DSICA

DSICA Pre-budget Submission 2002/03

Appendix 4

Briefing on State Low Alcohol Subsidy Schemes

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(DSICA)

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1. Executive Summary

DSICA believes that all mid-strength and low alcohol ready-to-drink (RTD) products should receive the same taxation treatment as mid-strength and low alcohol beer products under any changes to Commonwealth excise duty that are made to replace the existing State low alcohol subsidies. That is:

- ***mid-strength:*** all packaged (and draught) mid-strength RTD products of above 3.0% alcohol by volume (abv) and up to 3.5% abv should receive the same Commonwealth taxation treatment as mid-strength packaged (and draught) beer products; and
- ***low alcohol:*** all packaged (and draught) low alcohol RTD products of 3.0% abv or less, should receive the same Commonwealth taxation treatment as low alcohol packaged (and draught) beer of similar strength

This approach would encourage the production of lower alcohol RTD products, and is supported by the health lobby. Such an approach would be consistent with the *National Alcohol Strategy*, which identifies the need to provide taxation incentives for consumers to choose lower strength alcohol products. See the *National Alcohol Strategy 2000-01 to 2003-04, Key Strategy Area 6: Pricing and Taxation* (copy attached in *Appendix 6* to DSICA's 2002/03 Pre-Budget Submission[1]).

This briefing paper sets out a summary of the key issues, including:

2. Overview of the low and mid-strength beer markets;
3. Low alcohol products eligible for subsidy;
4. Revenue implications;
5. Mid-strength pre-mixed spirits products;
6. Conclusion.

[1] Any reference to an "Appendix" in this briefing is a reference to the relevant Appendix to DSICA's 2002/03 Pre-Budget Submission.

2. Overview of the low and mid-strength beer markets

This analysis is intended to provide background information in relation to the current review of State low alcohol subsidies.

The data upon which the analysis is based is derived from reliable industry sources (see *Table 1* in *Appendix 5* to DSICA's Pre-Budget Submission for a summary of the estimated national and State sales volumes of beer in 1999/00, on a 9 litre case equivalent basis).

DSICA is currently finalising a supplementary briefing on low alcohol subsidies for the 2002/03 year as part of its Pre-Budget Submission. This will include an overview of the low and mid-strength beer markets for 2002/03.

2.1 State consumption patterns

It can be seen that the Australian market for beer is dominated by full-strength beer (68% of the national market).

The proportions of full strength, mid-strength and low alcohol beer consumption varies between States. Some key observations include:

- mid-strength beer is very popular in Queensland (44% of the Queensland beer market) and Western Australia (36% of the WA beer market);
- low-strength beer holds larger shares of the market in the Northern Territory (17% of the market), Victoria (16% of the market) and New South Wales (14%). See the Australian and State graphs attached.

2.2 Mid-strength beer trends

The bulk of the mid-strength beer market is in Queensland (59% of the national mid-strength market with 17.75 million cases) and in Western Australia (25% of the national mid-strength market with 7.45 million cases).

As previously advised, DSICA has identified that there are at least three beer products that have moved from mid-strength to full strength in the second half of 2000/01. These products are now being manufactured at 3.6% alcohol by volume (abv). These products are *XXXX gold, Carlton Mid-Strength Bitter* and *Powers Gold*. The significance of this development is that the case sales of these products in 1999/00 are estimated to have been as follows:

- *Carlton mid-strength bitter:* Nationally: 5.8m cases (ie 19% of the 30.1m case national mid-strength market);
- *Powers Gold:* 2.7m cases (ie 9% of the national mid-strength market);
- *XXXX Gold:* 11.6m cases (ie 39% of the national mid-strength market); and
- *Total combined Australian sales*: 20.1m cases (ie 67% of the national mid-strength market of 30.1m cases).

DSICA submits that these changes in alcohol content highlight the anomalies in the current taxation regime for beer, particularly in relation to mid-strength beer. These market changes reinforce DSICA's position that all mid-strength ready-to-drink (RTD) products should be taxed at the same rate, regardless of the source of the alcohol.

2.3 Low alcohol beer trends

The majority of the low-strength beer market is in New South Wales (42% of the national low-strength market with 9.9 million cases), Victoria (27% of the market with 6.4 million cases) and Queensland (14% of the market with 3.2 million cases). See the national and State graphs attached.

DSICA's position is that all low alcohol RTD products should be taxed at the same rate, regardless of the source of the alcohol.

3. Low alcohol products eligible for subsidy

Set out below is a table identifying the low alcohol products eligible for subsidy in the various States, and the rates at which subsidy is payable [these are shown in square brackets].

