



Tax Forum
Treasury
Langton Crescent
Parkes ACT 2600

30th September, 2011

Lodged by email: - taxforum@treasury.gov.au

- For the environmental and social taxes session -

Dear Sir or Madam

The Brewers Association of Australia and New Zealand Inc ('the Brewers Association') represents Australia and New Zealand's major manufacturing breweries on regulatory issues and broader public policy issues. We are pleased to provide some comments to participants of the Tax Forum.

Key points:

- Compared to wine or spirits, all beer is low alcohol.
- Beer and spirits taxation is levied upon alcohol content, but wine taxation is levied upon price. Henry recommends that wine taxation be reformed to also be based on alcohol content. **We support this principle.**
- We support a category-based volumetric model.
- We reject Henry's view that alcohol content is the sole determinant in drinking choices and, therefore, cannot endorse a single (volumetric) rate of alcohol taxation across all product categories.

A strong industry

Our members produce approximately 98 percent of the beer brewed in the trans-Tasman market and in the current financial year, these companies have paid \$2 billion dollars to government revenue in alcohol taxes.

According to Treasury estimates, beer taxation will rise to \$2.4 billion over the forward four years. The brewing industry is consistently one of the highest sources of revenue to government and this revenue is extremely reliable.

Beer is also the lowest strength alcohol beverage, and importantly is available in a commercially viable lower strength options.

Beer and Malt manufacturing is also one of the highest value-adding industries per employee; employing over 4,100 Australians and producing approximately 1,742 megalitres of beer.

The policy challenge to industry

Over many years, the Association's policy position has been to argue for 'no change' to alcohol taxation within Australia, largely to support the current category based approach for beer and spirits.

Active engagement with the work of the Australia's Future Tax System process (the Henry Review) and changing industry profiles and dynamics has challenged the brewing industry to seriously reconsider our position.

Many in the alcohol industry have also been doing this, including a number of Australia's largest wine companies who have recently publicly supported calls to abolish the Wine Equalisation Tax (WET) and WET rebate in Australia. We are in agreement with their proposal that wine be included in a category based volumetric system.

The Henry Review noted particular concerns in respect of cask wine, and also note that:

“...a volumetric tax on wine products should be introduced as a matter of urgency to raise the tax paid on cheap wine –effectively introducing a ‘floor price’ on alcohol.¹”

Category volumetric

The Australian brewing industry believes that wine should be taxed on the basis of alcohol content, not price. Both beer and spirit products are already taxed on this basis, which can be described as a category-based volumetric approach.

We would contend that it would be good public policy to have all alcohol taxed on a category volumetric basis.

¹ Australia's Future Tax System, Report to the Treasurer, Part 2 Detailed Analysis, Volume 2, p443.

Changing wine taxation to this basis, where the tax is directly related to the alcohol content rather than price would be a major reform.

After this is achieved, we believe that only minor adjustments would be needed to maintain appropriate category settings. We do not support the move to a uniform taxation rate for all alcohol.

Drinking choices are complex

A category based approach allows policy makers flexibility to consider the other factors around drinking choices. We reject the assertion of the Henry Review Panel that alcohol volume is the sole determinant in drinking choices. We believe that many other factors can also influence drinking choices including, but not limited to;

- Sweetness/bitterness in the taste profile of a product
- Satiability, ie the feeling of fullness
- Alcohol concentration;
- The drinking environment
- Peer group pressure and other social expectations.

This complexity has been recognised by government in a number of instances where taxation has been varied for a particular category.

For example:

- This government has argued that the sweetness of alcopops made them attractive to younger people and that this justified the raising of RTD taxation to their pre-ANTS levels.
- The draught differential for beer served on-premise, which carries a lower excise obligation, recognises that other costs for hotels and clubs add to the cost of beer and, compared to wine and spirits, all beer is low alcohol. This is important when considering the higher correlation between drinking on-premise and driving.

Economic analysis demand rigour

One of the most disappointing aspects of the alcohol tax debate is the lack of rigour used in some economic analysis which may assist in headline hunting, but does not assist in engendering genuine understanding.

Prominent amongst the non-mainstream studies is the cost-of-illness approach which the Final Report of the Review Panel singles out for criticism.

The Henry Review suggests that the basis for determining the total tax pool for alcohol “should be set to address the spillover costs imposed on the community” and

we are unable to support this principle in the absence of mainstream economic methodology being applied to the task.

Yours faithfully

A handwritten signature in blue ink that reads "Stephen Swift". The signature is written in a cursive style with a large initial 'S'.

Stephen Swift
Executive Director

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