

**WINEMAKERS' FEDERATION OF AUSTRALIA
and
WINE GRAPE GROWERS' AUSTRALIA**

**Submission to the Senate Community Affairs Committee Inquiry
into Ready-to-Drink Alcohol Beverages**

Contact details:
Mr Stephen Strachan
Chief Executive
Winemakers' Federation of Australia
PO Box 2414
KENT TOWN SA 5071
Ph: 08 8222 9255

Table of Contents

- 1. Executive Summary 3
- 2. Background: Contribution to regional Australia 4
- 3. Consumption patterns 7
 - 3.1 Risky consumption of alcohol 9
- 4. Wine Taxation in Australia 14
- 5. Using taxation as a tool to combat binge drinking 16
 - 5.1 Example: Northern Territory Living with Alcohol Program 17
- 6. Volumetric Tax - Impact on the Australian Wine Industry 19
- 7. Health and Social Responsibility 20
- 8. Conclusion 22

1. Executive Summary

The Winemakers' Federation of Australia (WFA) and Wine Grape Growers' Australia (WGGA) welcomes the opportunity to make a joint submission to the Senate Community Affairs Committee inquiry into Ready-to-Drink alcohol beverages.

The following submission does not address each of the terms of reference of the inquiry, rather it comments on matters that relate directly to wine and the Australian wine sector and where we believe we have a contribution to make to the debate.

Wine is a regionally-based, value-added agricultural product that provides a significant economic contribution to many rural communities all over Australia through employment, tourism and infrastructure.

Grape growers and winemakers are passionate about the product they make. Wine is produced to be enjoyed in moderation, with food, and this is how it is consumed by the vast majority of the public.

By its very nature, wine is not attractive to most underage drinkers. Data from the 2004 National Drug Strategy Household Survey shows that wine, either cask or bottled, is not a product of choice for underage females or males.

However, the Australian wine industry does recognise that when wine or other alcohol products are consumed to excess, they can contribute to a range of social and physical harms.

The WFA and WGGA believe that decisions on policy and regulation to address this issue must be based on sound scientific evidence and specifically targeted at those groups that are engaging in risky alcohol consumption.

Using taxation as a measure to address excessive alcohol consumption punishes responsible consumers as well as those who are the object of the approach - taxation is a blunt instrument that does not distinguish between harmful consumption and responsible drinking patterns.

The wine sector takes very seriously its responsibility to ensure that wine is produced, marketed and consumed in a responsible manner. It recognises that adopting strong positions on social responsibility is essential to the industry's continued success.

The WFA and WGGA are committed to the development of a holistic approach that balances industry self- or quasi-regulation, personal responsibility and legislation based on sound scientific evidence.

2. Background: Contribution to regional Australia

The Winemakers' Federation of Australia (WFA) is the peak national body representing wine enterprises of all sizes across Australia. Wine Grape Growers' Australia (WGGA) is the peak national body representing independent Australian wine grape growers. The joint council of the two organisations present united wine sector policy on behalf of 2,300 wine makers and 7,500 grape growers in Australia.

Unlike other alcohol beverages, wine is a regionally-based, value-added agricultural product. Wine grapes are grown in rural areas all over Australia by growers ranging from small, independent operators to large vineyard and winemaking enterprises. Wineries range from small family businesses whose predominant activity could be classed as wine tourism to large multinational corporations driving exports across the globe. The vast majority of growers and wineries fall into the category of small, independent family businesses.

Australia's grape growers and winemakers are passionate about the product they make. Wine is a branded product that is developed over many years and often over many generations. By its very nature, wine is not attractive to most underage drinkers. Wine is produced to be enjoyed in moderation, with food, and this is how it is consumed by the vast majority of the public.

The economic contribution of the wine industry provides a substantial basis for many rural economies. Regional communities all over the country have been involved in grape growing and winemaking for generations, and rely on the wine sector as a major employer.

The wine sector supports almost 30,000 direct and 30,000 indirect jobs. In several regions direct employment in grape growing and wine production constitutes more than 20% of total employment. When supported employment is included, the contribution of the wine industry to these regions would be significantly higher.

With over 2000 wineries and 10,000 vineyards spread across 60 different wine regions, rural areas are the foundation of the wine industry in Australia.

The Australian wine sector is an Australian success story and has undergone unprecedented growth over the last ten years. In 1990, there were 620 wineries in Australia. In the space of a decade this had almost doubled to 1,197 in 2000 and has now almost doubled again with 2,299 wineries listed in the 2008 *Australian and New Zealand Wine Directory*. The vast majority of wineries are small with around 70% having an annual crush of less than 100 tonnes.

Snapshot of the Australian wine industry

State	Number of wineries (2008) ¹	Tonnes of Wine grapes crushed (2007) ²	Number of people employed (2006) ³
South Australia	607	583,340	10,780
Victoria	687	308,501	7,344
New South Wales	445	402,777	5,279
Western Australia	356	68,252	3,007
Queensland	107	2,205	932
Tasmania	90	5,058	542
ACT	7	557	71

Sources:

1. Australian and New Zealand Wine Industry Directory 2008
2. ABS Cat. No.1329.0 Australian Wine and Grape Industry 2007
3. ABS Cat. No. 2068.0 2006 Census of Population and Housing

In 2006-07 the value of domestic sales of wine reached \$1.9 billion and the value of wine exports \$3.0 billion. In 2005 Australia was the third largest wine exporter in the world by value and the fourth largest wine exporter by volume.

The wine sector also makes a significant contribution to the tourism industry in Australia by encouraging domestic and international tourism to regional areas.

There are now 1,625 wineries in Australia with cellar door facilities, representing just over 70% of all wineries in the country.¹ Visitors to wineries increased rapidly between 2000 and 2006, with an 8% average annual increase for international visitors, and domestic overnight and day visitors increasing by an average of 6% and 5% annually.²

In the July and September quarters of 2006, domestic visitors to wineries spent \$335 million on purchasing wine, which equates to an approximate spend of \$666 million on wine for the year by domestic winery visitors. Estimated expenditure by international visitors equates to approximately \$37 million a year.³

Despite its success, the wine sector faces a number of challenges that it will need to overcome if it is to maintain sustainable growth.

