LION NATHAN

SUBMISSION TO THE SENATE ECONOMICS LEGISLATION COMMITTEE

Inquiry into:

Customs Amendment (Fuel Tax Reform and Other Measures) Bill 2006

Customs Tariff Amendment (Fuel Tax Reform and Other Measures) Bill 2006

Excise Laws Amendment (Fuel Tax Reform and Other Measures) Bill 2006

Excise Tariff Amendment (Fuel Tax Reform and Other Measures) Bill 2006

These bills make amendments in relation to various customs and excise matters, but the Committee is to limit its consideration of the bills to reviewing the alcohol taxation measures contained in the bills with respect to their likely consumer, social and economic effects and their effect on industry. Prospective submitters should note that the Committee will not be considering the fuel tax sections of this bill in this inquiry.

May/ June 2006 **Lion Nathan Ltd**

1. INTRODUCTION

Lion Nathan welcomes the interest of the Senate on alcohol taxation and understands the Economics Legislative Committee will use the referral of the *Customs Amendment (Fuel Tax Reform and Other Measures) Bill 2006 & Related Bills* to consider the broader consumer, social, economic and industry issues surrounding current excise arrangements. This submission has been prepared to assist that consideration.

Given the shortness of time before the Committee is due to report back to the Senate, this submission confines its comments to general discussion on what we consider are the key areas of interest for Senators.

Lion Nathan would welcome the opportunity to expand upon this submission at the Committee's hearings scheduled for early June.

2. OVERVIEW

The Alcohol Industry and Alcohol Tax in Australia

The alcohol industry is a major contributor to the Australian economy. It directly employs tens of thousands of Australians and generates nearly $5.5 billion annually in taxes and excise.[1] The industry also supports a large indirect workforce that depends upon it for their livelihood including many workers and small businesses in the agriculture, transport, marketing, hospitality and retail sectors.

Alcohol is also widely enjoyed by a majority of Australians as a legitimate and enjoyable means to socialise and relax. Almost seven million Australians have consumed alcohol in the last week.[2] However, per capita consumption rates of alcohol have steadily declined from a high of 13.0 litres of pure alcohol per capita in 1973 (population aged 15 and over) to around 9.8 litres in 2003.[3]

As recently highlighted by the *Hendy - Warburton Report* into Australia's international tax competitiveness, meaningful comparisons on tax arrangements between countries is difficult given the large variances in approaches toward categories, alcohol rates and imported products.[4] In Australia, the current tax and excise regime for alcohol is the result of ad hoc intervention over many years and the policy compromises reached during the 2000-01 tax reform process. The result is a mixture of ad valorem and volumetric tax with additional tariffs for imported products and a tiered system for beer based on alcohol strength.

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[1] Refer to Hamilton, M 2005, National Alcohol Strategy 2005 – 2009: Towards Safer Drinking Cultures (Draft), DHAC, Melb.
[2] Australian Institute of Health and Welfare 2005, Drug Statistics Series No 14, AIHW, Canberra.
[3] OECD Health Data 2004; ABS 2004a in AIHW 2005c, 2004 *National Drug Strategy household survey: Statistics on drug use in Australia 2004*.
[4] Refer to R Warburton, P Hendy, *International Comparisons of Australia's Taxes*, Comm of Aust, April 2006.

Lion Nathan Ltd supports a tax and excise regime for alcohol that delivers against four key objectives:

- the promotion of the domestic industry;
- the provision of greater incentives for the consumption of lower strength beer;
- alignment with broader government, community and industry-based efforts aimed at encouraging a healthy and sustainable Australian drinking culture; and
- simplicity and uniformity where possible once the objectives above have been met.

However, the current complexity of tax arrangements for alcohol would strongly caution against any attempt at holistic or targeted reform without extensive investigation by government in close consultation with industry and the community. In the absence of such a review, Lion Nathan currently supports the maintenance of the existing tax and excise regime for beer, wine and spirits and does not support the Committee recommending any changes to the Senate at this time.

