SUBMISSION
RE:THINK TAX WHITE PAPER

INDIRECT TAXES ON ALCOHOL - IN PARTICULAR WINE

June 1, 2015

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INTRODUCTION

Riverland Wine welcomes the opportunity to make a submission to the Re:think Taxation Discussion Paper. This submission focuses on the issues raised in Chapter 9 of the discussion paper relating to indirect taxes on alcohol.

Riverland Wine represents over 1000 wine grape growers and multiple wine producers in the Riverland region of South Australia. These producers include large global companies through to small family owned boutique producers successfully making and selling premium branded wine. Grape growers and winemakers have been adjusting to the industry pressure in recent times, with the total number of growers decreasing, and average size of vineyard enterprise increasing to the present 20ha.

There has been much discussion about wine tax in recent years, and it has been noted since the Henry review much commentary in particular from anti- alcohol groups about the perceived benefits of increasing tax on wine; in particular changing from the current ad-valorem system to one where alcohol is taxed volumetrically. The main thrust of the Henry review appeared to be convenience in making taxation of all alcohol uniform, the perceived "fairness" in making wine pay more tax, as well as increasing revenue. It was also predicated on the questionable premise that all alcohol is the same. This paper examines the case for change as suggested by many of these interest groups, and models the expected results from various taxation scenarios.

Riverland Wine contends that the benefits to health and society as claimed by many of these interest groups do not exist. Despite recommendations contained in the Henry review the previous federal Treasurer decided against increasing wine tax due to the difficulties that the industry was facing at that time. That was a legitimate reason, but what this submissions shows is that <u>there is no good time</u> for volumetric tax on wine. The production and consumption patterns of wine make it a different beverage from beer and spirits, and the differential taxation regime is justified for these and many other reasons.

This discussion takes place against the backdrop of an unfavorable result as far as most of the wine industry is concerned, with the recent failure to win support from the federal government for reform to the existing wine equalization tax (WET) rebate on bulk and unbranded wine, among other measures. This would have allowed the wine industry much – needed marketing funds to allow it to trade out of trouble. This is despite a local wine industry veteran noting that he had not seen such unity in the industry in over forty years.

Good public policy examines the perceived benefits against the perceived costs.

Riverland Wine is not in favour of changing wine taxation from the current *ad valorem* WET to a volumetric tax because;

1. Evidence suggests such a change will cause significant socio-economic damage to warm inland regions such as the Riverland, which are currently experiencing extreme difficulties; and

2. There is no solid evidence that changing to a volumetric tax will deliver any benefits in regard to revenue, consumptive behavior, or complexity of the tax system.

THE IMPETUS FOR INCREASING TAX ON WINE

There has been continual effort devoted to changing the current taxation on wine from various vested interests for some time now – these include neo-temperance groups, spirits and beer producers, and some wine companies. The Henry review recommended a single tax for all alcohol, and advocated the removal of the 1.15% tax free threshold that is currently in place for beer excise.

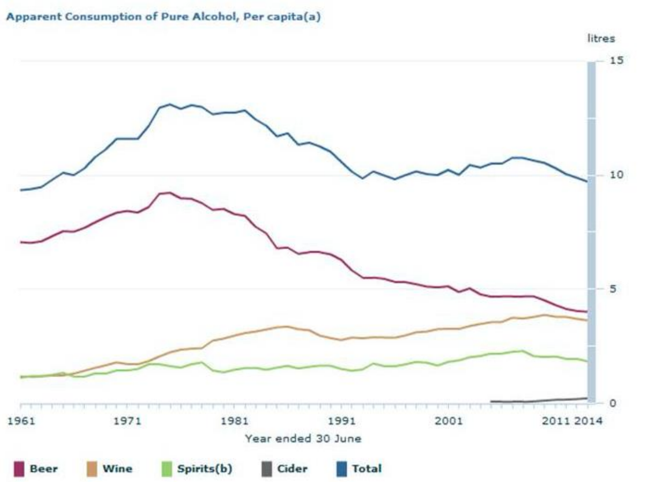
The case for change revolves around common themes, including:

- A desire to make all alcohol taxation the same, presumably for simplicity;
- A claimed need to discourage, through increases in price, binge and excessive drinking and associated violent and antisocial behavior;
- An increase in revenue to better address the claimed "spillover costs" of wine consumption;
- Facilitating "restructuring" the wine industry, which is currently in a depressed state due to imbalance between supply and demand

The available evidence suggests that a move to a volumetric tax will not have positive outcomes as suggested above. It should be noted that the majority of Australian – owned wine companies are opposed to the introduction of a volumetric tax on wine. In the particular case for a flat volumetric – based tax on all alcohol, it should also be noted that the main beneficiaries would be foreign – owned entities predominantly involved in spirit manufacture and brewing.