A continuation of drought conditions, climate change influences, increasing competition for Australian wine both domestically and internationally, the impact of the strong Australian dollar on wine exports, retail consolidation and the trend to retail discounting is hitting wine producers and grapegrowers hard.

In May 2007, the Australian wine sector launched *Wine Australia: Directions to 2025*, an industry strategy for sustainable success. *Directions* was developed to reassess the priorities and challenges facing the industry.

Directions identified the potential for the Australian wine sector to sell an extra \$4 billion worth of wine over the next five years – lifting cumulative domestic and export sales for the period to \$30 billion. The gains will come through an increased emphasis on regional and fine wines, aimed at revenue increases through quality enhancements and positioning rather than volume growth.

¹ The Australian and New Zealand Wine Directory 2008

² Tourism Research Australia 2006

³ Tourism Research Australia National Visitor Survey and International Visitor Survey 2000-2006

These potential gains will only be realised through the continued industry-government partnership approach. The industry relies on government to provide and maintain a competitive business environment, free from excessive regulation and government inspired costs. The industry, for its part, must continue to enhance economic, social and environmental sustainability through efficient and responsible production, promotion and sale of wine within acceptable community standards.

Directions outlines the need for winemakers and wine sector organisations to adopt a range of initiatives that will promote healthier consumption patterns, enhance the social responsibility of the sector and highlight the many measures they have taken to encourage wine drinking in moderation. Responsible promotion and moderate consumption of wine with food is identified as a core value for the Australian wine sector.

3. Consumption patterns

At the centre of the current debate surrounding alcohol consumption in Australia is the issue of alcohol consumption by young people and young females in particular.

The Australian wine industry recognises that when wine or other alcohol products are consumed to excess, they can contribute to a range of social and physical harms. WFA and WGGA believe that decisions on policy and regulation to address this issue must be based on sound scientific evidence of their effectiveness in reducing abusive consumption and target those groups that are engaging in risky alcohol consumption.

The preliminary findings of the 2007 National Drug Strategy Household Survey (NDSHS) recently released by the Australian Institute of Health and Welfare found that overall, alcohol consumption fell between 2004 and 2007. The report also found that between 1991 and 2007, for Australians aged 14 years or older, alcohol consumption patterns remained largely unchanged.

Alcohol drinking status: proportion of the population aged 14 years or older, Australia, 1991 to 2007

Drinking status	1991	1993	1995	1998	2001	2004	2007
	(per cent)						
Daily	10.2	8.5	8.8	8.5	8.3	8.9	8.1 #
Weekly	41.0	39.9	35.2	40.1	39.5	41.2	41.3
Less than weekly	30.4	29.5	34.3	31.9	34.6	33.5	33.5
Ex-drinker (a)	12.0	9.0	9.5	10.0	8.0	7.1	7.0
Never a full serve of alcohol	6.5	13.0	12.2	9.4	9.6	9.3	10.1 #

(a) Has consumed at least a full serve of alcohol, but not in the previous 12 months
 # Difference between 2004 result and 2007 result is statistically significant (2-tailed $\alpha=0.05$)

The results in the above table show that:

- between 1991 and 2007 the proportion of the population over 14 years that drink daily has **dropped** from 10.2% to 8.1%;
- the **numbers of less frequent drinkers**, those who drink less than weekly, has **increased** from 30.4% in 1991 to 33.5% in 2007; and
- the proportion of Australians aged 14 years or older that have **never had a full serve of alcohol** has generally **increased** since 1998, with a **significant increase** between 2004 and 2007, from 9.3% to 10.1%.

Predominately, the focus of the media attention has been around the levels of drinking by underage girls. When looking at the analysis by sex, the following results were found:

Alcohol drinking status: proportion of the population aged 14 years or older, by sex, Australia 2004, 2007

Drinking status	Males		Females		Persons	
	2004	2007	2004	2007	2004	2007
	(per cent)					
Daily	12.0	10.8 #	5.8	5.5	8.9	8.1 #
Weekly	47.6	46.8	35.0	35.9	41.2	41.3
Less than weekly	27.5	28.3	39.4	38.5	33.5	33.5
Ex-drinker(a)	6.0	5.8	8.2	8.1	7.1	7.0
Never a full serve of alcohol	6.9	8.2 #	11.6	12.1	9.3	10.1 #

(a) has consumed at least a full service of alcohol, but not in the previous 12 months
Difference between 2004 result and 2007 result is statistically significant (2 tailed – a=0.05)

- In 2007, males (10.8%) were almost twice as likely as females (5.5%) to drink daily;
- The proportion of females aged 14 years or older that drink daily has **decreased** from 5.8% in 2004 to 5.5% in 2007; and
- The proportion of females that have **never had a full serve of alcohol** has **increased** from 11.6% in 2004 to 12.1% in 2007.

When looking at the figures broken down by age:

Alcohol drinking status: proportion of the population aged 12 years or older, by age and sex, Australia, 2004 and 2007

Drinking status	Age group					
	12-15		16-17		18-19	
	(per cent)					
	Males					
	2004	2007	2004	2007	2004	2007
Daily	0.1	--	1.0	1.7	1.3	2.6
Weekly	3.3	1.0	21.9	20.0	51.5	46.7
Less than weekly	28.3	28.8	53.2	50.9	32.8	40.9
Ex-drinker (a)	3.3	2.7	2.9	5.2	1.4	1.5
Never a full serve of alcohol	64.9	67.5	21.0	22.1	13.0	8.3
	Females					
	2004	2007	2004	2007	2004	2007
Daily	--	0.5	0.3	--	0.9	0.7
Weekly	3.2	3.2	21.3	15.4	39.1	35.3
Less than weekly	29.8	26.8	57.2	63.2	48.8	51.9
Ex-drinker (a)	2.2	2.1	3.5	3.0	1.2	1.9
Never a full serve of alcohol	64.8	67.4	17.7	18.4	10.0	10.2
	Persons					
	2004	2007	2004	2007	2004	2007
Daily	0.1	0.2	0.6	0.8	1.1	1.6
Weekly	3.3	2.1	21.6	17.3	45.4	41.1
Less than weekly	29.1	27.8	55.2	57.0	40.6	46.3
Ex-drinker (a)	2.8	2.4	3.2	4.2	1.3	1.7
Never a full serve of alcohol	64.8	67.5	19.4	20.3	11.6	9.2

(a) Has consumed at least a full serve of alcohol, but not in the previous 12 months.

