

The Senate

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Economics Legislation Committee

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Provisions of the Excise Tariff Amendment  
Bill (No. 1) 2002

Provisions of the Customs Tariff Amendment  
Bill (No. 2) 2002

October 2002

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# Table of Contents

Members of the Committee	iii
<b>REPORT</b>	
<b>Inquiry into the provisions of the Customs Tariff Amendment Bill (No. 2) 2002 and the Excise Tariff Amendment Bill (No. 1) 2002</b>	
Reference of Bills to Committee	1
The Committee's Inquiry	1
The Bills	1
Comparison of key features of new law and current law	3
Scope of the Inquiry	3
Taxation of Alcohol- Current Position	5
Taxation on Wine	5
Taxation on Beer	5
Taxation on Spirits	6
Taxation on Ready To Drink (RTD) beverages	6
Tax Issues	6
Wine	6
RTD Beverages	8
Health Issues	9
Incentives to discourage the consumption of high alcohol beverages	10
Incentives to encourage the production of low alcohol products	11
Conclusion	12
Recommendation	13
<b>SUPPLEMENTARY REMARKS – SENATOR ANDREW MURRAY</b>	<b>15</b>
<b>SUPPLEMENTARY COMMENTS BY LABOR SENTORS</b>	<b>17</b>
<b>APPENDIX 1</b>	
<b>List of public submissions</b>	<b>19</b>
<b>APPENDIX 2</b>	
<b>Public hearing and witnesses</b>	<b>21</b>



# Report

## **Inquiry into the provisions of the Customs Tariff Amendment Bill (No. 2) 2002 and the Excise Tariff Amendment Bill (No. 1) 2002**

### **Reference of Bills to Committee**

1.1 The Customs Tariff Amendment Bill (No. 2) 2002 and the Excise Tariff Amendment Bill (No. 1) 2002 were introduced into the House of Representatives on 22 August 2002 and were passed by that chamber unamended on 18 September 2002. The Bills were introduced into the Senate on 19 September 2002 and are currently at the second reading adjourned stage. As a result of a report by the Selection of Bills Committee, the Senate referred the provisions of the Bills to the Economics Legislation Committee on 18 September 2002 with a reporting date of 15 October 2002. The reporting date was subsequently extended to 22 October 2002.

### **The Committee's Inquiry**

1.2 The Committee invited a number of interested parties to make submissions on the Bills. The Committee's inquiry was also advertised on the Parliament website and in the *Australian* on 25 September 2002. The Committee received 16 submissions from a range of organisations representing views from sections of the beer, wine and spirits production industry as well as several submissions from community health organisations.

1.3 A hearing was held in Canberra on Thursday, 17 October 2002.

### **The Bills**

1.4 The Customs Tariff Amendment Bill (No. 2) 2002 and the Excise Tariff Amendment Bill (No. 1) 2002 amend the *Customs Tariff Act 1995* (Customs Act) and the *Excise Tariff Act 1921* (Excise Act) respectively. The Bills propose changes to excise in relation to the water component of emulsified diesel. They also exclude certain oil products from the product stewardship oil levy. However, the provisions of the Bills which are the subject of the Committee's examination are those which establish a national excise scheme for low alcohol beer.

1.5 The proposed amendments dealing with the excise on low alcohol beer are designed to bring into effect a national excise scheme. Currently, wholesalers are required to lodge a claim, in their respective State or Territory, for a rebate for a portion of the excise paid to the Commonwealth.<sup>1</sup> The national scheme will be

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1 Explanatory Memorandum, p. 16.

delivered by the cessation of State and Territory subsidies. As a result the subsidy for low alcohol beer will be provided by the lowering of the excise rates. The new rates of excise will still include the 1.15 per cent excise free threshold, which applies to all varieties of beer. The new rates are taken to apply on and from 1 July 2002.<sup>2</sup>

1.6 The amendments proposed to the Excise Act are mirrored in the Customs Act in regard to the importation of beer. The amendments will maintain consistency between imported and domestically produced low alcohol beer.

1.7 In addition, the proposed amendments to the Excise Act will correct an anomaly which currently allows manufacturers to reduce their excise liability by increasing the alcohol content of mid-strength beer from 3.5 per cent to 3.6 per cent in individual containers not exceeding 48 litres.<sup>3</sup>

1.8 The Bills do not propose any change to the excise rates currently in place for any other alcohol products, including full strength beer.