Consumption Patterns of Wine in Australia

Over the past decades Australians are consuming less alcohol than at any other time in the past 50 years[1]. Consumers have been steadily switching from beer to wine and cider, with overall alcohol consumption per head decreasing. People are not only drinking less, but more people are totally abstaining from alcohol. Far from experiencing an increasing alcohol – fuelled epidemic, as some media reports would suggest, there is strong evidence that consumptive behavior of alcohol is following a favorable trend. (Chart 1)



[1] Australian Bureau ... hol, *2013 - 2014*

Chart 1: Consumption of Alcohol by Product Type
(ABS Apparent Consumption of Alcohol, Australia 2013-14)

Wine has a different consumption pattern than beer or spirits, and this is reflected in a different mode of taxation. Wine is overwhelmingly consumed in moderation, by older consumers, and with food.

There are reasons other than price for a consumer's choice of beverage. For young people in particular, aspirational branding, peer influence as well as flavor profile are all important. This is shown in the work completed by the Foundation for Alcohol research and Education (FARE), "What do Australians Drink?" (Table 1). This work also showed that there are less people consuming alcohol at harmful levels, and that rates of alcohol – related crimes and victimization had fallen. Other evidence shows that consumers who drink at risky levels, and therefore are more likely to experience health problems, to impose spillover costs on society and to engage in alcohol – related violence tend not to drink wine, and in particular cask wine is not related to this cohort at any significant level[2]

	14-19 (%)	20-29 (%)	30-39 (%)	40-49 (%)	50-59 (%)	60-69 (%)	70+ (%)
Regular Beer	18.2	27.1	25.8	21.0	17.7	13.8	8.2
Mid-Strength Beer	3.2	5.0	7.3	7.8	7.8	6.8	6.2
Light Beer	1.2	1.7	2.7	5.4	7.5	9.5	13.4
Home Brew	0.7	0.3	0.5	0.6	0.4	0.9	0.9
Beer Total	**23.3**	**34.1**	**36.3**	**34.8**	**33.4**	**31**	**28.7**
Cider	1.4	1.3	0.8	0.6	0.4	0.4	0.1
Cask Wine	1.4	0.9	1.6	3.2	5.3	7.9	11.7
Bottled Wine	6.3	22.8	34.0	37.6	40.7	42.9	36.6
Wine Total	**7.7**	**23.7**	**35.6**	**40.8**	**46**	**50.8**	**48.3**
Fortified Wine	0.0	0.4	0.8	1.0	1.9	3.1	6.9
Bottled Spirits	21.7	20.5	13.9	12.9	12.1	10.9	13.3
RTD	44.5	19.1	11.7	9.3	5.4	3.2	1.8
Other	1.2	0.8	0.8	0.8	0.8	0.7	1.1
Weighted N	957.8	3366.7	4025.9	3507.4	3187.9	2705.2	2633.2

Table 1: Beverage of Choice by Age group.
(FARE, "What Do Australians Drink?", 2012)

Males		
Age	**"Low Risk":**	**"High Risk"**
14-19	Pre-mixed spirits in a can (52.8%)	Regular Strength Beer (74.3%)
20-29	Regular Strength Beer (65.8%)	Regular Strength Beer (78.6)
30-39	Regular Strength Beer (59.0%)	Regular Strength Beer (77.0%)
40+	Bottled Wine (54.3%)	Regular Strength Beer (61.5%)

[2] National Drug Strategy Survey, 2007

Females		
Age	**"Low Risk":**	**"High Risk"**
14-19	Pre-mixed spirits in a can (64.2%)	Bottled Spirits and Liqueurs (84.9%)
20-29	Regular Strength Beer (58.6%)	Bottled Spirits and Liqueurs (67.6%)
30-39	Regular Strength Beer 68.9%)	Bottled Wine (69.7%)
40+	Bottled Wine (69.9%)	Bottled Wine (72.2%)

Table 2: Beverage of Choice by Age group – Risky Drinkers.
(National Drug Strategy Survey, 2007)

Table 2 illustrates the following points:

- Young drinkers, whether drinking at high or moderate levels tend not to choose wine, and instead prefer beer or spirits and spirit mix drinks;
- The cohort most commonly associated with alcohol – related violence, males aged 35 and under do not rate wine as a beverage of choice, and instead prefer full strength beer
- The only association with wine in risky drinking behavior is with female drinkers aged 30 years and over; but they do not choose cask wine. Cask wine is the product that would be most heavily affected with a volumetric tax.

Cask wine offers wine at a low price mainly due to the type of packaging. There are benefits other than cost, such as the wine not oxidizing during consumption due to anaerobic packaging, and some environmental benefits from light weight packaging and lower recycling costs. This means that cask consumers can have one or two glasses on a drinking occasion and that the remaining wine will be free from spoilage for weeks. Bottled wine, on the other hand, is never as good as the occasion as when it is first opened. This difference means that cask wine has a role to play in moderate drinking.