Sources: 2004 and 2007 National Drug Strategy Household Survey: First results

- In 2007, two thirds (67.5%) of 12-15 year olds have never had a full serve of alcohol, an increase from 64.8% in 2004;
- among 12-15 year olds, fewer than one in 1000 persons reported that they drank daily, and one in 200 of 16-17 year olds reported drinking daily in 2004; and
- there was a slight increase in daily drinking for those aged 12-15 in 2007, with 0.2% reporting that they drink daily and a 0.2% increase in daily drinking by 16-17 year olds between 2004 and 2007.

3.1 Risky consumption of alcohol

Whilst there is broad agreement that drinking patterns associated with rapid intoxication, often referred to as 'binge drinking', have the potential to cause social and physiological harm, there has been considerable debate over what is defined as 'binge' drinking.

In Australia, the National Health & Medical Research Council's *Australian Alcohol Guidelines: Health Risks and Benefits 2001* avoid using the term binge drinking as its meaning is poorly defined, but rather define consumption in terms of risk ie, drinking at levels of low risk, risky and high risk in the short or long term.

People can drink at risky levels in a single day, or over a long period of time. Therefore the Guidelines talk about the risk of harm occurring in the **Short-Term**, and in the **Long-Term**.

- In the *Short Term*, the risk to people's health and social well-being comes from occasional drinking episodes that are confined into a single day. Short Term harms include injuries from violence, accidents, falls, having unprotected sex, and alcohol poisoning.
- In the *Long Term*, the risk to people's health and social well-being is associated with regular and repeated daily drinking, defined by the total number of standard drinks per week. Long Term harms include diseases such as cancer, diabetes, and brain damage.

3.1.1 Long-term Risk

Alcohol consumption, risk of harm in the long term: proportion of the population aged 14 years or older, by age and sex, Australia 2001, 2004 and 2007

Age Group	Level of Risk ^(b)											
	Abstainers ^(a)			Low Risk			Risky			High Risk		
(per cent)												
Males												
	2001	2004	2007	2001	2004	2007	2001	2004	2007	2001	2004	2007
14-19	27.2	30.4	29.2	64.0	62.0	63.7	6.1	4.9	4.4	2.7	2.8	2.6
20-29	8.4	7.8	11.1	77.1	77.7	73.4	9.5	8.7	9.3	5.0	5.7	6.2
30-39	9.8	8.9	10.9	81.4	80.8	79.2	5.8	7.5	6.2	3.1	2.8	3.7
40-49	11.4	8.6	10.8	79.0	82.1	79.6	6.4	5.7	6.0	3.2	3.6	3.5
50-59	12.5	10.5	9.9	75.8	78.8	78.9	7.3	6.9	6.1	4.3	3.8	5.1
60+	20.1	17.3	17.3	71.9	74.8	75.3	5.4	5.2	4.9	2.6	2.7	2.5
14+	14.1	12.9	14	75.6	77.0	75.8	6.7	6.5	6.2	3.5	3.6	3.9
Females												
	2001	2004	2007	2001	2004	2007	2001	2004	2007	2001	2004	2007
14-19	25.3	27.6	28.7	60.1	60.1	60.7	9.9	8.3	6.7	4.7	4.0	3.9
20-29	11.3	13.4	14.8	73.7	71.6	68.8	10.9	12.2	11.0	4.0	2.9	5.4
30-39	16.0	13.0	13.5	75.4	77.1	75.8	6.8	7.7	7.7	1.9	2.1	3.0
40-49	16.4	13.8	13.9	73.9	75.9	74.1	7.8	8.0	9.3	1.9	2.3	2.6
50-59	21.9	19.5	18.1	70.7	73.1	72.3	5.9	6.0	6.9	1.5	1.4	2.7
60+	33.0	31.6	31.1	62.6	63.3	63.4	3.7	4.3	4.7	0.7	0.9	0.8
14+	20.8	19.8	20.1	69.8	70.6	69.4	7.2	7.5	7.6	2.2	2.1	2.8
Persons												
	2001	2004	2007	2001	2004	2007	2001	2004	2007	2001	2004	2007
14-19	26.2	29.0	29.0	62.1	61.1	62.2	8.0	6.6	5.6	3.7	3.4	3.2
20-29	9.9	10.6	12.9	75.4	74.7	71.1	10.2	10.4	10.2	4.5	4.3	5.8
30-39	13.0	11.0	12.2	78.3	78.9	77.5	6.3	7.6	7.0	2.5	2.4	3.3
40-49	13.9	11.2	12.4	76.5	79.0	76.8	7.1	6.9	7.7	2.6	3.0	3.1
50-59	17.1	15.0	14.0	73.3	76.0	75.6	6.6	6.4	6.5	2.9	2.6	3.9
60+	27.1	25.0	24.7	66.8	68.6	68.9	4.4	4.7	4.8	1.6	1.7	1.6
Total	17.5	16.4	17.1	72.7	73.7	72.6	7.0	7.0	6.9	2.9	2.8	3.4

(a) Not consumed alcohol in the previous 12 months

(b) For males, the consumption of up to 28 standard drinks per week is considered 'Low risk', 29 to 42 per week 'Risky', and 43 or more per week 'High Risk'. For females, the consumption of up to 14 standard drinks per week is considered 'Low risk', 15 to 28 per week 'Risky', and 29 or more per week 'High Risk'.

Sources: 2001, 2004, and 2007 National Drug Strategy Household Survey: First results

- the proportion of females aged 14-19 who drank at levels that puts them at risk (and high risk) of long term harm has decreased from 14.6% in 2001 to 10.6% in 2007. The proportion of males who drank at this level has also decreased from 8.8% in 2001 to 7.0% in 2007;
- 92.9% of males and 89.4% of females in the 14-19 year old age bracket are either abstainers or drink at a low level of risk.