Lion Nathan also appreciates that these matters will continue to be keenly debated, and with this in mind, highlights the following four areas as priorities for any future consideration of alcohol tax by the Senate:

- a reduction in the excise rates on low and mid strength beer to reinvigorate the category and the creation of a mid strength tax rate for packaged beer at the mid-way point between the current low and full strength beer rates;
- resistance to arguments for tax parity between RTDs and beer until both the longer-term consumption behaviour of young consumers and the economic impact on the domestic alcohol industry from increased consumption of imported RTDs can be better evaluated;
- a concurrent commitment to a revenue-neutral, shift away from the current WET to a volumetric tax for all alcohol products; and
- a category-specific levy on cask/bulk wine which better aligns its current tax treatment with community objectives for responsible consumption.

3. LION NATHAN IN AUSTRALIA

Lion Nathan established a major presence in Australia in October 1990 when the company secured management control of Bond Corporation’s brewing assets. Since then Lion Nathan has expanded its operations to include the South Australian Brewing Company and several premium wineries and is now a leading brewer, winemaker and marketer of alcohol in the Australasian and international markets.

Lion Nathan employs over 1800 Australians, has a market capitalisation in excess of $4 billion and is an ASX Top 100 company. In Australia, the company owns the following brewing operations:

- Tooheys and The Malt Shovel Brewery in NSW
- Castlemaine Perkins in Queensland
- The Swan Brewery in Western Australia
- The South Australian Brewing Company

In addition, the company has sales operations in Victoria, Tasmania and the Northern Territory.

Lion Nathan’s share of the beer market averaged over 42 per cent for the 12 months to May 2006. Our brand portfolio is anchored by strong regional, national and international brands including:

- Tooheys New, Tooheys Extra Dry and Tooheys Old
- XXXX Bitter and XXXX Gold
- The Swan and Emu Brands in Western Australia
- The West End and Southwark brands in South Australia
- Hahn Premium and Hahn Premium Light
- James Squire
- Beck’s
- Heineken

In 2001, Lion Nathan embarked upon a strategy of building a global fine wine business. From the outset, the newly established Lion Nathan Wine Group has been focussed on producing regionally distinctive wines from the world's best wine regions. Through the acquisition of seven Australian wineries, one New Zealand winery and one winery in Oregon in the USA, the Lion Nathan Wine Group now represents an enviable portfolio of pre-eminent wineries each individually focussed on truly expressing their respective premium viticultural region.

Lion Nathan’s Australian wine interests include:

- Petaluma
- St Hallett
- Bridgewater Mill
- Knappstein
- Mitchelton
- Tatachilla
- Smithbrook
- Preece
- Stonier

Lion Nathan has consistently been at the forefront of developments and innovations to encourage responsible consumption of alcohol. For example, Lion Nathan revolutionised the low alcohol segment through the introduction of Tooheys Blue in

1993. Lion Nathan's launch of Hahn Premium Light in 1998 resulted in unprecedented consumer interest in low alcohol beers.

The company also pioneered the development of the mid-strength segment (3-3.5% alc/vol) in Australia through the promotion of products such as XXXX Gold in Queensland, which is now that State's most popular brand and Australia's third largest brand. Emu Draft and Swan Gold have also driven the development of a significant mid –strength market in Western Australia.

In 1997, Lion Nathan introduced two more mid-strength beers, West End Gold in South Australia and Tooheys Amber Bitter in NSW.

Lion Nathan also provides significant financial support to initiatives that promote a healthy approach to alcohol consumption.

For example, the company helped fund the development and implementation of an internationally acclaimed schools' curriculum programme titled "Rethinking Drinking, You're in Control". The Programme was funded through The Australian Brewers Foundation (ABF) and developed by the Youth Research Centre at The University of Melbourne. It is now used in approximately two thirds of secondary schools in Australia and has recently been modified for delivery into indigenous communities.

Working through the ABF in conjunction with the spirits industry, Lion Nathan also actively participated in the introduction of a liquor retail industry training programme, entitled "No Worries" to promote responsible retailing techniques.

More recently, Lion Nathan has introduced the BeDrinkAware icon to its packaging which directs consumers to a responsible consumption website and practical advice aligned with NH&MRC guidelines for safe consumption. Lion Nathan also supports the enhanced standard drink labelling initiative recently announced by the Federal and NSW governments.