Table 1: Low alcohol products eligible for State subsidy

State	Beer	Cider	Wine	Pre-mixed spirits
NSW	3.5% abv or less [Rate: 12% of WSP[2]]	N/A	6.5% abv or less undiluted and unadulterated wine of the grape [Rate: 12% of WSP]	N/A
Vic	3.5% abv or less undiluted and unadulterated [Rate: 12% of WSP]	3.5% abv or less undiluted and unadulterated liquor [Rate: 12% of WSP]	6.5% abv or less undiluted and unadulterated wine of the grape [15% of WSP]	Not considered to be undiluted and unadulterated liquor
Qld	3.0% abv or less [Rate: 2.8% of WSP]	3.0% abv or less [Rate: 2.8% of WSP]	3.0% abv or less [Rate: 2.8% of WSP]	3.0% abv or less [Rate: 2.8% of WSP]
NT	3.0% abv or less [Rate: 8% of WSP]	3.0% abv or less [Rate: 8% of WSP]	3.0% abv or less [Rate: 8% of WSP]	3.0% abv or less [Rate: 8% of WSP]
SA	3.5% abv or less [Rate: 12% of WSP]	6.5% abv or less [Rate: 15% of WSP]	6.5% abv or less (includes, mead, perry, and any other fermented liquor produced from fruit, vegetables, berries or honey (excluding any blend of wine with other	N/A

[2] WSP = wholesale price inclusive of excise duty but exclusive of GST

State	Beer	Cider	Wine	Pre-mixed spirits
			beverages)) [Rate: 15% of WSP]	
WA	3.5% abv or less [Rate: 5.2% of WSP]	3.5% abv or less [Rate: 15% of WSP]	3.5% abv or less [Rate: 15% of WSP]	N/A
Tas	3.5% abv or less [Rate: 13% of WSP]	6.5% abv or less and 100% produced in Tas and made from 100% Tas grown apples [Rate: 15% of WSP]	Cellar door sales only [Rate: 15% of WSP]	N/A

4. Revenue implications

DSICA's latest estimate of the total national cost of the State low alcohol subsidies is set out in *Appendix 2*.

4.1 Revenue neutral approach

DSICA has developed a proposal which will allow for a removal of the State low alcohol subsidies on a revenue neutral basis, after making selective reductions in Commonwealth excise duty on each category of packaged and draught beer currently eligible for State subsidies.

- The details of the DSICA proposal are set out in section 6 of the 2002/03 Pre-Budget submission.

5. Mid-strength pre-mixed spirits products

DSICA has previously provided data regarding the minimal sales of mid-strength pre-mixed spirits products. There are no low alcohol pre-mixed spirits products.

As previously advised, *Bundaberg Gold* (3.5% abv) is the only existing example of a mid-strength pre-mixed spirit product. Sales volumes (in 9 litre cases on a moving annual total basis, to March 2001) are very small, as set out below:

- Qld 33,300 cases;
- NSW 4,000 cases;
- Vic 4,700 cases;
- SA 1,600 cases;

- WA 2,700 cases; and
- Aust 46,300 cases nationally.

These sales volumes can be compared with the estimated national annual sales of cider of 2.03 million cases.

The average wholesale price is $43 per case (being 24 x 375ml cans). Sales volumes are low because there is an insufficient price differential between full and mid-strength product. For example, Bundaberg Rum & cola (at 5.5% abv) has an average wholesale price of $55 per case.

5.1 Revenue neutral approach

If mid-strength pre-mixed spirits were subject to excise duty at the new mid-strength packaged beer rate proposed by DSICA under the revenue neutral approach, then the estimated cost to revenue would be negligible.

This reduced excise duty rate would result in a small fall in the average wholesale price of a case of *Bundaberg Gold*. Any likely increase in sales volumes as a result of this price reduction would be mostly at the expense of mid-strength beer. Consequently, there would be no additional net loss to Commonwealth revenue, as the Commonwealth excise collection on a single unit of 3.5% pre-mixed spirit will be exactly the same as on an equivalent mid-strength beer product under DSICA's proposal.

6. Windfall to States under BBA payment arrangements

DSICA believes that the States are most likely making windfall gains under the current payment of Budget Balancing Amount (BBA) arrangements. That is, DSICA believes that it is likely that the amount of BBA being paid to each State is likely to exceed the actual amount of low alcohol subsidy paid by that State.