3.1.2 Short-Term Risk

Alcohol consumption, risk of harm in the short term: proportion of the population aged 14 years or older, by age and sex, Australia, 2001, 2004 and 2007

Age Group	Abstainers ^(a)			Low Risk			Level of Risk ^(b)								
							At least yearly			At least Monthly			At least weekly		
(per cent)															
Males															
	2001	2004	2007	2001	2004	2007	2001	2004	2007	2001	2004	2007	2001	2004	2007
14-19	27.2	30.4	29.2	30.0	32.7	33.4	13.3	10.9	12.9	19.8	15.1	15.7	9.6	10.9	8.8
20-29	8.4	7.8	11.1	27.4	27.4	26.1	21.7	20.8	19.0	27.8	26.6	26.6	14.6	17.4	17.2
30-39	9.8	8.9	10.9	39.7	37.5	40.6	22.2	24.4	21.1	20.4	18.9	17.5	7.8	10.3	10.0
40-49	11.4	8.6	10.8	50.7	49.5	47.0	17.2	19.4	18.9	12.9	12.8	14.5	7.7	9.7	8.7
50-59	12.5	10.5	9.9	59.1	58.3	59.4	11.7	13.4	12.9	8.5	10.6	9.5	8.2	7.1	8.2
60+	20.1	17.3	17.3	66.5	68.1	67.8	5.8	6.5	6.4	3.6	3.8	4.5	4.0	4.3	4.0
Total	14.1	12.9	14.0	46.5	46.8	47.2	15.5	16.1	15.1	15.3	14.4	14.3	8.5	9.8	9.3
Females															
	2001	2004	2007	2001	2004	2007	2001	2004	2007	2001	2004	2007	2001	2004	2007
14-19	25.3	27.6	28.7	28.3	30.2	30.1	13.4	12.9	12.9	21.2	18.8	18.8	11.8	10.5	9.5
20-29	11.3	13.4	14.8	32.1	29.4	29.2	20.4	20.3	20.7	26.8	26.0	23.1	9.3	10.9	12.2
30-39	16.0	13.0	13.5	47.5	47.8	46.9	18.9	19.5	19.5	12.8	13.8	13.3	4.8	5.8	6.8
40-49	16.4	13.8	13.9	55.1	53.4	53.4	14.7	16.8	16.2	9.3	10.5	10.2	4.6	5.5	6.3
50-59	21.9	19.5	18.1	62.0	63.4	62.5	8.6	9.4	10.2	4.3	4.6	4.8	3.3	3.2	4.4
60+	33.0	31.6	31.1	62.3	61.3	61.3	2.0	4.0	3.9	1.3	1.5	2.1	1.3	1.6	1.5
Total	20.8	19.8	20.1	49.6	49.4	49.3	12.7	13.5	13.4	11.6	11.5	10.9	5.3	5.7	6.2
Persons															
	2001	2004	2007	2001	2004	2007	2001	2004	2007	2001	2004	2007	2001	2004	2007
14-19	26.2	29.0	29.0	29.2	31.5	31.8	13.4	11.9	12.9	20.5	16.9	17.2	10.7	10.7	9.1
20-29	9.9	10.6	12.9	29.8	28.4	27.6	21.1	20.5	19.8	27.3	26.3	24.9	12.0	14.2	14.7
30-39	13.0	11.0	12.2	43.7	42.7	43.8	20.5	21.9	20.3	16.5	16.4	15.3	6.3	8.0	8.4
40-49	13.9	11.2	12.4	52.8	51.4	50.2	16.0	18.1	17.6	11.1	11.6	12.3	6.2	7.6	7.5
50-59	17.1	15.0	14.0	60.5	60.8	61.0	10.2	11.4	11.6	6.4	7.6	7.1	5.8	5.1	6.3
60+	27.1	25.0	24.7	64.2	64.5	64.3	3.7	5.2	5.1	2.4	2.5	3.2	2.6	2.9	2.7
Total	17.5	16.4	17.1	48.1	48.2	48.3	14.1	14.8	14.2	13.4	12.9	12.6	6.9	7.7	7.8

(a) Not consumed alcohol in the previous 12 months.

(b) For males, the consumption of 7 or more standard drinks on any one day. For females, the consumption of 5 or more standard drinks on any one day.

Sources: 2001, 2004 and 2007 National Drug Strategy Household Survey: First results

- Between 2001 and 2007, the proportion 14-19 year olds who regularly (at least weekly) put themselves at risk of short term harm has decreased from 10.7% (2001) to 9.1% (2007);
- The proportion of 14-19 year olds who put themselves at risk of short term harm at least monthly has also declined from 20.5% in 2001 to 17.2% in 2007.

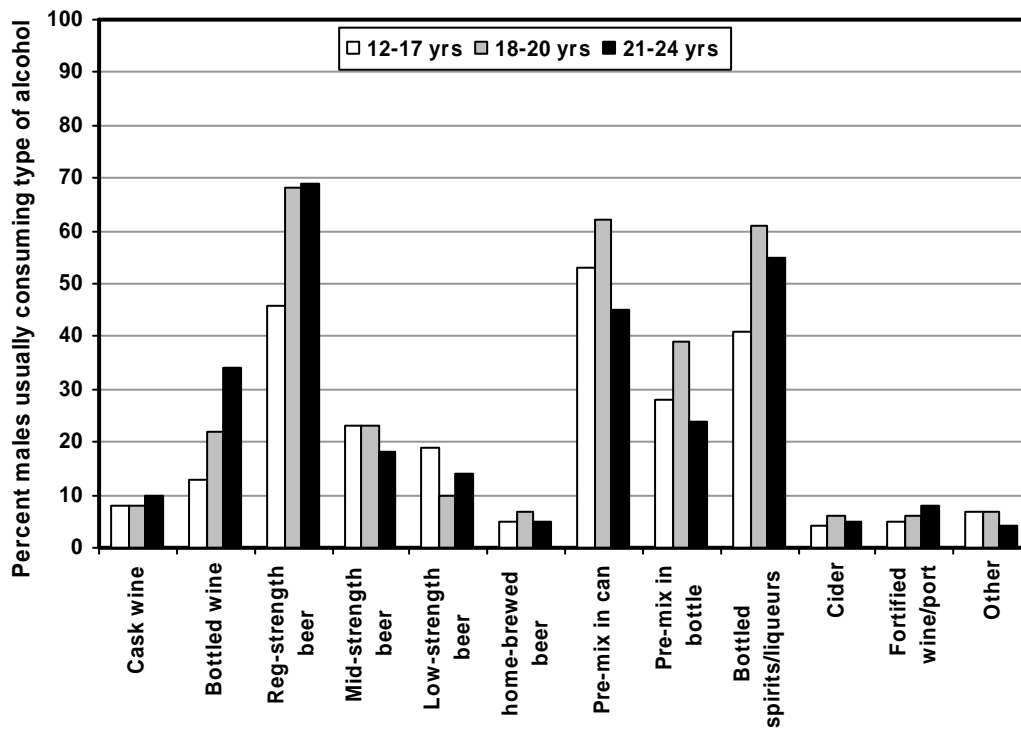
3.1.3 Underage and Youth Consumption

Much of the media and political debate in recent weeks and months has focused on underage consumption and youth 'binge' drinking.

