
***Customs Amendment (Fuel Tax Reform
and Other Measures) Bill 2006***
and three related bills

Submission by

Beam Global Spirits & Wine

to

Senate Economics Legislation Committee

May 2006



1. Executive Summary

Beam Global Spirits & Wine Inc (Beam Global) is the fourth largest spirits company in the world and a leading spirits marketer in Australia.

In this submission, Beam Global highlights the current tax inequities that exist for low and mid-strength packaged (ie off-premise) Ready to Drink alcohol beverages (RTDs) when compared to their main competitors – low and mid-strength beer.

Beam Global urges the Government to amend the customs and excise tariff legislation to provide identical excise taxation treatment that currently applies for packaged low and mid-strength beer to low and mid-strength RTDs. That is:

- **Low and mid-strength packaged RTDs should have access to the 1.15% excise free threshold that is currently available to all beer products; and**
- **Low-strength packaged RTDs should have access to the lower excise rate that applies to packaged low-strength beer.**

Beam Global believes that there are very sound economic and health policy reasons to implement these changes, which would come at a very small cost to Government revenue. As we demonstrate in this submission, there is widespread support from health and medical groups to implement the changes outlined above.

2. Beam Global Wine & Spirits

2.1 Our company

Beam Global Spirits & Wine, Inc. (Beam Global Inc) is part of Fortune Brands, Inc. and is responsible for Fortune Brands Spirits and Wine portfolio.

The company is the fourth largest spirits company in the world, and aims to become one of the top three global spirits companies in the future. This objective will be achieved through a business strategy focussed upon growing global brands in their core markets, as well as striving to create new growth opportunities.

Beam Global Inc has acquired nine of the world's top 100 premium products in its portfolio.

Key spirit brands within this portfolio include:

- Jim Beam Bourbon
- Canadian Club Canadian Whisky
- Courvoisier Cognac
- Teacher's Scotch.

As well as a commitment and vision to enter the top 3 global spirits companies, Beam Global Inc also has a commitment to responsible alcohol consumption. Beam Global Inc has introduced several programs as part of the company's commitment to social responsibility.

The first of these programs, known as "*drink smart*", aims to inform all age groups about responsible decisions regarding alcohol, as well as educate adults of legal purchase age of ways in which our brands may be enjoyed in a responsible manner.

The company has also introduced "*Angel's Share*", a program created to reflect Beam Global's commitment to give back to the communities in which our employees live and work.

The local subsidiary of Beam Global Inc, Jim Beam Brands Australia Pty Ltd (JBB) represents Beam Global Inc's presence in the Australian market and is charged with helping develop the Australian market consistent with worldwide strategies and vision.

JBB is a member of the Distilled Spirits Industry Council of Australia (DSICA) which is the peak body representing distilled spirit manufacturers and importers in Australia. DSICA is a very credible and well respected industry organisation and prepares detailed estimates of the alcohol market in Australia and of the Australian Government revenue derived from alcohol

beverages. JBB will draw on this information, as well as DSICA's submission to this committee, to assist it with this submission.

2.2 Our RTD products

In addition to these premium spirit brands outlined above, JBB also controls two key RTD brands in the Australian market.

The Australian RTD products are:

- **Jim Beam** - Jim Beam White Label & Cola, Jim Beam Black Label & Cola and Jim Beam Long Black;
- **Old Crow** – Old Crow & Cola,

JBB products account for approximately 16% of overall Australian RTD sales. In 2005, we sold 6,946,000 cases nationally.

The mid-strength market

While the bulk of our sales are attributable to the company's key full strength RTD products, JBB has also been able to penetrate the mid-strength RTD market.

Our mid-strength product currently available for sale in the Australian market is *Jim Beam White & Cola Mid Strength*. This product has an alcohol strength of 3.5% alcohol by volume (abv), which is the same as most mid-strength beers.

We estimate that we hold 22.5% of the Australian mid-strength RTD market.

