

Senate Economics Legislation Committee

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

Submission No. 4

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Attachments? No Attachments

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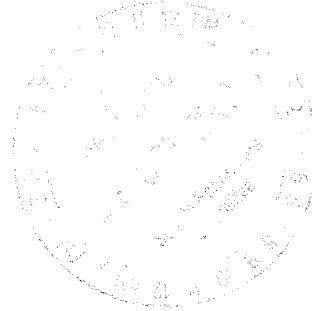
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Producers of Brewer's Lite

8 October 2002

The Secretary
Senate Economics References Committee
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Parliament House
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By email - economics.sen@aph.gov.au



8 October 2002

Dear Secretary

Excise Tariff Amendment Bill (No.1) 2002 **Customs Tariff Amendment Bill (No2) 2002**

I am writing to the Senate Economics Reference Committee in relation to the above legislative Bills, as the manufacturer of low strength ready to drink (RTD) alcoholic beverages that are subject to excise. My business Kirwan Quest Pty Ltd has developed a range of "Lite" vodka, bourbon and scotch based RTD products that are packaged at 2.2% a/v.

Despite being classified as low strength alcohol at than 3% a/v, our products are taxed at rates greater than full strength beer, which seems at odds with the intent of the Government to ensure nationally consistent incentives to consume, and therefore manufacture, low strength alcohol. It is for this reason that our low strength RTDs continue to struggle to gain retail/consumer interest in a price sensitive market.

I write to the Committee to express my disappointment that the Government has provided no incentives for manufacturers of excisable beverages, other than beer, to be innovative and successful in developing and marketing low and mid-strength products. I urge the Committee to seriously consider the extension of the proposed National Excise Scheme for Low Alcohol Beer to other low strength alcoholic products to ensure that such incentives exist to create and maintain a market for non-beer low strength alcoholic products.

I now provide the following evidence for the Committee's perusal:

1. Product Specification

Kirwan Quest has developed a new range of RTD products known as "Brewers LITE". All products are offered at 2.2% alcohol by volume (a/v) in a 330ml glass bottle.

The products are marketed at the 18 – 45 year old consumer, and use the phrase "Join the party, without the worry!", which is a reference to ease at which full strength beer, wine and full strength RTDs can put consumers over prescribed blood alcohol limits. The product is also sugar free, another health advantage marketed over other alcoholic beverages.

The range currently offers consumers a variety of flavours as alternatives to common full strength RTD products, and today includes:

- Black Lite – Bourbon and cola
- Gold Lite – Scotch and soda
- Blue Lite – vodka and curacao
- Lemon Lite – vodka and lemon juice

2. Taxation as an Inhibitor to Creating a Market

Despite the obvious health and social benefits of this range of products, even as a 2.2% a/v product, the current alcohol taxation system sees our products unable to compete with low and most mid strength beers, cask wine and non-premium bottle wine.

As a contemporary example, Carlton & United Breweries recently launched a new low strength beer known as “Stirling”, packaged at 2.5% a/v in 375ml bottles. Kirwan Quest would see its “Black Lite” Bourbon & Cola 330ml competing in the same low strength alcohol segment of the market, but would like to demonstrate how difficult it is to offer the consumer a similarly priced low strength RTD option:

Carlton “Stirling” 24 x 375ml @ 2.5%	Black Lite 24 x 330ml @ 2.2%
24 x 375ml = 9 litres per case	24 x 330 ml = 7.92 litres per case
2.5% a/v - 1.15% = 1.35% a/v strength for excise duty purposes	N/a
1.35% x 9 litres = 0.12 litres of alcohol (lals) for excise duty purposes	2.2% x 7.92 litres = 0.17 litres of alcohol (lals) for excise duty purposes
0.12 lals x \$28.95 per lal = \$3.47 excise	0.17 lals x \$33.75 per lal = \$5.73 excise
Additional flow on 10% GST = \$0.34	Additional flow on GST = \$0.57
	Additional taxes = \$2.49 per case

Under the proposed National Excise Scheme for Low Alcohol Beer, Black Lite RTD will pay additional taxes \$2.49 per case or \$0.11 per unit, despite each unit being 45ml smaller and 0.3% a/v less strength.