The Australian wine sector accepts we have a responsibility to produce, promote and sell our product in a responsible manner that does not encourage excessive or irresponsible consumption; we would also highlight that wine, by and large, is not a beverage of choice for young and underage consumers.

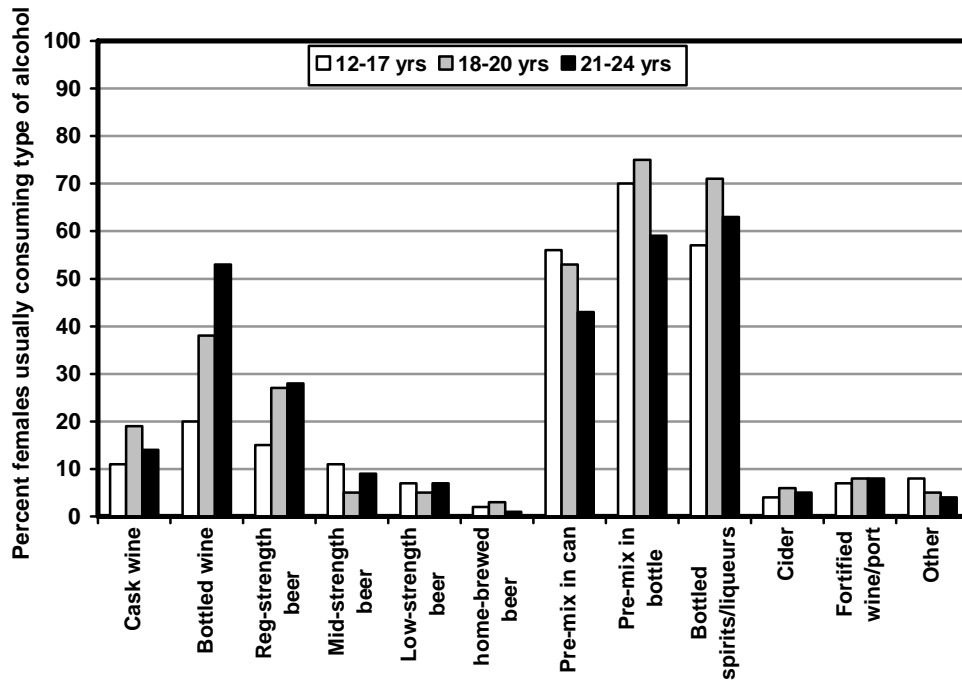
While the 2007 National Drug Strategy Household Survey data is not yet available by product category, the 2004 survey data indicates the following in terms of alcohol preferences by young and underage consumers:

Types of alcohol consumed by young males (data from 2004 NDSHS)⁴



⁴ Young people and alcohol: the role of culture influences. National Centre for Education and Training on Addiction. A Roche, P Bywood, J Borlagdan et al

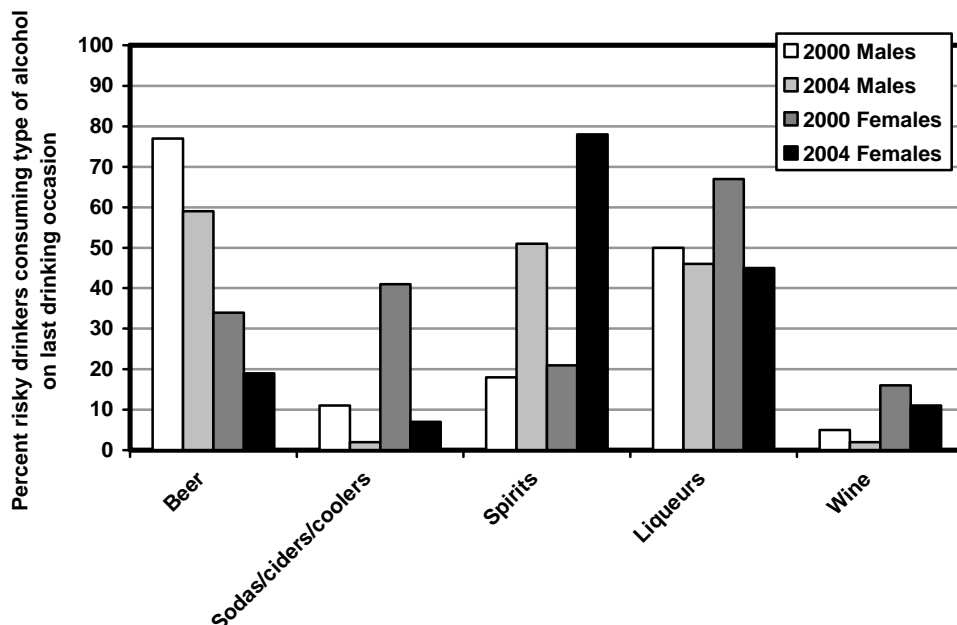
Types of alcohol consumed by young females (data from 2004 NDSHS)⁴



In 2004, 12-17 year old females consumed RTDs in preference to wine or beer. This was similar for males except regular strength beer was also a preferred drink. As drinkers matured – in the 20-24 age group, bottled wine became more popular with both male and female drinkers, with males also choosing regular strength beer. RTDs became less popular for both males and females.

In addition, the 2004 survey provides the following information in terms of types of alcohol consumed by risky drinkers aged 15 to 17 from 2001 to 2004:

Changes in types of alcohol consumed by risky drinkers aged 15 to 17 from 2001 to 2004 (data from 2000-2004 NAC)⁴



Young females aged 15-17 who reported drinking at risky levels in 2004 have changed their drink of choice from Sodas/ciders/coolers in 2000 to Liqueurs in 2004. The definition of liqueurs may include RTDs such as Conrieau, lime and soda. Liqueur based drinks such as the mix of Jagermeister and Red Bull have also become popular (Roche 2007)⁴.