The company also remains committed to working with all the major producers and retailers in Australia, and other relevant organisations, to ensure there is a united industry approach to promoting responsible drinking behaviour in the community.

Over the last two years, Lion Nathan has worked closely with other leading producers and the retail sector to develop and fund the *DrinkWise Australia* initiative. With an annual budget of $10million per annum at maturity provided by industry, this cultural change organisation has an independent Board and a mandate to encourage drinking in moderation. The Federal Government announced in the recent Budget a grant of $5million to DrinkWise Australia to assist in the development and delivery of cultural change programmes.

4. FOUR KEY AREAS FOR FUTURE CONSIDERATION

Lion Nathan is of the firm view that a broad based or targeted review of alcohol tax and excise arrangements should only proceed with a comprehensive and close engagement with industry and the broader community. While the Senate Committee's interest in alcohol tax is welcomed, Lion Nathan does not support the Committee recommending any changes to the Senate that would challenge the status quo at this time.

However, Lion Nathan does appreciate that these matters will continue to be contested in the future and, with this in mind, has identified four priority areas for further consideration.

1. Encouraging lower strength beer consumption

Government has already taken the decision to levy the excise on beer on the basis of alcohol content (per litre of alcohol). This provides an important incentive for consumers to favour low and mid strength beer over higher alcohol products. However, while around 45% of all alcohol consumed in Australia is beer, less than 9% is either low or mid strength beer. After a period of initial growth the light beer segment is now in decline and is in urgent need of reinvigoration. While the market is seeing encouraging signs of mid strength becoming popular outside its Queensland heartland, Lion Nathan sees a real opportunity to grow this category nationally and this could be accelerated by extending tax concessions.

Lion Nathan supports the original motivation for Government creating a three tiered system for beer excise and submits that the concessions for low and mid strength beer over full strength beer should be increased. Alternatively, the Government could revisit a proposal first raised in *A New Tax System* to increase the excise free threshold for low and mid strength beer from the present 1.15 percent to 1.4 percent.

For uniformity, the Senate could also consider the creation of a mid strength packaged beer rate at the mid point between the current full and low strength relativities which would align the number of tiers with the treatment of draught beer.

Recommendation: Further reduce the excise rates on low and mid strength beer to reinvigorate the category and create a mid-strength tax rate for packaged beer.

2. Adjusting to the growing popularity of RTDs

In Lion Nathan's view, foreign RTD producers and importers are the only major interest within the alcohol sector pushing for immediate broad-based changes to alcohol tax and excise. It is also Lion Nathan's view that their proposals for achieving parity between beer and spirits (by extending the excise free threshold to RTDs and creating low and mid strength tax rates for RTDs) are premature as the community evaluates the social and economic impact of the growing popularity of RTDs.

In this regard, Lion Nathan supports the RTD lobby in their call for better analysis of changing drinking behaviour, especially recent data that suggests RTDs are increasingly popular among young consumers who drink at risky levels.[5] However, we fail to see the logic in their call for significant changes to the RTD excise regime before this analysis has been undertaken. In this environment, caution should be favoured ahead of change.

Moreover, the current debate around the tax treatment of RTDs lacks a meaningful discussion on ‘palatability’, ‘drinkability’ and the taste experience of young consumers when transitioning from non-alcoholic to alcoholic beverages. This is a serious omission given the current trend in RTD innovation towards higher strength products. Increasingly, the RTD market is seeing more and more new products at a.b.v. levels well in excess of full strength beer. What is clear is that the alcohol beverage preferences of young Australians are changing and until more is known about this shift in consumer behaviour it would be unwise to provide tax relief for RTDs.

The Committee should also note recent experiences overseas in comparable markets – Ireland and the UK – that have resulted in an increase in the excise rates for RTDs following community concerns about their impact on young drinkers.

The proposals of the RTD importers also avoid discussion on the potential economic impact on domestic alcohol producers. They amount to little more than ad hoc intervention in support of a single category. They would create new anomalies that would further disadvantage local producers.

It is true that the growing popularity of RTDs has largely been at the expense of beer and that there has been a transfer of sales from domestic manufacturers to importers. Lion Nathan believes that this trend should not be further accelerated via tax reform until more is known about the implications for Australian producers and their suppliers, and until the Government is prepared to move to a volumetric excise regime for all alcohol (see 3 below).