1.9 In announcing this national excise scheme for low alcohol beer, the Treasurer stated:

The scheme will replace a range of existing State subsidy schemes with a nationally uniform and administratively efficient concession in the rate of excise on low alcohol beer.

The national scheme will eliminate the requirement for wholesalers to lodge a claim for a rebate of excise that they have paid. It will also reduce compliance costs for industry and eliminate administration costs for the States.<sup>4</sup>

1.10 Most witnesses agreed that the intention of the proposed legislation was not to change the tax regime but to simplify 'the administration of former state tax incentives that have existed in various forms since 1982'.<sup>5</sup> In the opinion of Mr Phillip Sweeny from Carlton and United Breweries, the Bills would:

Reduce the cumbersome and costly arrangements for the state subsidy on low-alcohol beers, while preserving, as near as possible, existing taxation levels on these products.<sup>6</sup>

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2 Explanatory Memorandum, p. 13.

3 Explanatory Memorandum, p. 13.

4 Press Release, The Hon Peter Costello MP, Treasurer of the Commonwealth of Australia, no. 012, 22 March 2002.

5 Phillip Sweeney, Carlton and United Breweries and Australian Associated Brewers Inc, *Committee Hansard*, p. E5. See also Mr Patrick Colmer, Treasury, *Committee Hansard*, p. E22.

6 Phillip Sweeney, Carlton and United Breweries and Australian Associated Brewers Inc, *Committee Hansard*, p. E5.



1.11 Mr Gary Max, Australian Associated Brewers (ABA), told the Committee that this streamlining of the former state tax incentives for low-alcohol beer would ‘deliver administrative savings for both business and government’.<sup>7</sup> The following table compares the proposed law with the existing law.

### Comparison of key features of new law and current law<sup>8</sup>

<i>New law</i>	<i>Current law</i>
The States and Territories will cease to pay rebates in respect of wholesale low alcohol beer products and assistance is through lower excise rates.	Assistance for low alcohol beer products is through State and Territory rebates.
The rate for low alcohol beer (not exceeding 3.0% alc/vol) will be reduced to \$5.69 per litre of alcohol for beer packaged in individual containers exceeding 48 litres.	The rate for low alcohol beer (not exceeding 3.0% alc/vol) is \$16.46 per litre of alcohol for beer packaged in individual containers exceeding 48 litres.
The rate for low alcohol beer (not exceeding 3.0% alc/vol) will be reduced to \$28.49 per litre of alcohol for beer packaged in individual containers not exceeding 48 litres.	The rate for low alcohol beer (not exceeding 3.0% alc/vol) is \$45.46 per litre of alcohol for beer packaged in individual containers not exceeding 48 litres.
The rate for mid strength beer exceeding 3.0% but not exceeding 3.5% alc/vol will be reduced to \$33.22 per litre of alcohol for beer packaged in individual containers not exceeding 48 litres.	The rate for mid strength beer exceeding 3.0% but not exceeding 3.5% alc/vol is \$38.59 per litre of alcohol for beer packaged in individual containers not exceeding 48 litres.

### Scope of the Inquiry

1.12 The bulk of the submissions support the thrust of the proposed legislation in regard to its treatment of low alcohol beer. Indeed, Mr David Crosbie, Odyssey House, believed that the proposed legislation represents an ‘amazing achievement’. He told the Committee:

I think to get all the states and territories to agree to this legislation is beyond anything I have ever experienced, particularly in the alcohol tax area, but even in government when there are very different regimes in the states and territories. I must commend Treasury officials and everyone else

7 *Committee Hansard*, p. E5.

8 Explanatory Memorandum, p. 11.

who managed to achieve such an outstanding result. I certainly think it is much more effective and more equitable and a vast improvement on the absolute mess we had before where we did not even know whether the state rebates were being passed on, at what measure to whom and how. It is an incredible achievement and I think we should note that. I certainly support the passing of the legislation.<sup>9</sup>

1.13 It is important to emphasise that the Bills do not propose any changes to the current effect of taxation policy on alcohol pricing and are not indicative of wider alcohol reform.<sup>10</sup> In this context the Committee notes the views of the Treasury in regard to the Working Party tasked with reviewing the excise on low alcohol beer:

The Working Party noted that the taxation of other alcohol products was outside the scope of its brief and that complexities of the alcohol market and product type comparisons indicate that any consideration of extending concessional taxation measures to other alcohol products should be undertaken separately.<sup>11</sup>

1.14 The Australian Associated Brewers Inc (ABA) suggested that the current inquiry was not the forum to address issues of alcohol taxation in general. It pointed out, as noted above, that the Bills only focus on the streamlining of the excise system as it relates to low alcohol beer. According to the ABA, matters such as health and social issues need to be treated separately:

They are entirely distinct considerations and the savings to industry and Government from the current machinery changes in the bills should not be lost by inappropriately addressing broader policy concerns that have already been raised in several government forums over the past five years.<sup>12</sup>

1.15 Despite the Bills specific focus on the excise on low alcohol beer, some submissions sought to broaden the scope of the inquiry to take in a range of matters including the perceived inequities in the current taxing regime on alcohol and health and social concerns related to alcohol consumption. Indeed, the reasons given to the Selection of Bills Committee for recommending that the Bills be referred for inquiry was to examine the suggested health and taxation anomalies associated with the taxation of alcohol.

1.16 In the following section the Committee considers these broader matters. It starts with a brief summary of the current taxation regime in regard to alcohol.

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9 *Committee Hansard*, p. E19.

10 Submission No. 14, p. 3.

11 Submission No. 14, p. 3.

12 Submission No. 8, p. 2.

## **Taxation of Alcohol- Current Position**

1.17 Currently, alcohol is taxed in two ways and at several different rates of excise. The excise rate that applies is dependant upon whether the product is placed in the category of wine, beer, spirit or other alcoholic beverage with less than 10 per cent alcohol content. Additionally, in the case of beer, the packaging also is a determining factor in the level of excise payable.

1.18 All alcoholic beverages, with the exception of wine, are taxed on the basis of the level of alcohol contained. Wine is taxed on an ad valorem basis, that is to say it is taxed on its value as opposed to its alcohol content.

### ***Taxation on Wine***

1.19 Wine is subject to a 29 per cent value added tax, known as the Wine Equalisation Tax (WET), this tax is based on its wholesale value. Additionally, the GST is levied on top of that cost. This method does not take into account the alcohol content of wine when determining the tax payable.

### ***Taxation on Beer***

1.20 Beer is subject to a variety of excise rates depending on its packaging and alcohol content. In addition, beer receives a 1.15 per cent excise free threshold on its alcohol content.

1.21 Currently, low alcohol beer, which is defined as having 3 per cent or less alcohol volume, has an excise rate of \$16.46 per litre of alcohol if packaged in containers exceeding 48 litres. The excise rate for low alcohol beer if packaged in containers not exceeding 48 litres is \$45.46 per litre of alcohol. These rates are reduced by assistance via State and Territory rebates.

1.22 The proposed legislation will reduce the excise rate on low alcohol beer packaged in containers exceeding 48 litres from \$16.46 to \$5.69. In addition it will also reduce the excise on low alcohol beer packaged in containers not exceeding 48 litres from \$45.45 to \$28.49 per litre of alcohol.

1.23 The only other proposed change to the excise rate for beer is concerned with mid-strength beer, which is defined as having an alcohol content of more than 3 per cent but not exceeding 3.5 per cent alcohol. The purpose for this change is to correct an anomaly in the current excise system. At the moment, a manufacturer can reduce the excise due by increasing the alcohol content of mid-strength beer from 3.5 per cent to 3.6 per cent. The proposed change corrects this by reducing the rate from \$38.59 per litre of alcohol to \$33.22 per litre of alcohol for beer packaged in containers not exceeding 48 litres.<sup>13</sup>

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13 Explanatory Memorandum, p. 13.

1.24 The rate for full strength beer remains unchanged at \$23.76 for beer exceeding 3.5 per cent alc/vol and if packaged in containers exceeding 48 litres. The rate for full strength beer in containers not exceeding 48 litres is \$33.75 per litre of alcohol.<sup>14</sup>

### ***Taxation on Spirits***

1.25 The excise regime applied to spirits (excluding brandy) is also unchanged at \$57.17 per litre of alcohol.

### ***Taxation on Ready To Drink (RTD) beverages***

1.26 The excise applied to other alcoholic beverages not exceeding 10 per cent alcohol content is the same as full strength beer at \$33.75 per litre of alcohol. This category includes ready to drink (RTD) beverages, such as pre-mixed cans of rum and cola and similar hybrid products. However, this category does not include wine.