JBB market research shows us that the typical demographic of the consumer of our mid-strength product is similar to the consumer of mid-strength beer – that is 24 to 35 year olds and predominantly male (60%). The largest markets for our mid-strength product are in Queensland and Western Australia.

JBB has no low-strength RTD products.

3 Proposed changes to provide tax equivalence for RTDs

3.1 Current taxation anomalies

The current excise taxation system unfairly discriminates against RTDs and in favour of beer.

Furthermore, the current system provides no encouragement for the consumption of lower strength RTDs and in fact provides a disincentive for the production of lower strength RTDs.

The current anomalies can be summarised as follows:

- **Excise free threshold:** All RTDs, including low and mid-strength products, do not have access to the 1.15% alcohol excise free threshold that applies to all beer products (both packaged and draught); and
- **Lower excise rate for low-strength beer:** Low-strength RTDs do not have access to the lower rate of taxation available for packaged low-strength packaged beer.

In relation to the low and mid-strength markets, the current taxation regime leads to the following comparative price effects as between beer and RTDs:

- Mid-strength RTDs pay 16 cents (or 49%) more excise per can of product than mid-strength beer of the same alcohol strength.
- Low-strength RTDs would pay 19 cents (or 106%) more excise per can of product than low-strength beer of the same alcohol strength.

3.2 Recommended changes

To promote an incentive for the production and consumption of low and mid-strength packaged RTDs, JBB recommends that the Australian Government amend the customs and excise tariff legislation to provide the following:

- An **excise free threshold** of 1.15% abv for low and mid-strength packaged RTD products (as is allowed for all beer products).
- That low-strength packaged RTDs be granted the same **lower excise rate** (currently \$31.73 per litre of alcohol) that applies to low-strength packaged beer.

These changes would rectify the anomalies outlined above and provide incentive for the production and consumption of lower strength RTDs.

We emphasise that the recommendations are to extend the excise concessions to **packaged** products only.

In the long term, the Government should extend excise equivalence for draught low and mid-strength RTD products, and also ultimately to full-strength packaged and draught RTDs.

3.3 Revenue impact of changes

DSICA has undertaken an estimate of the cost to Commonwealth Government excise revenue of implementing these measures.

DSICA's estimate of the cost of this measure for the 2006-07 year is \$1.7 million (DSICA 2006b). This figure stands in stark contrast to the loss to excise revenue of \$730 million when the 1.15% abv excise free threshold was introduced for beer in 1988-89.

4 The Alcohol Market in Australia – beverages less than 10 per cent alcohol by volume

4.1 Treasury framework for alcohol beverages

Treasury Tax Expenditure Statement – a conceptual framework

Each year, the Commonwealth Department of Treasury (Treasury) prepares a publication entitled *Tax Expenditure Statement*. The most recent publication is the *2005 Tax Expenditure Statement* (Treasury 2005). The document quantifies the extent of tax incentives (or conversely tax penalties) provided to particular activities or products within the economy.

In analysing tax expenditures in the alcohol area, Treasury has developed a “conceptual framework” for the alcohol market. This framework separates the alcohol market into three categories as follows:

- Alcohol beverages below 10% alcohol by volume (eg beer; RTDs);
- Alcohol beverages greater than 10% alcohol by volume (eg full strength bottled spirits);
- Wine and cider.

Tax benchmarks and tax expenditures

Once Treasury has segmented the alcohol market, it then defines a “tax benchmark” for each category in order to determine the extent of any tax expenditures (positive or negative) for particular products.

The tax benchmark for alcohol beverages less than 10% abv is the rate for full strength beer including the 1.15% excise free threshold. (Treasury 2005, p. 31)

As mid and low-strength RTDs do not qualify for the 1.15% excise free threshold, these products are taxed above the benchmark rate for this category.

This generates a “negative tax expenditure” for the Government – that is, the Government collects additional tax revenue above the benchmark it has defined for the category. These products therefore suffer a competitive disadvantage against other products that are taxed at the benchmark rate (ie beer).

