Submission to the
Senate Economics
References Committee

The Structure and Distributive Effects of the Australian Taxation System

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The Australian Associated Brewers Inc

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Introduction

The Australian Associated Brewers Inc (AAB) is the national industry association of the brewing industry. Its member companies represent all major brewers, accounting for over 99% of all beer produced and marketed in Australia.

The members of the AAB Inc. are:

- Carlton & United Breweries Limited, incorporating:
  - Carlton & United Breweries Limited (Vic)
  - Queensland Breweries Pty Ltd (Qld)
  - Matilda Bay Brewing Company Limited (WA)
  - Cascade Brewing Company Pty Limited (Tas)
  - Carlton & United Breweries (NSW) Pty Limited (NSW)

- Lion Nathan Australia Pty Limited, incorporating:
  - Castlemaine Perkins Pty Limited (Qld)
  - Tooheys Brewing Company Limited (NSW)
  - The Swan Brewery Company Limited (WA)
  - The South Australian Brewing Company Limited (SA)
  - The Malt Shovel Brewing Company Limited (NSW)

- Hahn Brewing Co Pty Ltd (NSW)

- J Boag and Son Brewing Limited (Tas)

- Coopers Brewery Limited (SA)

As an industry, Australian brewers are both substantial employers and significant taxpayers.

Our industry also provides widespread upstream and downstream employment benefits to Australians, ranging from primary industry suppliers (barley, hops, sugar etc.), manufacturing suppliers (bottles, machinery, boxes etc.) through to retailers and the hospitality industry (bottle shops, hotels, clubs etc.).

Our indirect tax burden is considerably higher than other industries. In 2002 alone, over $1.6 billion was contributed to government revenue through beer excise paid by our industry[1], in addition to the GST and other taxes, which are paid by all in the normal course of business.

This submission does not seek to argue for or against changes to the current taxation regime for alcohol, although we obviously have strong views on this. Accordingly, this submission does not contain any policy recommendations.

Rather, on this occasion, our aim is simply to inform Senators about the breadth of policy settings which are impacted through alcohol taxation, and to provide some examples of how governments and others use alcohol taxation to pursue different social and economic outcomes.

In doing so, we squarely address criteria (c) of the Inquiries terms of reference, i.e.:

> *"The structure and distributive effects of the Australian taxation system with reference to the use and efficacy of various tax and expenditure incentives to influence social and economic conduct, for instance participation in the workforce."*

The examples we use illustrate the following policy objectives, which sometimes align and sometimes conflict:

- Revenue generation
- Simplicity/easier compliance
- Health outcomes
- Industry policy & employment
- International agreements

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[1] Source: Table 12, Part II, Final Budget Outcome 2001-02

Revenue generation

Alcohol taxation is one of the earliest forms of taxation by Governments. It has been viewed as a convenient avenue of gathering revenue for centuries. For example, the first American Secretary to the Treasury, Alexander Hamilton proposed a whiskey tax to help payoff debts from the Revolutionary War, which led to a Federal alcohol tax in 1791 and the short-lived Whiskey Rebellion of 1794[2].

In Australia, both State and Federal Governments have looked to the alcohol beverages industry for substantial revenue, from the Rum Taxes of the early New South Wales colony, through to the Howard Government's decision to replace a wholesales sales tax (WST) on wine with a wine equalisation tax (WET).

The policy of automatic indexation for excise underscores the continuing importance of alcohol as a source of revenue for Governments:

> *"To raise revenues, the federal Governments of Australia, Canada and New Zealand introduced indexing mechanisms in the 1980s to automatically increase unit-based taxes on alcoholic beverages each year by at least the annual rate of inflation.*
>
> *In Australia, indexation has been in place since 1983. The system of indexation in Canada was introduced in 1980, but was abolished in 1985. In New Zealand, indexation on beer and wine was introduced in 1989, and in 1991, was extended to include spirits. In 1993, the New Zealand government announced that taxes on all alcoholic beverages would be indexed annually rather than every six months during period of low inflation (less than one per cent), and in 1996, it moved to annual indexation regardless of the inflation rate[3]."*

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[2] 'Perspectives on Alcohol Taxation' by Kenkel & Manning, Alcohol Health & Research World Vol. 20, No 4, 1996

[3] p561, International Survey of Acoholic Beverage Taxation and Control Policies ,9th ed, Brewers Association of Canada (BAC International Survey)

Simplicity / easier compliance

Simplicity in tax design and tax administration is a laudable aim and is relied upon as the principle underlying the idea that when it comes to tax - 'all alcohol is alcohol'.

