Winemakers' Federation of Australia
For the Industry by the Industry

Canberra Office
Level 1/24 Bougainville Street
Manuka ACT 2603
(PO Box 3891, Manuka ACT 2603)
Telephone: 0419 287 734
Email: wfa@wfa.org.au
Web: www.wfa.org.au
ABN 38 359 406 467

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Elton Humphery
Committee Secretary
Senate Community Affairs Committee

Sent by email: Elton.Humphery@aph.gov.au

Dear Mr Humphery

Additional Questions for Senate Community Affairs Committee Inquiry into Ready To Drink (RTD) Alcohol Beverages

The Winemakers' Federation of Australia provides the following supplementary information by way of response to the additional questions posed by the Committee with respect to the Inquiry into RTD Beverages. This letter addresses wine sector relevant questions that have not been covered in the Federation's Submission lodged 30 May 2008. I would like to note that the questions circulated effectively add additional terms of reference not originally outlined in the Inquiry process.

Taxation as a Social Policy Tool

Using tax to alter price is a blunt social policy tool that penalises those who consume responsibly as well as those who consume to excess. The academic literature is divided as to the effectiveness of price changes, but would indicate that young people are less responsive to price changes than older people. A large change in price leads to a relatively much smaller change in consumption, and there is no evidence that irresponsible consumption, as opposed to total consumption, is reduced as a result of price changes.

Much of the debate around alcohol policy in recent months has focused on simplistic measures such as price, labelling and advertising as the solution for health and social problems caused by irresponsible consumption of alcohol. There is a tendency to approach alcohol policy in an ad hoc manner rather than from a holistic perspective and consider fundamental causes of alcohol, and indeed other substance, abuse.

Increased prices will have an impact on consumption and will lead to some substitution between alcoholic beverages and potentially, could lead to consumption of other, more harmful substances.

The Australian wine sector supports policy and regulation on the basis of clear evidence of outcomes measured against the impact on stakeholders.

Anomalies in Alcohol taxation

The fact that the system of taxation for alcohol products in Australia is not uniform does not mean there are anomalies that require fixing. Different forms of taxation reflect different products and different industries.

The Australian wine sector has consistently argued for a value based taxation regime for wine with a rebate recognising cost competitive pressures for smaller producers and the contribution of the wine sector to regional Australia.

The rebate on the first $500,000 of WET means that in excess of 90% of Australian wineries pay no wine tax; medium and large wine companies continue to contribute more than $650 million in wine tax annually (excluding GST). Small wine companies are taken out of the wine taxation net and the Government still receives a significant amount of taxation revenue – more than 80% of receipts that would exist without the rebate. However, its important to note that all wineries are still subject to the normal company taxes including payroll tax, company tax, income tax and stamp duty.

All alcoholic beverages are subject to some form of taxation in Australia, be it WET, customs or excise duties, plus GST. Wine companies account for all WET as part of their accounting practice. The rebate, which effectively means small companies do not remit wine tax, was developed with the express intention of retaining the rebate for investment back into regional businesses to drive sustainability and viability.

The Australian wine sector is different to other alcohol sectors and wine is different to other alcohol products. Wine is taxed at different levels to beer and spirits all over the world; notwithstanding this, Australia is one of the highest taxed major wine producers.

There are many in the Australian wine sector who would argue that wine and wine businesses should not be subject to any additional taxes beyond the normal company and business taxes; with almost $2 billion in domestic sales and $3 billion of export earnings, plus in excess of $650 million of wine tax collected annually, the Australian wine sector is a major contributor to the Australian economy, and in particular to regional communities around the country.

Wine Based Products

There have been some claims in recent media articles that the increase in tax on RTD products will see a proliferation of wine-based RTDs. The Federation would view this as an unintended consequence from the Government's increase in RTD products and consequently has written to the Treasurer supporting regulatory changes to close this loop-hole.

The category of 'grape wine products' was originally established to protect traditional wine products such as vermouth and marsala. The Federation has emphasised the desire to protect existing grape wine products, but ultimately wine-based RTDs should not be encouraged as a result of definitions in regulations.

Change to Wine Taxation

There are two over-riding principles that could motivate a change to the way that wine is taxed, that is from a value-based tax to a volume-based tax, or an increase in wine taxation.

The first would be evidence that wine is abused at disproportionately high levels compared with other alcoholic beverages. It would be particularly relevant if wine was identified as a product of choice for abusive consumption by young people and for underage consumption.

The second would be evidence that tax-induced price increases would achieve the desired result – that is a reduction in alcohol abuse and irresponsible consumption.

Coupled with these principles is the need to clearly identify and understand the impacts on the Australian wine sector, and in particular regional communities across the country, which such changes to wine taxation would deliver.

The Federation has not seen any evidence that wine is abused at disproportionately high levels, particularly for younger consumers. Further, where there is anecdotal evidence that wine is a particular target of abuse, such as cask wine in remote communities, there is no evidence that increased tax would address the underlying causes that lead to substance abuse. And finally, there is ample evidence that a change to the way wine is taxed, or a tax increase, would have a significantly detrimental impact on Australian wineries and regional communities that rely on the sector for employment and economic stimulation across the country.

Wine is a differentiated product that is produced to be consumed in moderation with food. The wine sector is one of the few examples of vertical integration in rural Australia, from grapes to wineries to bottles on retail shelves. The Australian wine sector produces wine that ranges from lower-priced cask products through to bottles well in excess of $500. If the contention that 'alcohol is alcohol' were true, why would consumers choose to purchase across the broad spectrum of price points? Wine is purchased for a variety of reasons, including reputation and reliability for lower priced products, through to regional connection and story, recognition of strong brands and icon products among the best in world.

The existing value-based method of taxation with a WET rebate targeting smaller producers is the least distortionary regime for Australian wine, encouraging consumer choice, brand development and sustainable investment in a successful rural Australian sector.

Yours sincerely

Stephen Strachan
Chief Executive