DSICA estimates that the negative tax expenditure for mid and low-strength RTDs for the 2006-07 year to be in the order of \$1.7 million (DSICA 2006a, p. 34). This amount we believe quantifies the negative discrimination imposed by the taxation system on low and mid-strength RTDs against equivalent strength beer.

4.2 The alcohol market: beverages less than 10% alcohol by volume

Overview

The less than 10% abv alcohol market in Australia comprises of predominantly the following beverages:

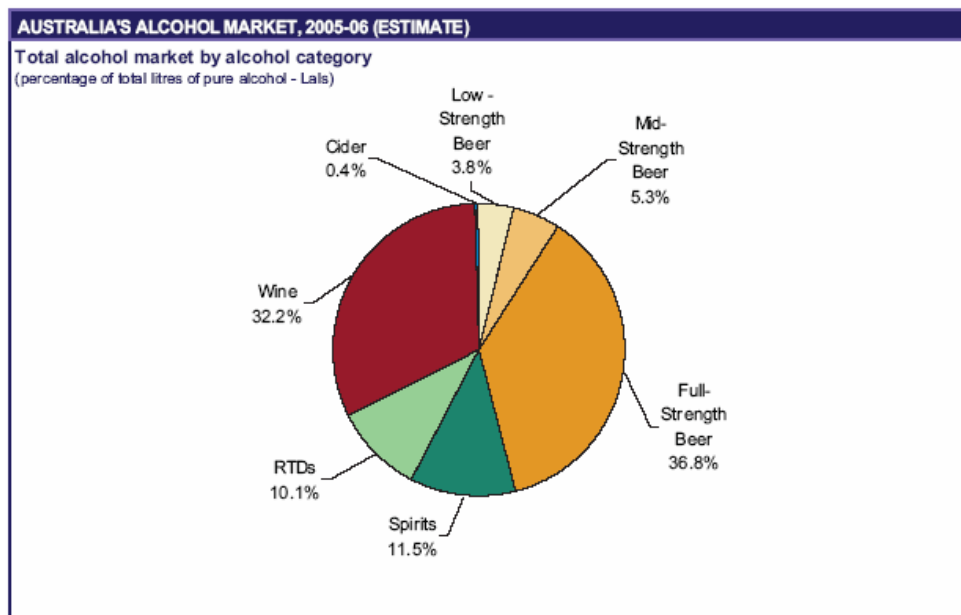
- **Beer**
 - Full-strength beer - typically around 4.6% abv;
 - Mid-strength beer – typically around 3.5% abv;
 - Low-strength beer – typically around 2.7% abv.
- **RTDs**
 - Full strength RTDs – typically around 5.0% abv;
 - Mid-strength RTDs – typically around 3.5% abv.

Placing the segment in context, a summary of the overall alcohol market in Australia (measured in litres of alcohol – lals) is as follows (DSICA 2006a, p. 13).

- **Beer** represents about **46%** of the total market.
 - ❖ **Full strength beer** (> 3.5% abv) represents **37%** of the total market;
 - ❖ **Mid strength beer** (>3% abv, but ≤ 3.5% abv) represents **5%** of the total market;
 - ❖ **Low strength beer** (≤ 3.0% abv) represents **4%** of the total market.
- **Spirits** represents about **22%** of the total market.
 - ❖ **Full strength bottled spirits** (FSBS > 10% abv) represents **12%** of the total market;
 - ❖ **RTDs** (< 10% abv) represent **10%** of the total market.
- **Wine** (including cider) represents about **32%** of the total market.