As stated above, however, it is important to note that overall levels of underage consumption, and risky consumption by younger people, have remained largely unchanged.

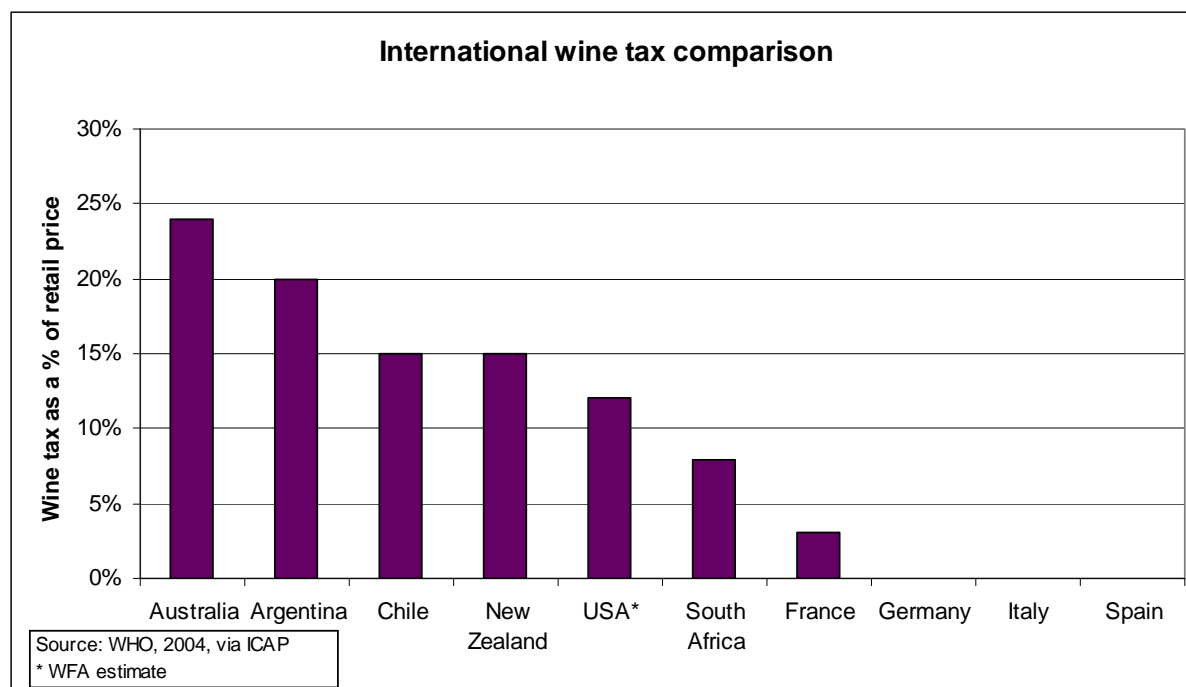
4. Wine Taxation in Australia

Wine is taxed on a value basis in Australia through the Wine Equalisation Tax (WET), as opposed to the excise on beer and spirits which is based on the volume of alcohol in the product.

In 2004, the Federal Government announced a \$290,000 WET producer rebate for the first approximately \$1 million of wholesale sales per entity and then increased it to \$500,000 (approximately \$1.72 million) in the 2006 Budget. The rebate was targeted at small wineries and introduced in recognition of the substantial hardship being faced by these regional wineries. As a result of this rebate, over 90% of wineries now pay no WET. However, these same wineries represent only around 18% of total domestic wine sales by value, and only 7% by volume. All of these businesses are subject to the same taxes that other small businesses pay including company and income tax and payroll tax.

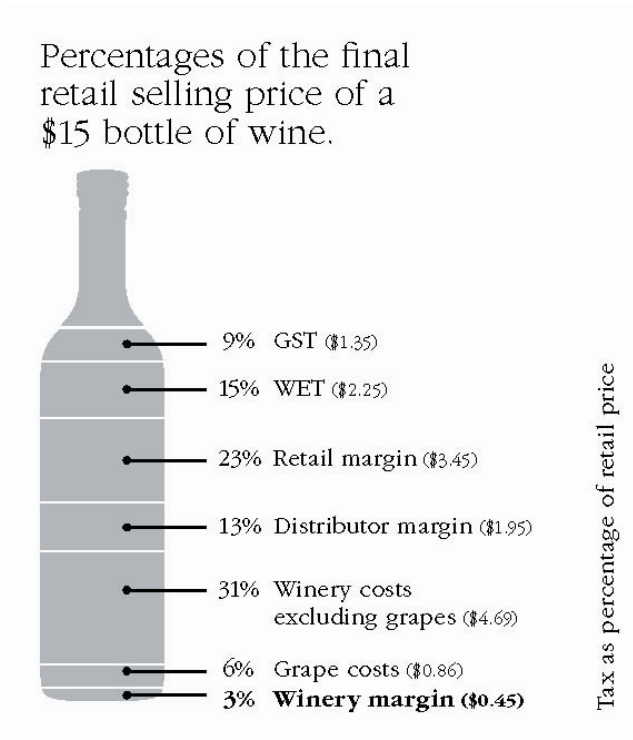
The Wine Equalization Tax Rebate has a minimal impact on wine prices. Smaller operators who effectively pay no wine tax typically have a price profile well in excess of \$15 per bottle and every encouragement has been given to ensure the WET rebate is not factored into pricing considerations. The design and rationale for the rebate was to ensure taxation benefit was provided for re-investment into regional businesses to enhance viability and sustainability. The WET rebate means the difference between sustainability and business failure for many small operators.

Even with the WET rebate, Australia is one of the most heavily taxed wine producing countries in the world, raising approximately \$650 million annually in wine taxes (not including GST). In Australia, taxes make up 24% of the retail price of a bottle of wine. This is compared to 3.1% in France and 0% in Spain and Italy.⁵ Following is a comparison of international taxation rates from other major wine producing nations.