It is important to acknowledge the considerable progress in simplifying the Australian tax system for alcohol beverages over the past decade which was achieved with cross-Party cooperation.

Three recent changes illustrate this point:

- The combined Federal-State legislative response to the High Court's decision that state government business franchise fees (incl. liquor licence fees) were unconstitutional. This had the effect of introducing more uniformity in alcohol taxation across Australia[4].

- The Commonwealth-State-Territories review of taxation arrangements for low-alcohol beer which resulted in the passage of the Excise Tariff Amendment Bill No. 1 last year. These changes form a national scheme for low alcohol beer.

- The centralising of both excise and WET administration within the ATO, under the Alcohol Industry Group.

There are always ways to further improve compliance. For example, there is opportunity to improve the administration of beer excise refunds to bring brewers into line with the administrative principles for WET refunds enjoyed by wine makers (and we have raised this issue in separate submissions to Treasury). However, the principle of simplicity is only one consideration in developing policy principles appropriate to alcohol taxation.

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[4] p20, BAC International Survey

Health outcomes

Taxation is viewed by many as a tool of health policy. For them, the story of low alcohol beer in Australia is a striking achievement, of which both successive Governments and industry can be proud:

> *"The real breakthrough for Australia came with a combination of factors – tax and taste. Firstly, brewing technology was improved, full strength beer was made and then reduced to the desired strength, giving improved flavour retention. This has been further improved by the introduction of dark crystal malt beer and low-alcohol ice beers.*
>
> *Secondly, Commonwealth and State Governments introduced tax incentives which made low-alcohol beers cheaper, without increasing the price of regular beer. Brewers always argued strongly for tax encouragement or consumers from the government as the industry had invested heavily to develop and produce quality low alcohol products. When the encouragement came, the results came quickly.*
>
> *In the years post 1988, the whole low-alcohol segment blossomed, such that now almost a quarter of all beers sold in Australia are low-alcohol beers[5]."*

This trend has continued with the development of a new generation of premium light beers, and now a quarter of all beers sold are lower alcohol.

Another example is the UK Governments decision to end the concessionary tax rate for coolers (also known as RTD's or alcopops):

> *"The Government no longer believes the concessionary duty treatment for coolers can be justified, particularly given the Chief Medical Officer's recently-stated concerns about the association of coolers with*

[5] From a speech given by then AAB Chairman, Graeme Willersdorf to the 1995 Conference of the International Medical Advisory Group.

binge drinking among younger people. The duty rate on a standard 275ml bottle will therefore increase by around 11 pence, bringing their rate of duty into line with normal spirits[6]."

Many professionals in the health sector have strong views on the use of taxation to achieve certain health outcomes, e.g.:

"The introduction of the Wine Equalisation Tax (WET) serves no policy purpose other than to protect the interests of cask wine producers (mostly large multinational companies) at the expense of Australia's premium wine producers. It is also at the expense of the health and well being of many disadvantaged communities where the price of cask wine is a primary factor influencing the amount of alcohol consumed[7]."

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[6] Inland Revenue C&E 1: Alcohol & Tobacco Duties, 17 April 2002

[7] p1, Submission to the Federal Parliamentary Inquiry into Substance Abuse in Australian Communities, by D. Crosbie, T. Stockwell, A. Wodak & I. O'Ferrall.

Industry policy & employment

Governments have legitimate interests in pursuing social and economic objectives through industry policy, i.e. to buttress domestic employment, or strengthen particular regional economies.

Alcohol taxation is also a useful tool available to legislators in crafting an industry policy. As the following examples show, there is some variation between nations in their approach to alcohol taxation according to whether the nation is a prominent beer (Belgium, UK), wine (France, Portugal, Australia) or spirits (UK) producer.