The diagram below (DSICA 2006b) provides a graphical summary of the alcohol market in Australia for the 2005-06 year

Figure 1: Alcohol Market in Australia, 2005-06 (measured in litres of pure alcohol)



The Mid-Strength Packaged market in Australia

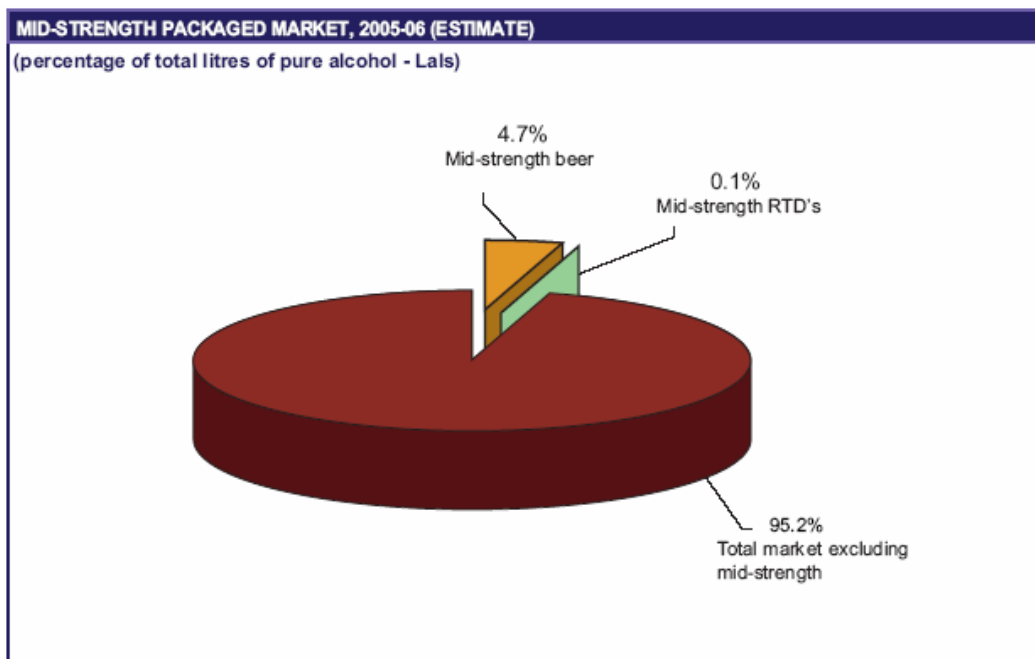
Of total alcohol sales, the **mid-strength packaged market** comprises **4.8%** of the total Australia market.

This is comprised as follows:

- ❖ Mid-Strength packaged beer = **4.7%** (or 98% of the mid-strength) market
- ❖ Mid-Strength packaged RTDs = **0.1%** (or 2% of the mid-strength market).

Figure 2 below provides a graphical representation.

Figure 2: Composition of mid-strength packaged alcohol market, 2005-06



Mid-strength beer has shown a trend to increase its market share amongst the total beer and the packaged beer market in the last five years.

The Australian Bureau of Statistics (ABS) publication, *Apparent Consumption of Alcohol in Australia 2003-04* (3 November 2005), shows that mid-strength beer increased its share of the total beer market from 11.1% in 2000-01 to 14.1% in 2003-04 (ABS 2005, p.1). DSICA figures indicate that in the packaged beer market, mid-strength packaged beer increased its share from 12.4% in 2000-01 to 15.8% in 2003-04 (DSICA 2006b). This increasing trend to drink lower strength beer is encouraging.

In the RTD market, mid-strength RTDs have held a fairly static and low share of the total RTD market at about 0.8% of the total RTD market (DSICA 2006b). This low market penetration reflects that there are very few mid-strength RTDs on the market. This is predominantly due to producers being unable to competitively price a mid-strength RTD product against its prime competitor – mid-strength beer.

RTDs have on the other hand increased their market penetration over the years. This has been due to the introduction of new products and the general growth in the popularity of RTDs.

The Low-Strength market in Australia

The low-strength market in Australia is comprised almost exclusively of low-strength beer. As outlined above, this comprises 3.8% of the total alcohol market in Australia.