1.27 Currently the vast majority of RTDs on the market contain similar levels of alcohol as full strength beer and so attract the full strength beer rate of excise. However, the full strength beer excise also applies to RTDs that contain the same alcohol level as mid-strength beer. This rate also applies to the small number of low alcohol (2.2 per cent alcohol by volume) RTDs on the market.<sup>15</sup>

1.28 Additionally, the manufacturers of RTDs are unable to access the 1.15 per cent tax free threshold that is applied to beer.

## **Tax Issues**

### ***Wine***

1.29 The Winemakers Federation of Australia (WFA) which represents makers of both premium and value wines from all regions, noted that alcohol taxation had been the subject of two substantial reviews in less than a decade; the Inquiry into the Winegrape and Wine Industry in Australia in 1995 and the review process which led to the ANTS package (A New Tax System) in 1998. The WFA said that it was time to accept the structure for alcohol taxation was settled and allow the wine industry to get on with the job of fulfilling its potential in delivering substantial benefits to the Australian economy and 61 regional economies.

1.30 The WFA said while there has been dramatic growth there are significant profitability pressures, particularly for small and medium wineries, and the industry could not afford to be diverted by further uncertainty about the alcohol tax regime from implementing strategies to foster ongoing viability.

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14 ATO Excise Duty Rates.

15 Submission No. 4, p. 2.

1.31 The WFA said that the taxation treatment of alcohol should take into consideration the contribution of the industry to the broader Australian economy, including regional development, employment, tourism, export growth and potential.

1.32 The WFA said the circumstances in which alcohol is consumed should be considered with over 75 per cent of all wine consumed in conjunction with food.

1.33 However, some submissions from premium wine producers highlighted what they regard as inequities in the current taxing regime on alcohol which is undermining their competitiveness.

1.34 In its submission, Stefano Lubiana Wines noted that the current taxation regime regarding wines, known as the Wine Equalisation Tax or WET, discriminates against premium bottled wines in favour of cheaper bottled wines and cask wines.<sup>16</sup> They argued that the application of an excise system which focuses more on the alcohol content of wine as opposed to its value will be more equitable for smaller wine makers, whose focus is predominantly on the production of premium wines.

1.35 Lubiana Wines and Distilled Spirits Industry Council of Australia (DSICA) stated that as a result of the current taxation structure average excise payable on cask wine is 6 cents (based on a 4 litre, \$12.99 cask) per standard drink.<sup>17</sup> In comparison the excise paid on a standard glass of premium wine can vary from 28 cents (based on a bottle valued at \$14.99) to 69 cents (based on a bottle valued at \$32.10).<sup>18</sup>

1.36 Lubiana wines also argued that the current taxation system favours the larger wine makers who are able to subsidise their production of premium wines with their cheaper bottled and cask wines:

They can cross-subsidise with their premium products and cask products, so they effectively already pay a volumetric tax. We do not have the ability to subsidise any product. We only make one product, and that is quality wine, so out in the marketplace we are worse off. In restaurants, for example, our wine sells for \$40, \$50 or \$100 a bottle. It is less affordable than the big companies' products competing in the same marketplace.<sup>19</sup>

1.37 Mrs Monique Lubiana told the Committee that Government policy is making us uncompetitive and unprofitable.<sup>20</sup> Mr Kenneth Helm, Helm Wines, agreed that the WET effectively means that the small premium end of the wine industry is 'subsidising in taxation the cask producers in this country.'<sup>21</sup>

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16 Submission No. 15, p 4.

17 Submission No. 15, p.5.

18 Submission No. 13, p. 6.

19 *Committee Hansard*, p. E16.

20 *Committee Hansard*, p. E3.

21 *Committee Hansard*, p. E8.

1.38 DSICA agreed with the premium wine producers about the inequity in the current tax system. Mr Warwick Ryan told the Committee that DSICA believes that there should be a revenue neutral volumetric wine excise to replace the value based WET. He stated:

We believe that alcohol products should be taxed on the basis of their alcohol content and not their value. We do not support the current inequalities in the amount of non-GST tax per standard drink.<sup>22</sup>

### ***RTD Beverages***

1.39 The question of equity also arose in regard to RTDs. Several submission including both health groups and manufactures of RTDs argue that alcohol should receive the same tax treatment regardless of its origin.