The reasons for these potential windfalls include:

- **Wholesale prices (exclusive of GST) fell under the NTS:** Presumably the 1997 formulae used to calculate the Revenue Replacement Payments (RRPs) to be paid to each of the States (the 1997 RRP Formulae) were developed on the basis of taking the existing wholesale prices for beer at that time, and indexing that cost base for the effects of inflation. The implementation of the NTS could not have been foreseen in 1997. Under the NTS, wholesale beer prices (exclusive of GST) fell. This was because the total wholesale sales tax (WST) and excise duty component of the wholesale price fell after the removal of the WST, and was offset by the collection of the GST at the retail selling point.

  The fall in wholesale beer prices (GST exclusive) varied between different categories of beer. Assuming that State subsidies are payable on a GST-exclusive wholesale selling price, the base upon which the subsidies is payable is lower since 1 July 2000 than could have been foreseen in 1997. Consequently, it is more than likely that the RRP/BBA amounts overestimate the amount of the subsidies actually payable since July 2000.

- **Fall in beer sales volumes:** Presumably the RRP Formulae took account of the best available projections in growth in beer sales volumes that were available in 1997. Those projections could not have foreseen the movement of 20m cases of mid-strength beer into the full strength market as a result of the NTS (see earlier comments above) or the fall in beer sales that have been experienced in recent years. For example, the mid-strength packaged beer market fell some 2.5% in 2000/01 and the draught light beer fell some 1.6%

in the same year. The States will enjoy a windfall wherever the 1997 RRP Formulae factored in higher growth in sales volumes than has actually occurred.

- **Trade incentive payments which reduce wholesale prices payable by retailers:** The 1997 RRP Formulae may not have taken account of some of the promotional allowances, discounts and rebates (trade incentive payments (TIPs)) generally payable by wholesalers to retailers[3]. These include TIPs which have been ruled by the ATO to reduce the wholesale selling price, including:

  - Volume Rebates (ie allowances for high volume purchases, or discounts based on quantity);
  - Settlement discounts (ie allowances for quicker payment than ordinary commercial terms); and
  - Trade discounts (ie discounts for regular custom).

  These TIPs operate to reduce the effective wholesale selling price between the wholesaler and the retailer[4], for WST purposes. Prior to the NTS, wholesalers and retailers generally agreed to reduce the wholesale selling price invoices by the amount of these TIPs, in order to reflect the amount upon which WST was payable.[5]

  However, there are a number of TIPs which have been held **not** to reduce the wholesale selling price for WST purposes. These include:

  - Co-operative Advertising Rebates (ie allowances for retailers who undertake promotional advertising of specials and discounts, often called promotional rebates); and
  - Gondola end payments (ie payments for prominent display and positioning of the products at the retail outlet).

  Wholesalers could choose to reduce their invoiced prices by these TIPs (which would not reduce the amount upon which WST was payable), or the wholesaler could invoice the retailer for a wholesale price which included these TIPs and then the retailer would make a separate claim from the wholesaler for the payment of the allowance amounts. DSICA is not aware of which invoice method is most prevalent since 1 July 2000.

  If the 1997 RRP Formulae did not take account of either category of TIP, and the States pay subsidies on the effective wholesale selling price (net of some or all of the TIPs) then there will be a revenue windfall for the States.

7. Conclusion

DSICA believes that all mid-strength and low alcohol ready-to-drink (RTD) products should receive the same taxation treatment as mid-strength and low alcohol beer products under any changes to Commonwealth excise duty that are made to replace the existing State low alcohol subsidies. That is:

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[3] The wholesale selling prices listed in *Thompson's Liquor Guide* have not been reduced by any TIP amounts. Consequently, estimates of subsidy payments based on Thompson's listed prices are likely to overstate the amounts of the subsidies actually paid.

[4] The WST issue was what was "the price paid in order to obtain good title in the goods"?

[5] See Streamlined Sales Tax (SST) Ruling SST N0. 6 (which cover the WST treatment of delivery charges, finance charges, warranty charges, trade incentive payments (TIPs), which include trade discounts, volume rebates and settlement discounts.

- ***mid-strength:*** all packaged (and draught) mid-strength RTD products of above 3.0% alcohol by volume (abv) and up to 3.5% abv should receive the same Commonwealth taxation treatment as mid-strength packaged (and draught) beer products; and
- ***low alcohol:*** all packaged (and draught) low alcohol RTD products of 3.0% abv or less, should receive the same Commonwealth taxation treatment as low alcohol packaged (and draught) beer of similar strength

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13 February 2002

Attachment 1: Extracts from Thompson's Liquor Guide showing alcohol content increases for 3 mid-strength beer products