JBB is not aware of any low-strength RTDs on the Australian market.

Unlike mid-strength beer, low strength beer is exhibiting a static or declining market share of the total beer market. The ABS shows the share of the beer market held by low-strength beer fairly static at 13% (ABS 2005, p. 1). DSICA estimates that the low-strength packaged beer market has declined from 9.9% of the total packaged beer market in 2000-01 to 9.8% in 2003-04. It estimates that the market share will fall further to 8.4% in 2006-07 (DSICA 2006b).

It is disappointing that this market segment is losing share. It is further disappointing that the taxation regime provides no incentive, and in fact imposes a barrier, for the introduction of low-strength RTDs.

4.3 Incidence of excise on mid and low-strength RTDs

The differential in excise treatment on mid and low-strength RTDs impacts in two ways:

- The absence of the 1.15% excise free threshold for both mid and low strength RTDs; and
- The presence of the lower rate for packaged low-strength beer.

These differences work in concert to magnify the incidence of excise the lower the alcohol content of a product. This is surely contrary to sound public policy of encouraging consumption of lower strength alcohol beverages.

The tables below summarise the impact of the industry’s recommendations regarding changes to the excise regime for low and mid-strength RTDs.

Table 1: Excise payable on *mid-strength* RTDs compared to mid-strength beer as at 1 February 2006

	Excise per can	Excise per 6 pack	Excise per case
Mid-strength beer (3.5%)	\$0.33	\$1.98	\$7.92
Mid-strength RTD (3.5%)	\$0.49	\$2.94	\$11.76

Table 2: Excise payable on *low-strength* RTDs compared to mid-strength beer as at 1 February 2006

	Excise per can	Excise per 6 pack	Excise per case
Low-strength beer	\$0.18	\$0.72	\$4.32
Low-strength RTD	\$0.37	\$2.22	\$8.88

4.4 Price impacts of proposed excise changes

DSICA has calculated the price impact of the proposed changes on a representative mid-strength product (Bundaberg Rum Mid 3.5 & Cola) and compared it to a representative mid-strength beer product (XXXX Gold) of the same alcohol content.

Table 3 below demonstrate the impact of the proposed changes on the comparative prices for these mid-strength products.

Table 3: Estimated price impacts on mid-strength RTDs compared to mid-strength beer

Representative Product	Price – 6 pack		Price – Case	
	Current	Future	Current	Future
XXXX Gold (3.5% abv)	10.00	10.00	35.00	35.00
Bundy Mid (3.5% abv)	13.00	11.60	45.00	40.20
Differential	3.00	1.60	10.00	5.20

The following observations can be made from Table 3:

- The price of mid-strength RTDs would fall by approximately 11%.

- Mid-strength RTDs would remain more expensive than mid-strength beers of the same alcohol content.
- The price differential between mid-strength RTDs and mid-strength beer would reduce in the order of 45% to 50%.

JBB firmly believes that a reduction in price in the order of 11% would provide significant encouragement for consumers to demand more mid-strength RTDs.

5 RTD Myths

5.1 Introduction

JBB observes an ongoing and entrenched perception in the community that there is an increasing level of alcohol abuse by young (and underage) drinkers.

Furthermore, there seems to be a perception that the increasing popularity of RTDs is contributing and/or causing the perceived increased levels of alcohol abuse. Accordingly, stakeholders and policy makers often argue that there should be no changes to the taxation regime for RTDs that would see a reduction in their price.

This public perception is, we believe, brought about and aided by a number of myths which abound in relation to the alcohol market, particularly in relation to RTDs which are not supported by facts.

In an effort to ensure that alcohol policy is based on the best available evidence, JBB and DSICA believe it is vital to consider the facts which lie behind these common myths.

In the context of the current proposals to reduce taxation on low and mid-strength RTDs, it is important that these facts are understood.

Furthermore, when also seen in the context of the health and social issues which will be considered in section 5 below, despite the common belief and media portrayal, RTDs are not leading to greater levels of alcohol related harm for young and underage drinkers.