This year, the French Government floated a proposal for a "super tax" on beers with an alcohol content of 8.5% or above. This proposal received international publicity as it would have impacted upon Trappist Belgian monasteries who have been making beer since the 16th century:

> *"It is a joke, and it is hypocrisy," said Brother Pierre.*
> *"This is not about fighting alcoholism, it is pure protectionism.*
> *This tax is mainly an attack on beer made outside of France.*
> *To say it will help combat the abuse of alcohol is a falsehood[8]."*

The monks won:

> *"The French finance ministry had planned to raise tenfold taxes on beers with an alcohol content of more than 8.5%.*
>
> *"The levy was justified by public health considerations," it said, conceding it would have hit mainly imported beers. "But European Union rules ban any discrimination against products from other member states[9]."*

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[8] News article in The Ottawa Citizen, 9/2/03
[9] News article in The Age, 4/4/02

Another example of this industry policy approach is described in a 1996 paper by G.P. Lubkin:

> *"As we have seen, Britain figures among the world leaders in both imports and exports of alcoholic beverages, which provide a substantial revenue base. Taxes on alcohol in general raised over six billion pounds sterling (over $9US billion) in 1987 alone. The Scotch whisky industry accounted for the largest share of that total, making it a significant commodity for Britain altogether and a vital part of the economy in Scotland, employing some 20,000 workers in one of Britain's most vulnerable regions[10]."*

A further example of this is Portugal:

> *"Members of the European Community agreed to apply a standard value added tax rate of not less than 15 per cent by January 1, 1993. Certain reduced rates were also permitted, but any rate above the national standard rate was to be eliminated by that date. Thus, beginning in 1993, the Portugese 16 per cent value added tax rate became applicable to beer and spirits, but wine was subject to the reduced rate of 5 per cent. This standard rate was raised to 17 per cent in 1995, but the reduced rate on wine did not change[11]."*

Of the three alcohol beverage sectors, both beer and wine are significant employers and contributors to the Australian economy. Both also have strong ties to the rural economy through grape, barley, hop and sugar producers.

Two recent Australian examples of industry policy concerns influencing taxation outcomes are provided by the introduction of the ANTS package.

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[10] p10, The Taxation of Alcohol and the Development of a European Identity, G.P. Lubkin, NYU School of Law, 1996.
[11] p374, BAC International Survey

One from the Government:

"The value-based taxation of wine was intentionally maintained by ANTS, rather than moving to a volumetric rate, to minimise potentially adverse impacts on fragile regional economies[12]."

The other from the Australian Democrats:

"The WET Tax Agreement: A big win for the wine industry –...

Details of the agreement hammered out between the Democrats and the Government on the tax treatment of cellar door sales of wine were released today. The agreement represents a big win, especially for small wineries, according to the Australian Democrats.

Democrats Leader, Senator Meg Lees, said the Federal-State arrangements means that 77% of wineries will have all of their Wine Equalisation Tax (WET) refunded, while the current rebate arrangements will be retained for larger wineries.

"These rebate arrangements represent a huge win for small wineries and will provide a major boost to regional tourism in which wineries play a very significant part[13].""

In a similar vein, here is a final example, within the UK Chancellor of the Exchequer's 2002 Budget Statement:

"To encourage one group of small businesses: the nation's small brewers – often village pubs, some two centuries old – I have decided that the duty paid on their own beer will be halved: a cut equal to 14 pence of each pint to be implemented for village pubs and small breweries by this summer – in time for the World Cup."

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[12] Treasury Submission to the Senate Inquiry into the ETAB Bills, Oct 2002

[13] Australian Democrats Press Release "The WET Tax Agreement: A big win for the wine industry", 01/09/1999

International agreements

Successive Governments have foregone tax from alcohol when sold through Duty-Free stores. The internationally agreed principle underlying this is that taxes on goods should be paid in the country of consumption. As a highly taxed good, alcohol beverages feature in duty-free shopping.

As part of an EU initiative, some of these taxation concessions have been wound back, according to a UK House of Commons Research Paper (99/74):

> *"After considerable negotiation European Finance Ministers agreed on 11 November 1991 that duty-free sales on journeys within the EU would be phased out by 1 July 1999, through they would remain on journeys to countries outside the EU."*

This moved is echoed in a recent paper by The Australia Institute[14] which argues that:

> *"There is no obvious reason to provide tax-free shopping to some Australians simply because they temporarily leave the country."*

[14] 'Tax Flight? An analysis of the 'duty free' system in Australia', December 2002