1.40 In underlining the differences in the tax rates between RTDs and beer, Mr Ryan informed the Committee that:

- low-alcohol packaged RDTs are taxed at 200 per cent of the effective rate of a low-alcohol packaged beer;
- mid-strength RTDs are taxed at 150 per cent of the effective rate of mid-strength packaged beer; and
- full strength RTDs are taxed at 130 per cent of the effective tax rate for mid-strength packaged beer.

1.41 He maintained that RTDs have the same alcohol content as beer, that they compete with one another and thus should be taxed at exactly the same rate as beer.<sup>23</sup> In essence he was asking for the current taxation system ‘to provide for complete taxation equivalence between RTDs and beer’.

1.42 Mr Broderick of DSICA reinforced this view when he said:

Senator Murray made the comment that he views alcohol as alcohol and it does not matter whether it is made from grape or grain. The sooner that the alcohol tax issue is looked at in that way the sooner we will get true reform. Then the consumers will get to choose the beverage of their preference on the basis of choice rather than on taxation.<sup>24</sup>

1.43 DSICA argued that the apparent inconsistency between full strength beer and RTDs resulted in disadvantaging RTDs in the market place.

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22 *Committee Hansard*, p. E13.

23 *Committee Hansard*, p. E12. DSICA also noted that RTD beverages compete directly with full strength beer in the market and so should be afforded complete taxation equivalence. Submission No. 13.

24 *Committee Hansard*, p. E16.

1.44 The Committee acknowledges that many RTDs have a similar alcohol content as full strength beer ie around 4.9 to 5 per cent and that the 1.15 per cent excise free threshold is not available to RTDs. However, the Treasury states that:

The cost price impacts of taxation, in isolation, may not be as effective as other, more direct, measures in influencing particular alcohol consumption behaviours, and other measures are often considered more appropriate to address specific health policy issues.<sup>25</sup>

1.45 Nonetheless, Mr Tony Free, Department of the Treasury, acknowledged the force in the call for equality of treatment in the alcohol taxing regime. He told the Committee that ‘there is some attractiveness in the arguments that have been put that, irrespective of the source of alcohol, it should have similar tax rates’.<sup>26</sup>

1.46 Having put the argument strongly in favour of a more equitable tax system, a number of submissions also saw tax as a means to promote a healthier approach to alcohol consumption.

## Health Issues

1.47 Views were put from both community health groups and manufacturers of alcoholic beverages that the current system of taxation created an apparent inconsistency, which impacted on small wineries, RTD manufactures and the community in terms of health issues.

1.48 The Explanatory Memorandum stated clearly that, ‘health policy appears to favour the continued subsidisation of low alcohol beer’.<sup>27</sup> Consistent with this view, all the submissions which addressed issues in regard to health and community impacts of alcohol supported the passage of the proposed legislation. They did, however, note that more could be done to encourage the production and consumption of low alcoholic beverages.

1.49 In addition to the criticism of the taxation of cask wine the Society Without Alcoholic Trauma Inc (SWAT) pointed to the different excise rates applied to beer, based on its packaging. Specifically, whether it was packaged in a container with a capacity of 48 litres or less.

1.50 SWAT argued that the excise difference creates a discounted rate for beer consumed in hotels. They quoted figures stating that approximately 80 per cent of beer is consumed from bulk containers in hotel environments. From these figures SWAT ascribes the majority of alcohol related disease to this source.<sup>28</sup>

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25 Submission No. 14.

26 *Committee Hansard*, p. E24.

27 Explanatory Memorandum, p. 13.

28 Submission No. 1.

1.51 The Australian Drug Foundation referred to similar figures. However, they went on to note that both full strength beer and cask wine receive favourable treatment under the current taxation system, when compared to other alcoholic products.