5.2 Nine key alcohol facts – and some RTD myths dispelled

Some relevant facts regarding the alcohol market in Australia provided by DSICA (DSICA 2006b), and RTDs in particular, are summarised below.

- Fact 1: Adult per capita alcohol consumption in Australia has fallen below 1970's and 1980's levels*
- Fact 2: There has been no significant increase in adult per capita alcohol consumption after tax reform (1 July 2000)*
- Fact 3: Total alcohol consumption has been increasing at a lower rate than the 15 years and over population*
- Fact 4: Adult per capita consumption of RTDs has been growing as adult per capita consumption of beer and spirits has been falling*
- Fact 5 RTDs are similar alcohol content as beer but pay higher tax per volume of alcohol*
- Fact 6 RTDs comprise only 9% of the Australian alcohol market*
- Fact 7 75% of RTDs are dark spirit-based, and are preferred by males 24 years and older*
- Fact 8 The market for white spirit-based RTDs has declined in growth*
- Fact 9 Rate of RTD growth is slowing significantly*

For further information and sources for the facts outlined above, please refer to DSICA's Pre-budget Submission, 2006-07 (DSICA 2006a) (available at www.dsica.com.au)

6. Health and Social Policy aspects

6.1 Introduction

There is strong national (Health) Ministerial support and health group support for a taxation regime that supports lower taxation for lower strength alcohol products.

The intergovernmental body with responsibility for drug policy in Australia, the Ministerial Council on Drug Strategy (MCDS) has endorsed a policy of investigating lower taxation levels for lower strength alcohol beverages as a way of minimising alcohol related harm and encouraging a more socially responsible attitude to drinking (MCDS 2006, p. 29-30).

Numerous health bodies in Australia have and are calling for taxation reform to encourage the production and consumption of lower alcohol beverages.

In this section, we profile the policies and statements of various influential health and social policy groups.

6.2 The National Alcohol Strategy 2006-2009

On 15 May 2006, the MCDS endorsed the *National Alcohol Strategy 2006-2009* (the Strategy) (MCDS 2006).

The aim of the Strategy is to develop safer drinking cultures in Australia to produce healthier outcomes for all Australians. The recommendations from the Strategy will guide the development and implementation of a policy framework to respond to alcohol-related harm in Australia.

One of the priority areas of the strategy, defined as “Cultural Place and Availability”, has as its aim to facilitate safer and healthier drinking cultures by developing community understanding about the special properties of alcohol and through regulation of its availability (MCDS 2006, p. 27).

“Economic Availability”

In this area which deals with pricing mechanisms to regulate the consumption of alcohol, the Strategy identifies using price-related levers such as taxation to prevent and limit alcohol related harm. It concludes that the strategy should:

“Focus ongoing dialogue on price-related levers to reduce consumption of alcohol at harmful levels.” (MCDS 2006, p. 30)

In its discussion of this aspect of the Strategy, it notes that “a tax structure that increases the affordability of low-strength alcoholic beverages is one potential way of achieving both public health and economic benefits.” (Hamilton 2006, p. 29)

It is clear to JBB, and to the spirits industry, that the Australian Government is supportive of a change to the taxation regime in the manner outlined. Accordingly, JBB calls on the Government to use the opportunity generated by these Amendment Bills to implement this important aspect of the National Alcohol Strategy.

6.3 Incentive to produce low alcohol beer – introduction of 1.15% excise free threshold

In its 1988-89 Budget, the Australian Government announced that it would introduce a 1.15% abv excise free threshold for beer. This threshold has continued to be an integral part of the taxation system for beer through to the current day.

The purpose for the introduction of the threshold was expressed by Government Members of Parliament at the time as follows:

“So our strategy has been successful in encouraging people to drink low alcohol beer instead of high alcohol beer.”