⁵ WHO, 2004 via ICAP

For every bottle of wine sold in Australia, approximately 24% goes to the Commonwealth in WET and GST. By comparison, the winery and grower margins combined represent significantly less. The following diagram highlights the taxation component in the breakdown of a \$15 bottle of wine:



5. Using taxation as a tool to combat binge drinking

WFA and WGGA support government initiatives to reduce alcohol abuse that are effective, that do not unduly punish responsible consumers and that do not have unintended negative consequences on industries or regional communities supported by those industries.

Measures need to be specifically targeted towards those in the community who are engaging in harmful levels of alcohol consumption, or underage consumers. Taxation is a blunt instrument that does not distinguish between harmful consumption and responsible drinking patterns. It punishes responsible consumers as well as those who are the object of the approach. The problems of this approach are significantly greater when the group of problem consumers comprise a small share of the total consumption for that product. Taxation is an inefficient, as well as ineffective, policy tool for reducing the level of abusive consumption.

Research shows that tax-induced price increases for specific products lead primarily to a change in the type of beverage consumed, not the level of abusive consumption. Gius (2005)⁶ concluded that taxes only have minor effects on alcohol consumption. A review of over 132 studies by Gallet (2007)⁷ observed that there are considerable differences in the own price elasticities presented in the literature and that the derived elasticities were particularly sensitive to demand specification, the data used as well as the estimation method. In addition, Gallet concluded that consumption by those in their teens is less responsive to price increases than consumption by people in older age groups.

Overall the above indicates that taxes are a blunt instrument for reducing abusive alcohol consumption and that not only would they punish those who consume alcohol responsibly but that they are it is also likely to be relatively ineffective in changing the consumption of those who consume alcohol at abusive levels.

⁶ Gius, M. P. (2005), 'An estimate of the effects of age, taxes, and other socioeconomic variables on the alcoholic beverage demand of young adults', *The Social Science Journal* 42: 13-24

⁷ Gallet, C.A. (2007), 'The demand for alcohol: a meta-analysis of elasticities', *Australian Journal of Agricultural and Resource Economics* 51: 121-135

5.1 Example: Northern Territory Living with Alcohol Program

The Northern Territory's Living with Alcohol Program (LWA) has often been used as an argument for the use of increased taxation to reduce alcohol related harm.

The LWA was established in 1991 with the aim of being a comprehensive public health strategy to address alcohol related harm in the Northern Territory. The LWA program was originally funded by an additional levy on alcohol products containing more than 3% alcohol by volume, which added 5 cents to the price of a standard drink⁸ and anecdotally raised approximately \$5 million per year in revenue⁹. In 1997 a High Court decision disallowed States and Territories to use licensing fees to raise revenues.

It has been widely stated that the LWA levy placed on alcohol products was responsible for a significant reduction in alcohol consumption, along with associated alcohol related harm.

However, the LWA was a comprehensive program that incorporated a range of significant intervention and treatment strategies including:

- provision of extensive community education and information sessions through a mass media campaign;
- substantial amendments to the Liquor Act, including restrictions to takeaway sales and opening and closing hours;
- expanded treatment services;
- introduction of the 0.05mg/ml blood alcohol limit for drivers, bringing the NT in line with the rest of the country; and
- increased penalties for drink driving offences, license suspension for drink driving and mandatory education/treatment for drink drivers.

An evaluation of the LWA report carried out by Curtin University in 1999¹⁰ claims that there were substantial reductions in per capita alcohol consumption as a result of the LWA levy being introduced; however, data contained in the report shows that both the NT and national per capita consumption of alcohol had been steadily decreasing prior to the introduction of the LWA program.¹¹

The report itself states:

NT per capita consumption of alcohol by adults declined relative to the level expected on the basis of national trends evident prior to LWA. (page 29)

The second evaluation report carried out by Curtin University in 2005¹² predominately focused on the impact of the LWA program on the rates of alcohol-attributable deaths in the NT.

⁸ Increases by beverage type: beer and premixed sprits \$0.20 per litre; wine and cider \$0.48 per litre; spirits and fortified wines \$1.60 per litre.

⁹ Alcohol, Taxation Reform and Public Health in Australia: Submission to the Federal Parliamentary Inquiry into Substance Abuse in Australian Communities. D Crosbie, T Stockwell, A Wodak, I O'Ferrall.

¹⁰ The public health, safety and economic benefits of the Northern Territory's Living With Alcohol Program 1992/3 to 1995/6. (1999) Chikritzhs, T., Stockwell, R., Phillips, M., Cronin, J., et al.

¹¹ Figure 1: Annual per capita consumption of pure alcohol in the NT for persons aged 15+yrs between 1980/81 and 1995/96

¹² The impact of the Northern Territory's Living With Alcohol program, 1992 – 2002: revisiting the evaluation. (2005) Chikritzhs, T., Stockwell, T., Pascal, R.

Whilst this report concluded that there had been a significant reduction in the average rate of acute alcohol-attributable deaths during the LWA program, the report acknowledged that:

However, it was not possible to firmly conclude from this study whether the reduction observed in acute alcohol-attributable deaths in the NT was a result of the levy alone or some combined, interactive impact of the Levy and the programs and services offered by the LWA program. (page 1634)

It is clear that whilst there were some demonstrated benefits as a result of the LWA program, those benefits can not be attributed to the introduction of the levy alone. The significant targeted education and treatment campaigns along with the substantial changes to the Liquor Act, all contributed to the benefits that were achieved as a result of this program.

Whilst supporters of programs such as LWA might argue for increased taxes to fund alcohol rehabilitation and education programs, with in excess of \$4 billion collected in alcohol tax last year not including GST, the WFA and WGA would argue there is already sufficient revenue generated by alcohol taxes to fund an extensive and targeted education and community awareness campaign.

6. Volumetric Tax - Impact on the Australian Wine Industry

As previously stated, wine is taxed on a value basis through the Wine Equalisation Tax (WET). There have been calls in the media by various groups to implement a volumetric tax on wine as part of a broader alcohol policy framework with little or no regard to the impacts on thousands of employees and business across regional Australia.

The calls have come predominately in response to the perception that cask wine is contributing significantly to the issue of excessive alcohol consumption in the general population, and that a volume-based tax will somehow address these perceived alcohol abuse problems. Australian consumers have in fact been steadily 'trading up' to higher priced wines over the past decades. The share of cask-wine as a proportion of total wine consumption in Australia has declined from around 70% in the mid-80s to 43% today.