1.52 Health groups argue that such data indicates that price based taxes favour cheaper products such as cask wine. Additionally, such a system offers no incentive for consumers to choose low alcohol products.<sup>29</sup>

### ***Incentives to discourage the consumption of high alcohol beverages***

1.53 Several submissions supported an extension of the application of the beer excise structure to include other low alcoholic beverages. In its submission Odyssey House argued for a broader application of the excise system on alcohol. It stated that the level of excise should be focused on the alcohol content of products:

From a public health perspective, excise and taxation on alcohol should be based on alcoholic content and strength of drinks rather than cost of manufacture or the method used to produce the alcohol. Price based taxes, that apply to wine and other products have created incentives for higher consumption of cheap wine strength products (eg cask wine).<sup>30</sup>

1.54 Indeed, of major concern to many of the groups who gave evidence was the abuse of cask wine. In noting that alcohol is a major health issue in Australia, Mr Crosbie was particularly concerned with the problems associated with cask wine which he regarded as a significant issue. He told the Committee that there is still much agreement about the harm being done by cask wine.

1.55 He noted that data from Western Australia indicated that local rates of violent incidents and alcohol related hospital admissions are closely associated to the consumption of full strength beer and cask wine.<sup>31</sup> However, bottled wine and low strength beer are only weakly related to alcohol related violence and hospitalisation.<sup>32</sup>

1.56 Mr Crosbie believed that there 'is a great capacity to put in place taxation and excise requirements which would create significant incentives for the production of lower alcohol cask wine.'<sup>33</sup> He strongly supported 'a volumetric tax at some level on cask wine, with incentives to produce lower alcohol cask wine'. He stated:

Many people in this room... would agree that we need to do something about cask wine if we had to choose a priority, and to me there are a number of options for doing that. I would certainly support a volumetric tax at some

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29 Submission No. 2, p. 7.

30 Submission No. 2, p. 1.

31 Submission No. 2, p. 7.

32 Submission No. 2, p. 7.

33 *Committee Hansard*, p. E19.



level on cask wine, with incentives to produce lower alcohol cask wine. All health groups would support that.<sup>34</sup>

### ***Incentives to encourage the production of low alcohol products***

1.57 The Committee notes the health advantages of discouraging the consumption of high alcoholic beverages. One method of achieving this is by making low alcohol products more attractive to the consumer as well as encouraging the production of low alcohol products. Producers argued that tax changes could encourage the production of low alcohol products.

1.58 Mr Ryan maintained that ‘a change to complete tax equivalence between RTDs and beer will provide a taxation incentive to produce low-alcohol and mid-strength RTDs.’<sup>35</sup>

1.59 The essence of the DSICA proposition stems from the \$33.75 per litre of alcohol excise that is levied regardless of the alcohol content in regard to RTDs. This, they argue, offers no incentives for manufactures to produce and market mid and low strength RTDs. The lack of incentive to produce low alcohol RTDs is also supported by the Victorian Alcohol and Drug Association:

Currently, the first 1.15% of alcohol in beer is excluded from an excise contribution. This leads to price differences between full and low strength beers, as well as creating a disincentive to manufactures of wine and Ready to Drink (RTD) alcoholic beverages to develop and produce low alcohol alternatives.<sup>36</sup>

1.60 Kirwan Quest, a manufacturer of low alcohol RTDs, stated that the current taxing regime offers no incentive nor capacity to compete with beer or to create a market for non-beer low strength products. The proposed legislation maintains the status quo in regard to this situation. Kirwan Quest argue that the current excise system should be amended to provide:

consumers with more than one competitively priced low alcohol product, rather than confining affordable low alcohol choice to beer alone. Further, why should the scheme not encourage growth in consumption of low alcohol products at the expense of higher strength equivalent products.<sup>37</sup>

1.61 Mr Steve Lubiana told the Committee that new technology in the wine industry is very strong in Australia and is finding new ways of producing higher

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34 *Committee Hansard*, p. E20.

35 *Committee Hansard*, p. E12.

36 Submission No. 10, p. 6.

37 Submission No. 4, p. 3.

quality wine. He noted that in the future low-alcohol wines will be tastier and of better quality and further that ‘tax laws should not discourage the pursuit of those goals’.<sup>38</sup>

## Conclusion

1.62 The Committee appreciates the case put forward for the introduction of a more equitable tax regime on alcohol. It understands that premium wine would benefit from the introduction of a volumetric tax structure and that RTD producers would benefit from being taxed like beer at the same alcohol level. Such a system would place them on an equal footing with beer producers and enhance their competitiveness.

1.63 The Committee also notes the importance of the excise system as a tool to influence drinking habits through price mechanisms. It accepts that excise on alcohol has a place in discouraging the consumption of high alcohol beverages by making low alcohol products more attractive through lower prices to the consumer. A similar excise regime to that of beer would be an incentive for wine and RTD producers to produce low alcohol drinks.