THOMSON'S LIQUOR GUIDE

Vol.25 No.6 December 2000 • January 2001

Carlton Midstrength Bitter 3.5%	Btl	375	24	22.11
Carlton Midstrength Bitter 3.5%	Can	375	24	22.13
Powers Gold 3.4%	M/Neck	375	24	25.21
XXXX Gold 3.5%	Btl	375	24	21.51
XXXX Gold 3.5%	Can	375	24	21.51

THOMSON'S LIQUOR GUIDE

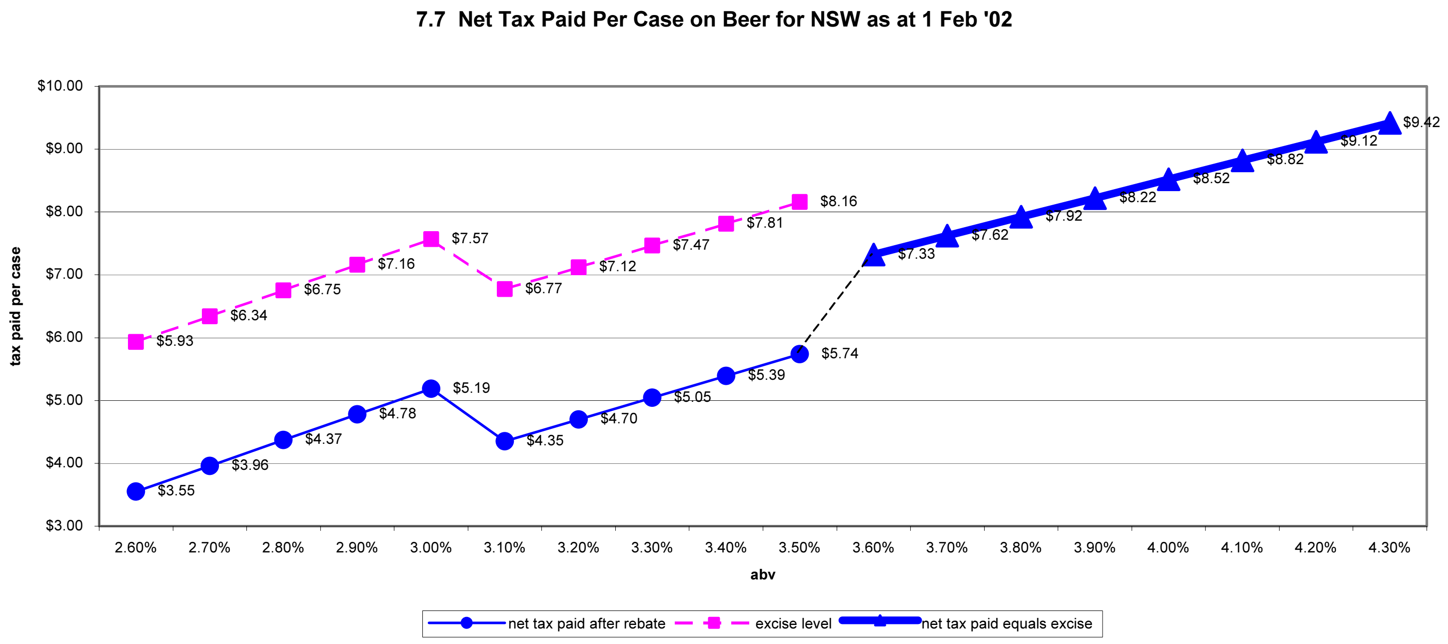
Vol.26 No.[illegible] April/May 2001

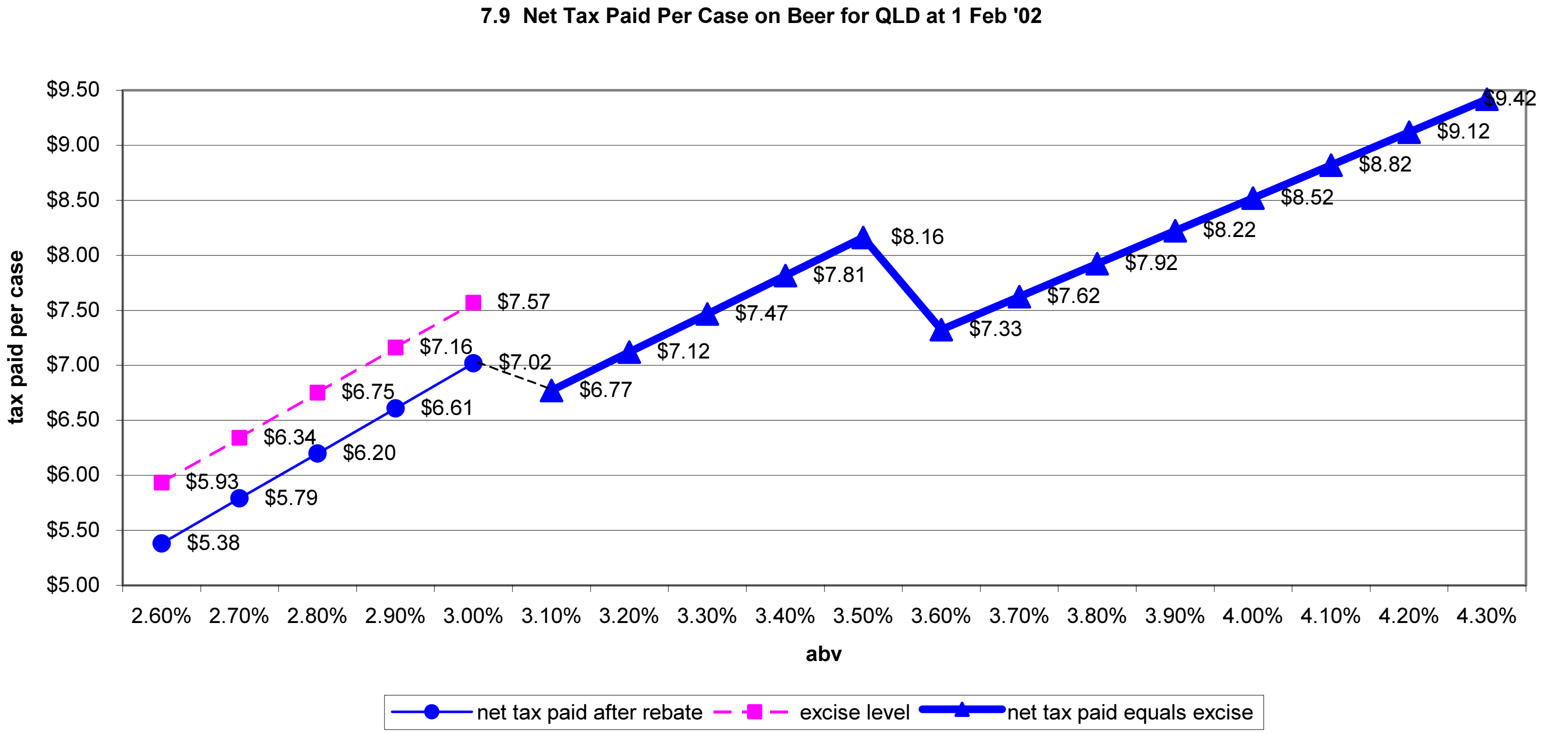
Carlton Midstrength Bitter 3.6%	Btl	375	24	20.67
Carlton Midstrength Bitter 3.6%	Can	375	24	20.68
Powers Gold 3.6%	M/Neck	375	24	21.71

THOMSON'S LIQUOR GUIDE

Vol.26 No.6 December 2001/January 2002

XXXX Gold 3.6%	Btls	375	24	21.90
XXXX Gold 3.6%	Can	375	12	10.95
XXXX Gold 3.6%	Can	375	24	21.90


7.7 Net Tax Paid Per Case on Beer for NSW as at 1 Feb '02
tax paid per case
$10.00