Recommendation: Resist arguments for tax parity between RTDs and beer until both the longer-term drinking behaviours of young consumers and the economic impact on the domestic alcohol industry have been better evaluated

3. The Future of WET

Lion Nathan believes that, where possible, the tax and excise regime for alcohol should strive for simplicity and uniformity. The current arrangements which support both volumetric excise and a wine equalisation tax are cumbersome and produce a number of anomalies, such as the highly concessional treatment of cask/bulk wine (see below).

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[5] Refer to *Australian secondary school students’ use of alcohol in 2002*, Monograph series no 55, national Drug Strategy, DHAC, March 2004

Although the current state of the domestic wine industry should not be exacerbated by any macro reform to the alcohol tax base at this time, Lion Nathan believes that the longer term objective for Government should include a revenue neutral shift to a volumetric regime for all alcohol products.

Recommendation: Commit to a revenue neutral, longer-term shift away from the current WET to a volumetric tax for all wine products once industry conditions stabilise

4. Tackling cask/bulk wine

Any review into alcohol tax is likely to attract a number of varying industry opinions about the fairness of current arrangements. However, there is a broad consensus between the majority of industry, government licensing authorities and many commentators in the health lobby on the undesirability of the profoundly advantageous tax treatment enjoyed by cask and bulk wine.

For an average priced 4 litre cask of wine the non-GST tax paid per standard drink is around 5 cents, and for fortified wines in a cask around 14 cents. The tax burden per standard drink of packaged full strength beer is 35 cents and 47 cents for RTDs.

This situation is an obvious anomaly in the current tax regime that is increasingly difficult to justify. Beer and cask wine are substitutes and the current price differential driven by tax arrangements has the consequence of driving consumers towards the higher strength option. This is counter to the stated public health objectives of both state and federal government agencies.

Any future review should aim to reduce this disparity by either special levy or by shifting cask wine to volumetric taxation.

The only major group opposed to this reform is the cask wine industry. It has argued that beer and cask wine are not economic substitutes and that there are sound economic reasons not to end the tax discrimination.

These claims fly in the face of the facts. In the period 1987-88 to 1988-89, there was a reduction in the effective beer tax rate of approximately 15%. It resulted in a 4% rise in the volume of beer consumed and a corresponding drop in the consumption of cask wine. There are no other anomalies during the period to account for the change in consumption patterns of beer versus cask wine.

Sections of the wine industry have also argued that the tax discrimination against beer drinkers in favour of cask wine drinkers can also be supported on the basis that this tax policy promotes the export of Australian wines. This claim is also unjustified as the current tax regime encourages the production of higher volume, lower value grapes, not the production of higher quality grape which underpins the Australian wine export industry.

It is also argued by the cask wine industry that removing the tax disparity between beer and cask wine will cause significant damage to South Australian tourism. This claim is also untrue. It is the large numbers of quality grape growers that contribute most to direct and indirect employment in South Australia, particularly in stimulating tourism in areas such as the Barossa, Eden and Clare Valley and Adelaide Hills. Cask wine production makes no worthwhile contribution to tourism.

Grape growers who supply the cask wine industry have made relatively low levels of investment in comparison to premium grape growers. Those grape growers impacted by any downturn in the cask wine industry can more readily switch to other "cash" crops, such as barley, and any short-term impact caused by a change to excise policy could be addressed via targeted regional assistance to impacted growers.

Recommendation: Consider the introduction of a category-specific levy on cask/bulk wine which better aligns its current tax treatment with community objectives for promoting moderation.

5. SUMMARY

In summary, Lion Nathan considers that there is no compelling argument at this point in time for either broad based or targeted reform to alcohol tax and excise.

If recommendations are to be made, they should aim to encourage domestic production over foreign imports and to align taxation with broader community activities aimed at encouraging responsible consumption.

On this basis, steps could be taken to make lower strength beer more attractive and high strength cask/bulk wine less attractive to consumers. In the meantime, the Government should resist calls for reform from the largely import based RTD industry and commit to a longer-term review of the WET.

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