1.64 However, it was pointed out that changes in excise rates alone are not enough to control the abuse of alcohol. For example, the increase in the consumption of RTDs can be attributed to a number of factors such as a reduction in price. Additionally, factors that influence consumption are marketing<sup>39</sup> and the general drinking patterns of specific groups in society. An example is the preference that young women have for spirits.<sup>40</sup>

1.65 The Committee is also of the view that future changes to legislation that impacts on the taxation of alcohol should be preceded by a comprehensive inquiry into the taxation of alcohol products.

1.66 Although limited to beer, the Bills are consistent with the policy principles put forward during this inquiry. As noted earlier the proposed legislation has broad support which the Committee acknowledges.

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38 *Committee Hansard*, p. E4.

39 Submission No. 14, p. 8.

40 *Committee Hansard*, p. E20.

**Recommendation**

**The Committee reports to the Senate that it has considered the provisions of the Customs Tariff Amendment Bill (No. 2) 2002 and the Excise Tariff Amendment Bill (No. 1) 2002 and recommends that the Bills proceed.**

SENATOR GEORGE BRANDIS  
**Chairman**



October 2002

Senate Economics Legislation Committee

Inquiry into Excise Tariff Amendment Bill (No 1) 2002 &

Customs Tariff Amendment Bill (No 2) 2002

### **Supplementary Remarks**

Senator Andrew Murray

These Bills offer the first opportunity to review the new alcohol tax regime that was ushered in by the Coalition's New Tax System, from both an economic and a health perspective.

In the absence of a full review of alcohol policy, this Inquiry could only dip its toe into the issues. It was nevertheless a productive exercise that in my view clearly drew out five main conclusions:

- The Government's new alcohol tax system is a considerable improvement on the former regime (an improvement furthered by this Bill);
- Further improvements to the alcohol tax regime could make a material contribution to improved health outcomes;
- The value-added Wine Equalisation Tax (WET) is a failure in two respects. It has created a low-price cheap-alcohol cask market that is at the centre of alcohol abuse, and it is punishing the premium and small business bottled wine sector;
- The Government's low-alcohol policy is poor, since it only focuses on beer, when there are clear opportunities for incentives to encourage low alcohol RTD's and wines; and
- There are significant continuing inequities and anomalies in excise taxation, among others in RTD's, Brandy, Cider, and mid strength beer.

Unfortunately the short time frame for the Inquiry worked against a fuller Committee report but some of the submissions and some of the Hansard evidence provide useful insights on these matters. Of the industry sectors - beer, wine and spirits - the Committee was considerably assisted by the depth and quality of DSICA's submission. Andrew Irwin's submission is another one worth noting.

The submissions from experts in alcohol health policy point to the absolute need for further reform. Such reform would profit from being preceded by a full Inquiry. An example of the argument for further reform was this statement:

- 3. From a public health perspective, broader reform of alcohol taxation and excise in Australia offers a significant opportunity to reduce the annual toll of more than 3,200 alcohol related deaths, 400,000 hospital bed-days and an estimated \$4.5 billion associated with addressing alcohol related harm.*

4. *From a public health perspective, excise and taxation on alcohol should be based on alcohol content and strength of drinks rather than cost of manufacture or the method used to produce the alcohol.*<sup>41</sup>

Contrast that compelling public policy argument on an urgent current need with this statement, which, sadly, speaks for itself:

*We believe that the issue of alcohol tax reform has been extensively reviewed over the last decade at not inconsiderable cost to government, the industry and the community. We do not believe it is now appropriate to again commit resources to a further review of an issue that has been exhaustively debated. A new review of alcohol tax is both untimely and costly.*<sup>42</sup>

With respect to DSICA's submission they make a credible case for a more equitable taxation of RTD's compared with beer. Their view that brandy should be taxed at the same rate as all other spirits has merit. Given that DSICA represent the spirits industry as a whole, (and we have seen no opposition in the spirits sector to that policy view), there can be no justification for the continuance of such discrimination.

I am on the public record as supporting the volumetric taxation of wine as a means of raising the price of low priced full strength wines (such as cask wines), (which is desirable from a Health policy perspective), and lowering the price of high value wines (which is desirable from an economic perspective). Health experts in the alcohol area all support such an approach.