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$5.93
$6.34
$6.75
$7.16
$7.57
$6.77
$7.12
$7.47
$7.81
$8.16
$3.55
$3.96
$4.37
$4.78
$5.19
$4.35
$4.70
$5.05
$5.39
$5.74
$7.33
$7.62
$7.92
$8.22
$8.52
$8.82
$9.12
$9.42
2.60%
2.70%
2.80%
2.90%
3.00%
3.10%
3.20%
3.30%
3.40%
3.50%
3.60%
3.70%
3.80%
3.90%
4.00%
4.10%
4.20%
4.30%
abv
net tax paid after rebate
excise level
net tax paid equals excise


7.9 Net Tax Paid Per Case on Beer for QLD at 1 Feb '02
tax paid per case
$9.50
$9.00
$8.50
$8.00
$7.50
$7.00
$6.50
$6.00
$5.50
$5.00
2.60% 2.70% 2.80% 2.90% 3.00% 3.10% 3.20% 3.30% 3.40% 3.50% 3.60% 3.70% 3.80% 3.90% 4.00% 4.10% 4.20% 4.30%
abv
$5.93
$6.34
$6.75
$7.16
$7.57
$5.38
$5.79
$6.20
$6.61
$7.02
$6.77
$7.12
$7.47
$7.81
$8.16
$7.33
$7.62
$7.92
$8.22
$8.52
$8.82
$9.12
$9.42
net tax paid after rebate
excise level
net tax paid equals excise