similar effects on the consumer regardless of the product that the 5% is found in?

- If you disagree with that statement please indicate why?
- If you agree with that statement do you agree with the proposition that all alcohol should therefore be taxed by volume, so that whatever the type of product, the taxation is the same for a given % of alcohol in the product?

Yes – AER agrees with both propositions.

8 If there is to be a customs duty on imported alcohol, should it be based on alcohol by volume or should it be based on value? Why?

Similarly to the alcohol excise, the customs duty should be based on volume.

9 Are you aware that wines, meads, perries, ciders and sakes are taxed by value but spirits, spirit-based drinks and beers are taxed on their alcohol by volume? Which policy is fairer and why? Which policy contributes more to addressing the abuse of alcohol, or delivers better health outcomes, and why?

AER is aware of the tax differentials. Volumetric taxation is more equitable and better addresses the burdens of excessive alcohol consumption. See Babor et al., and Chikritzhs, T

10 Is cheap alcohol a risk with regard to binge-drinking and alcohol abuse? As an example, does cask wine feature in binge-drinking or alcohol abuse? Is it the case that a standard drink of cask wine and many RTDs average a similar alcohol content? Is it the case that RTDs pay 14 times the tax paid by cask wine? Do you believe cask wine should be taxed on its volume of alcohol content, so raising its price?

The answer to these questions is yes. These inconsistencies can be corrected by a uniform volumetric taxation of all alcohol products.

11 It is the case that many beer products have a similar alcohol content to packaged RTDs, so why is the excise duty payable on a mid-strength can of RTD greater than the amount payable on a full-strength can of beer? How does that contribute to addressing the abuse of alcohol, or delivering better health outcomes? Given the similarity of alcohol content for both products, why should RTDs and beer be taxed differently?

This was an arrangement under the implementation of the New Tax System. It is anomalous. AER believes it should be rectified. It doesn't ameliorate alcohol abuse. They should be taxed equally.

12 Do you support differential tax rates so that full-strength beer is taxed more than lower strength beers to encourage the consumption of lower strength beer? Do you

believe a similar policy should be introduced for all other alcohol products, in particular RTDs?

Alcohol should be taxed purely on volumetric terms. This will make full-strength beer more expensive than low strength beer. AER believes it should apply to all alcoholic products.

13 Is it the case that a cider product pays tax of 26c whereas a spirits-based RTD pays tax of 84c (per standard drink)? Why is this difference good policy?

Yes it is true. It is not good policy on any measure.

14 Is it the case that under WET, a wine-based RTD would need to have an alcohol content of at least 8 % before being taxed? Is it the case that some wine-based RTDs may bear no WET at all if the producer is in receipt of the WET producer rebate? If wine-based RTDs are taxed according to their value under the WET and have to be at least 8% alcohol by volume to be taxed under the WET, isn't this an encouragement to produce wine-based RTDs with a lower price and higher alcohol content than spirit-based RTDs? How does that contribute to addressing the abuse of alcohol, or delivering better health outcomes?

AER is aware that all these issues are true. As above, this anomaly does not equate to sensible alcohol harm-minimisation policy. A differential taxation regime penalises consumers and some producers and enables increased economic availability of alcohol, leading to increased alcohol-related harms.