It is fairer and more rational from a tax policy perspective to tax each alcohol product on its alcohol content rather than on its value.

In the view of the Australian Democrats, the priority for government is to introduce excise taxation incentives for the low alcohol consumption of RTD's and wines. It is a policy that has worked well for beer, with demonstrably positive health consequences.

**Senator Andrew Murray**

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<sup>41</sup> Mr David Crosbie, Odyssey House Victoria: Submission No 2, Page 1.

<sup>42</sup> Mr Gary Max, Adviser Australian Associated Brewers Inc: Hansard E6.

## **Supplementary Comments by Labor Senators**

The Committee notes that while there are differences in the amount of tax on different alcohol products measured on a per standard drink basis, value wines are subject to relatively low tax while super premium wines are subject to the highest level of taxation of any alcohol product.

Arguments about changing the relative taxation of different alcohol products, such as volumetric taxation of wine, are designed to alter relative prices and increase the market share of competing products.

Changing the relative tax levels of different alcohol products will result in some substitution between alcohol products but it will not necessarily have a substantial impact in reducing the abuse of alcohol.

There is a sound argument for providing concessional tax treatment for low alcohol products to promote a choice for consumers to drink low alcohol products in social situations. This has had some success as a public health strategy with beer. It should now be appropriate for the producers of other alcohol products to consider how the tax regimes applying to them could be modified to encourage consumption of their low alcohol products.

Each section of the alcohol industry should consider that question on a revenue neutral basis and not expect it to be funded either by the taxpayer or by changing the taxes to the other sections of the alcohol industry.

SENATOR JACINTA COLLINS  
**Deputy Chair**





# **Appendix 1**

## **List of public submissions**

Submission No 1: Society Without Alcoholic Trauma Inc.

Submission No 2: Odyssey House Victoria

Submission No 3: Helm Wines

Submission No 4: Kirwan Quest Pty Ltd

Submission No 5: Winemakers' Federation of Australia

Submission No 6: Mr Andrew Irwin

Submission No 7: Australian Drug Foundation

Submission No 8: The Australian Associated Brewers Inc

Submission No 9: Iron Pot Bay Wines

Submission No 10: Victorian Alcohol & Drug Association

Submission No 11: Hartzview Vineyard

Submission No 12: Alcohol and other Drugs Council of Australia

Submission No 13: Distilled Spirits Industry Council of Australia Inc.

Submission No 14: Department of the Treasury

Submission No 15: Stefano Lubiana Wines

Submission No 16: Australian Hotels Association



## **Appendix 2**

### **Public hearing and witnesses**

Thursday, 17 October 2002 - Canberra

Broderick, Mr Gordon James, Executive Director, Distilled Spirits Industry Council of Australia Incorporated

Colmer, Mr Patrick, General Manager, Indirect Tax Division, Department of the Treasury

Crosbie, Mr David William, Chief Executive Officer, Odyssey House, Victoria; Representative, Alcohol and Other Drugs Council of Australia

Donohue, Mr Geoffrey Alan, General Manager, Public Affairs, Carlton and United Breweries; and Australian Associated Brewers Inc.

Free, Mr Anthony John, Manager, Excise Unit, Indirect Tax Division, Department of the Treasury

Helm, Mr Kenneth Francis, Owner, Managing Director, Helm Wines

Lubiana, Mr Steve Andrew, Director, Stefano Lubiana Wines

Lubiana, Mrs Monique Mary, Managing Director, Stefano Lubiana Wines Pty Ltd

Max, Mr Gary Edward, Adviser, Australian Associated Brewers Inc.

Murphy, Mr Christopher William, Director, Econtech Pty Ltd, for Gail Kinsella and Co.

Parlett, Mr John James, Manager, Gail Kinsella and Co.

Pollaers, Mr John Carl, Chairman, Distilled Spirits Industry Council of Australia Incorporated

Ryan, Mr Warwick Michael, Director, KPMG

Sweeney, Mr Phillip Charles, Manager, Planning Service and Networks, Carlton and United Breweries; and Australian Associated Brewers Inc.

Webster, Mr Tony, Senior Policy Analyst, Tax Analysis Division, Department of the Treasury

Wilson, Ms Cheryl, Chief Executive Officer, Alcohol and Other Drugs Council of Australia