The imposition of a volumetric tax on wine at the beer excise rate would see an increase in the price of a \$12.50 cask to more than \$28. Even under assumptions of wine consumption being relatively price inelastic, such a change would lead to a significant reduction in cask wine consumption as consumers switched to alternatives. This would in turn result in an estimated reduction of at least 250,000 tonnes in required wine grapes - predominately from the three inland communities of the Riverland (SA), Murray Valley (Vic/NSW) and Riverina (NSW). The Riverland, Murray Valley and Riverina between them produce almost 65% of Australia's winegrape harvest.

The reduction in demand for wine grapes would have a devastating impact on the rural communities that supply them; these are communities that are already experiencing major social and economic dislocation as a result of the significant shortfall of water in the Murray-Darling basin. The three inland regions mentioned above would expect to lose in the vicinity of 3,500 jobs through the impact of a volume based tax on wine at the packaged beer excise rate.

To justify such a tax increase, and to further jeopardise the viability of the inland rural communities that would be affected, there would need to be compelling evidence that cask wine was a disproportionately large part of the alcohol abuse problem for the general population. The evidence does not support this.

7. Health and Social Responsibility

When consumed in moderation, in a manner consistent with the Australian Alcohol Guidelines, wine is part of a healthy lifestyle. However, the industry also recognises when wine or other alcohol products are consumed to excess, either in the short or long term, they can contribute to a range of social and physical harms.

The Australian wine industry recognises that it has a responsibility to promote wine as a product to be enjoyed in moderation. To this end, the industry has taken a leadership role in instigating a number of initiatives to ensure the benefits of moderate wine consumption are maximised and associated harms are minimised in every possible way.

The wine sector's vision for the industry is:

For wine to be understood as a lifestyle beverage to be enjoyed in moderation and for the industry to promote sustainable and socially responsible consumption of our wines.

Standard drinks labelling is mandatory on alcoholic beverages, but the wine industry has voluntarily developed a standard drinks logo that wineries can use to provide simple easy to understand information to consumers. This logo has been voluntarily adopted by wine companies representing over 80% of wine sales in Australia.

In addition, many wine producers are voluntarily adopting responsible consumption messages on package labels such as "Enjoy wine in moderation" or "Drink Responsibly".

The Australian wine sector is a founding partner of DrinkWise Australia, an evidence-based organisation which is focused on promoting change towards a more responsible drinking culture in Australia. A key component of this aim is to minimise potential harms and maximise any benefits from alcohol consumption.

Since its establishment in 2005, DrinkWise has been involved in a number of projects including:

- Good Sports – a national sport development initiative of the ADF that enhances the critical role community sporting clubs play in their community;
- The SafeZone Film Festival which was held on the Gold Coast and awarded prizes to young people who produced short films promoting responsible drinking; and
- The "Alcohol and the Australian Culture" forum which was held in March 2008 and attended by representatives from the alcohol industry, Government, public health experts and sporting and community groups.

In addition, DrinkWise is involved in a number of research programs which are aimed at gaining a better understanding of alcohol and its effects on society.

In June 2008, DrinkWise will be launching its Social Change Campaign, a joint initiative with the Australian Government aimed at creating a long-term generational change towards a more responsible drinking culture in Australia. The campaign will focus on empowering parents to become positive role models for their children.

WFA has an internal committee to advise the WFA Board on matters associated with wine and social responsibility. The committee is skills based and draws on a wide range of expertise including the clinical, pharmacological / physiological and social effects of wine and its consumption.

The committee's purpose is:

- i. To collect, review and promote the development of evidence that informs the wine industry on the affects of the consumption of wine.
- ii. To collect, review and promote the development of evidence that informs the wine industry on the patterns of consumption of wine in Australia and around the world.
- iii. To make recommendations to the Winemakers' Federation of Australia Board on evidence based policies that promote the responsible consumption of wine.
- iv. To inform the Australian Wine Research Institute and other relevant research bodies on priorities for research into the effects of wine consumption and patterns of wine consumption.
- v. To establish relationships with researchers, the medical community, government and non-government organisations with an interest in the affect of wine consumption.
- vi. To facilitate the release of public information by the wine industry on the affects and patterns of wine consumption.
- vii. To identify or pursue funding opportunities that support industry priorities related to the affects and patterns of wine consumption.
- viii. To assist and advise the wine industry in the preparation of submissions or public comment on the affects and patterns of wine consumption.

The wine sector recognises that adopting strong positions on social responsibility is essential to the industry's future.

The industry's strategy for sustainable success, *Wine Australia: Directions to 2025*, outlines the need for winemakers and wine sector organisations to adopt a range of initiatives that will promote healthier consumption patterns, enhance the social responsibility of the sector and highlight the many measures they have taken to encourage wine drinking in moderation. Responsible promotion and moderate consumption of wine with food is identified as a core value for the Australian wine sector.

8. Conclusion

The Australian wine sector is a unique success story which has seen unprecedented growth in the last ten years. Responsible for supporting more than 30,000 direct and 30,000 indirect jobs, the wine industry provides a substantial economic contribution to many rural communities throughout Australia.

The wine industry is different to other alcohol beverage industries. Wine is a rural-based agricultural product that is produced to be enjoyed in moderation, with food, and this is how it is consumed by the vast majority of the public.

Whilst wine is not a product of choice for young binge drinkers and underage consumers, the wine sector does recognise that it has a role to play in ensuring its products are not consumed in an irresponsible manner.

WFA and WGGA believe that measures to address alcohol abuse should be targeted at risky consumption and problem drinkers and should not penalise those people in the community who drink responsibly. Taxation is a blunt instrument that does not differentiate between those who are enjoying alcohol products in a responsible manner and those who are drinking at risky levels.

In addition, any measures to increase taxation in the wine sector, or change the way the product is taxed, would have devastating and irreversible impacts on regional communities across the country, and in particular in inland regions along the Murray Darling Basin already experiencing significant challenges associated with drought and water prices.

WFA and WGGA believe that any changes to alcohol policy and regulation must be based on sound scientific evidence of effectiveness, proposed changes need to consider the impacts of such changes on all stakeholders and must include extensive consultation with key stakeholders, including industry.