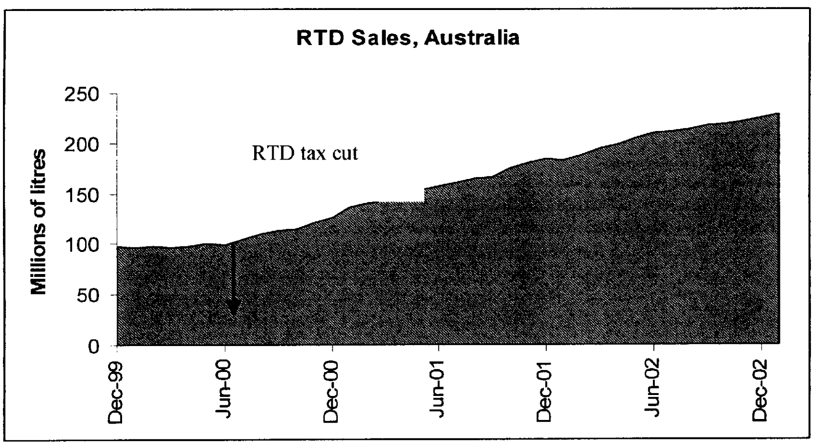
Small changes can have big impacts

The Australian Brewing industry is a substantial employer with strong links to primary industry. Given this, and the high capital cost of brewery infrastructure our industry is particularly sensitive to the impact of any changes within the regulatory environment. Even small changes to tax laws or tax administration can have a large impact on our member companies.

For example, we believe that the market impact of the recent cut in RTD alcohol taxes change in Australia (as part of ANTS in July 2000) was ill considered because it should have estimated the size of the market impact and the potential impact on drinking trends.

This change resulted in an average 46% reduction in indirect tax on drinks in the category. This led to an average retail price fall of around 20%.

RTD sales growth accelerated from less than 5% per annum before the tax change, to 125% since implementation of the lower tax – between July 2000 and December 2002. RTD sales growth in 2002, after the initial tax cut surge, remains at around 20%. This represents an unprecedented competitive intrusion of tax policy into the beverage market, which was introduced without industry consultation.



As a result of the RTD tax cut Australia's RTD market today is nearly three times larger than any other RTD market in the world. Measured as a proportion of beer sales, RTDs are at 12% in Australia compared with 5% in South Africa, 4% in the UK, 2.9% in Ireland and 2.1% in the US[13].

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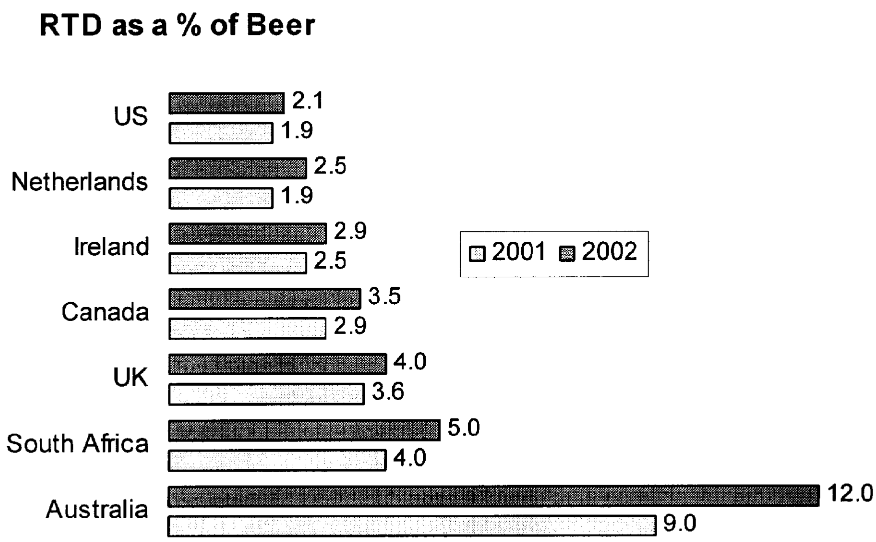

RTD taxes in the UK and Ireland were increased to spirit levels of excise in their most recent budgets. Just last month, the US Treasury Department proposed a similar move on "flavoured malt beverages"[15] which leaves Australia as the odd man out on this point.

[15] Media release & FAQ's from the US Treasury, March 2003

In summary

In this submission the AAB has used a number of examples to illustrate the many overlapping policy areas that are impacted through alcohol taxation policy and one example to illustrate how even small changes can have dramatic impacts within the Australian market.

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