- Mr JM Brumby MP, *Hansard*, 23 May 1989, p. 2696.

“It is the Government’s hope that,some progress will be made in discouraging excessive alcohol consumption.”

- Senator the Hon RF Ray, *Hansard*, 25 May 1989, p. 2639

Successive Government’s have acknowledged the sound health policy arguments of providing incentives to encourage the consumption of lower strength alcohol products through maintaining the 1.15% threshold. JBB believes that it is consistent with good health policy to extend this concession to RTDs.

6.4 Health group support

JBB is encouraged by the number of health and medical bodies that are supportive of a taxation regime that sees lower taxation of low and mid-strength alcohol product.

In this section, we summarise the positions of some key health and medical groups.

Alcohol and other Drugs Council of Australia

“From a public health perspective, low and mid-strength products can play a significant role in the reduction of alcohol related harm. Ideally, ADCA would like

to see the choice of different strength products available to consumers in the beer market replicated in the RTD market. However, under the current system there is no financial incentive for alcohol manufactures to promote and produce mid and low strength products”.

- Alcohol and other Drugs Council of Australia, *Taxation and Pricing*, September 2003, p. 5.

Australian Medical Association

“The AMA also recommends that excise on alcoholic drinks with less than 3.5 per cent alcohol be significantly reduced to encourage low alcohol products over products with higher alcohol content.”

- Australian Medical Association, Media Release, *Drug Action Week – AMA repeats call for Volumetric Alcohol Tax*, 21 June 2004

The Royal Australasian College of Physicians (RACP) and The Royal Australian and New Zealand College of Psychiatrists (RANZCP)

“Suggested approaches to reducing alcohol consumption include:

- *Taxation by alcohol content within each beverage class (i.e. lower taxes for lower concentration beverages such as low alcohol beer);*
- *.....”.*

- The Royal Australasian College of Physicians (RACP) and The Royal Australian and New Zealand College of Psychiatrists (RANZCP), *Alcohol Policy: Using evidence for better outcomes*, November 2005, p. 25.

National Drug and Research Institute

*“...the government incentive for beverage producers to produce low-strength beer has been a great successes. We have seen quote a shift in per capita consumption from regular strength to low strength beer. It is taking over the market. It is cheaper to buy low-strength alcohol and there is incentive for the industry to produce it. That plays into what Steve [Allsop] was saying **about pre-mixed beverages and there being no incentive for producers to make low-alcohol beverages [and] for people to drink it (our emphasis).**”.*

- Quote from Dr Tanya Chikritzhs, Research Fellow, Alcohol Policy, National Drug Research Institute in Victorian Drug and

Crime Prevention Committee, *Inquiry into Strategies to Reduce Harmful Alcohol Consumption*, March 2006, p. 358

Society Without Alcoholic Trauma

“SWAT supports the principle of a reduced rate for low alcohol products. SWAT supports reduced rates for mid-strength beverages with more than 3.0 percent but less than 3.5 per cent alcohol by volume and low alcohol beverages with less than 3 per cent alcohol by volume.”

- Society Without Alcoholic Trauma, Submission to Senate Economics Legislation Committee, October 2002, p. 1

Victorian Alcohol and Drug Association

“Further consideration should be given to offering a low alcohol exemption to all alcohol products under 10%”

- Victorian Alcohol and Drug Association, Submission to Senate Economics Legislation Committee, October 2002, p. 2

The support from health and medical groups outlined above provides a weight of evidence to the Government that there is widespread support amongst the health and medical lobbies for a change to the excise regime for low and mid-strength RTDs as is being proposed by JBB.

5. Conclusion

JBB firmly believes that the reasons for and support for the excise taxation changes proposed in this submission are compelling.

The amendments to provide concessional taxation treatment that is currently provided for mid and low-strength packaged beer to mid and low-strength RTDs is consistent with the Government's own National Alcohol Strategy and are widely supported by key health groups.

The amendments would come at minimal cost to Government revenue.

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