To highlight this distortion for the Committee further, following is the taxation of the “Stirling” brand if it were to package itself in 330ml bottles at 2.2%, as “Black Lite” is today:

Carlton “Stirling” 24 x 330ml @ 2.2%	Black Lite 24 x 330ml @ 2.2%
24 x 330ml = 7.92 litres per case	24 x 330 ml = 7.92 litres per case
2.2% a/v - 1.15% = 1.05% a/v strength for excise duty purposes	N/a
1.05% x 7.92 litres = 0.08 litres of alcohol (lals) for excise duty purposes	2.2% x 7.92 litres = 0.17 litres of alcohol (lals) for excise duty purposes
0.08 lals x \$28.95 per lal = \$2.31 excise	0.17 lals x \$33.75 per lal = \$5.73 excise
Additional flow on 10% GST = \$0.23	Additional flow on GST = \$0.57
	Additional taxes = \$3.76 per case

On a like-for-like basis, the proposed National Excise Scheme for Low Alcohol Beer will see Black Lite RTD paying an additional \$3.76 per case or \$0.16 per unit in taxes

I would ask the Committee to consider an amendment to the National Excise Scheme that provides 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 all low alcohol products at the expense of higher strength equivalent products.

3. Pricing Impacts of Extending National Excise Scheme to Splash Drinks Low Alcohol RTDs

Currently, consumers can expect to pay around \$2.00 per unit retail – taking into account costs of spirit, other ingredients, packaging, various supply chain margins, excise and GST. The following table is a summary of possible price changes at the retail level if any variable degrees of equivalence of the National Excise Scheme were extended to the Kirwan Quest low alcohol range:

Access to 1.15% beer excise free threshold	Access to low strength packaged beer rate \$28.95	Full beer equivalent rate
24 x 330 ml = 7.92 litres per case	24 x 330 ml = 7.92 litres per case	24 x 330 ml = 7.92 litres per case
2.2% a/v - 1.15% = 1.05% a/v strength for excise duty purposes	N/a	2.2% a/v - 1.15% = 1.05% a/v strength for excise duty purposes
1.05% x 7.92 litres = 0.08 litres of alcohol (lals) for excise duty purposes	2.2% x 7.92 litres = 0.17 litres of alcohol (lals) for excise duty purposes	1.05% x 7.92 litres = 0.08 litres of alcohol (lals) for excise duty purposes
0.08 lals x \$33.75 per lal = \$2.70 excise	0.17 lals x \$28.95 per lal = \$4.92 excise	0.08 lals x \$28.95 per lal = \$2.31 excise
Excise reduction per case = \$3.03	Excise reduction per case = \$0.81	Excise reduction per case = \$3.42
Flow on GST saving \$0.30	Flow on GST saving \$0.08	Flow on GST saving \$0.34
Tax savings per unit \$0.14	Tax savings per unit \$0.04	Tax savings per unit \$0.16
Possible new retail price = \$1.86	Possible new retail price = \$1.96	Possible new retail price = \$1.84

From the above table, the most effective mechanism to encourage the consumption of low alcohol RTDs would be the introduction of the 1.15% excise free threshold for all beer, particularly if coupled with the low alcohol beer excise rate of \$28.95 per lal.

I would again ask the Committee consider assisting the establishment of a viable low strength alcohol market for excisable products other than simply beer.

4. Cost to Government Revenue

There has been insufficient time to cost any move to extend the National Excise Scheme for Low Alcohol Beer to other products. This would require research into the likely shift in consumption patterns triggered by the availability of competitively priced non-beer low strength alcoholic products.

However, I note from the Explanatory Memoranda to these Bills that the Government is prepared to invest some \$68 Million in 2002-03, some \$5.1 Million than was to be paid by State and Territory Governments in subsidies. Given that low strength RTDs is not an established market, and will take time to develop and mature in an overall market where low strength beer has been investing for many years, then without research into consumption shifts, the cost to Government would initially be insignificant.

If indeed, any extended National Excise Scheme was to cost the Government a material amount in future years, then this should be seen as a "success" in terms of a drinking population moving to lower strength alcoholic beverages. There will be of course, an associated saving in terms of the negative costs from the inappropriate or unsafe consumption of alcohol.

Recommendations

At this point, I conclude my submission to the Committee by recommending it consider the following:

- The National Excise Scheme for Low Alcohol Beer as proposed in Excise Tariff Amendment Bill (No.1) 2002, and Customs Tariff Amendment Bill (No.2) 2002, be extended to other excisable and customable beverages; &
- That low strength excisable and customable beverages (ie less than 3% a/v) have full excise rate equivalence with low alcohol beer.

Mr Graeme Chesum
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