

Chrisco[®]



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4 June 2008

Secretary
Community Affairs Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Committee Members,

**Re: Chrisco Group Submission
Increase in Excise on “Ready-to-Drink” Alcohol Beverages**

I would like to thank the Committee for considering our submission to the Inquiry into Ready-to-Drink (RTD) Alcohol Beverages. Excessive consumption of alcohol is an important issue for our community to consider and it is encouraging that the Government is taking steps to deal with the issue.

Our issue concerns the impact of this amendment to the Excise Tariff Act on retailers such as ourselves who have pre-sold RTD alcohol beverages in good faith, prior to the increase in excise being legislated through the Parliament.

Company Overview

The Chrisco Hamper Company is a private business that has been operating in Australia for 10 years under the Chrisco brand. In 2004 Chrisco acquired the Castle Hamper business to form The Chrisco Group and now operates two brands (Chrisco and Castle).

Both brands market a ‘payment plan service’, where customers select products from catalogues and enter into a lay-by style arrangement where the product(s) is paid off via small weekly payments prior to delivery (Christmas).

Chrisco Business Model

The Hamper Catalogue is launched in October each year and customer's orders are delivered the following Christmas. The prices advertised in our catalogues are fixed for the year (i.e. between the time of printing and distributing the catalogue and the time of delivery of the product to the customer's home). Although orders are placed up to 14 months prior to the date of delivery (Christmas), we do not purchase these products from the wholesaler until closer to the date of delivery (Christmas) as many of the items are perishables (food, drink etc).

For example, the 2008 catalogue was distributed and marketed from October 2007 for delivery in November/December 2008. The majority of sales (~95%) are made between October and April to allow customers the maximum number of weeks to pay for their order thereby minimising the dollar amount of their weekly payments.

The Issue

A number of our hampers include RTD alcohol beverages and we currently have a large number of orders from customers for these hampers, which will be delivered at Christmas this year.

The unique nature of the Chrisco Group business model (described above) has created a situation where "Ready-to-Drink" (RTD) Alcoholic Beverages have been committed to sale to customers (as part of a range of hampers) at a fixed price which was marketed in our catalogue distributed in October 2007. The price of these hampers to our customers was established prior to the increase in the excise.

However as mentioned above, we will not purchase the products contained in our hampers from the wholesaler until closer to the date of delivery (Christmas) as many of the items are perishables (food, drink etc).

And whilst our pricing model accounts for some normal variation in costs (such as CPI) clearly we could not have predicted this additional excise at the time we committed to sale to our customers and therefore did not factor it into our prices.

Our legal advice is that we will be liable to pay the additional excise on these pre-sold products (which will be passed on to us by the wholesaler) despite the fact that they were committed to sale several months ago, prior to the increased excise being passed by the Parliament.

Without a remedy to this situation, the financial impact to The Chrisco Group of the excise increase (based on existing orders made prior to this legislation being put to the Parliament) is in excess of \$670,000. This impost would be born entirely by our company, as the retailer, and will have no impact on drinking behaviour because it will not be possible for us to pass any additional cost onto the consumer in this case.

The Request

The Chrisco Group believe that the intention of the amendment to the Excise Tariff Act should be prospective, rather than retrospective in nature. That is, additional excise should be collected on goods sold after the Bill was passed and not collected on goods committed to sale prior to 26 April 2008 when the Government gave notice of its intention to increase the excise on RTD alcohol beverages.

There are a number of considerations which we believe support this proposition.

First, as we understand it, the intention of the amendment to the legislation is to tackle the harm caused by excessive alcohol consumption – particularly by young

people attracted to these products – a proposition The Chrisco Group wholeheartedly supports.

However in the case of product which has already been committed to sale to our customers, there is no way for us to pass these costs on to the consumer, and therefore the impost will have no bearing on their purchasing decisions (which have already been made). Rather, we will simply have to absorb the cost ourselves. We do not believe this impost on our business is in keeping with the intention of the legislation.

Second, legislation which affects business retrospectively is extremely damaging to business confidence. Australian businesses have a reasonable expectation that they can operate under the legislative environment of the day. In this case, our decisions about pricing were made on the basis that excise payable to the Government would be \$39.36 per litre of alcohol content and contracts were entered into with customers on that basis.

Finally, we believe the proposition is consistent with similar legislation adopted by this and previous Governments in the past.

On this basis, we respectfully request a remedy to this situation. Whilst the Government can clearly seek advice on options to remedy this situation such as possible legislative instruments, we would like to put forward our suggestion for your consideration:

The Government should provide a one-off rebate to retailers who have entered into contracts with customers prior to 26 April 2008. This would be collectable after invoices are issued and paid (our order management systems records the name, address, bank account details [if paying by direct debit] and order details & date of order for each individual customer).

Conclusion

I would like to thank the Committee for considering The Chrisco Group's submission to the Inquiry into Ready-to-Drink Alcohol Beverages.

We hope the Committee is able to provide guidance to the Senate which ensures the best possible policy and legislation is adopted to deal with the issue of excessive consumption of alcohol, whilst also ensuring minimal disruption to retailers such as ourselves.

If you would like any further information about this issue, I would be happy to discuss the matter with any member of the Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lee Hill', written in a cursive style.

Lee Hill
CEO
The Chrisco Group