Research by Mueller and Umberger[3] from the University of Adelaide concluded that Cask wine drinkers typically:

- Are aged 55 years or older;
- Earn less than $50,000 per annum;
- Consume two glasses or less on a single drinking occasion. This is within recommended healthy drinking guidelines.

The above evidence shows that cask wine is not a beverage of choice of the cohort likely to be involved in antisocial and violent behavior. This calls into question the need to modify behavior with a punitive taxation regime.

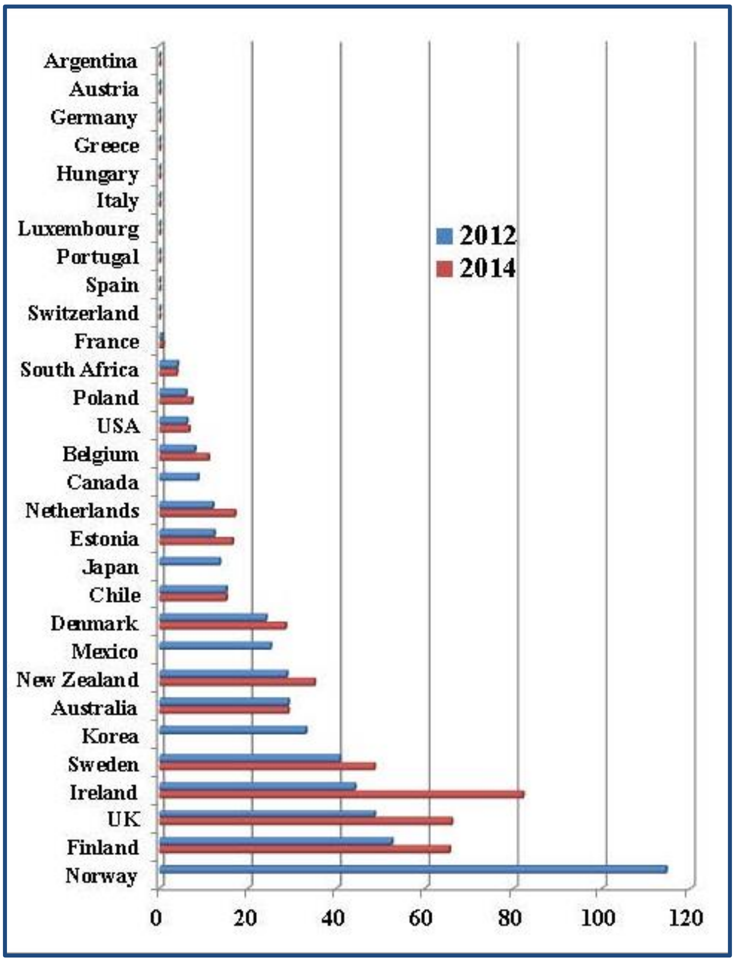
The Claimed Need to Address "Spillover Costs"

Spillover costs of wine refer to the costs to society from the abuse of wine, and related problems including health and alcohol – related violence. Much of the impetus for apportioning spillover costs against wine was driven by very high

[3] Mueller, S & Umberger, W, 2009, '*Myth busting: Who is the Australian Cask wine consumer?'* The Australian and New Zealand Wine Industry Journal, January/February 2009. Vol 24 No 1.

estimates for the costs, most notably in work done by Collins and Lapsley[4]. This approach was also compounded by the assumption that all alcohol is the same, which the above evidence shows not to be the case. These high spillover costs were discredited in work by Crampton and Burgess in 2011[5], which applied mainstream accounting practices to the costs of alcohol and the costs to society of wine are well within the scope of the current tax collected.

Moreover, Australia currently pays one of the higher rates of domestic wine tax in comparison with other wine exporting countries[6]. This is relevant, as a strong export market is best served by a stable domestic base. Increasing this already significant taxation level will weaken Australia's export competitiveness.



[4] *"The avoidable costs of alcohol abuse in Australia and the potential benefits of effective policies to reduce the social cost of alcohol",* Collins and Lapsley, 2008

[5] "The costs of costs studies", Crampton and Burgess, 2011.

[6] "*Excise taxes on Wines, Beers and Spirits: An updated international comparison*"; Working Economics research Centre, Working Paper No 0214, 2014

Chart 2: Ad valorem consumer tax equivalent of excise on commercial premium wine, 1 January 2012 and 1 July 2014, (as percentages)

The Claim that Volumetric Tax will be Simpler

It is highly unlikely that volumetric tax will be simpler. This appears to be based on the assumption that having different tax rates for different products is in some way confusing. The rate of taxation for wine is simply calculated at 29% of the wholesale value. This is hardly an onerous task.

The administration of a volumetric tax may, however, be extremely involved. If, like the administration of beer and spirit excise, it requires regular assessment and control of movement in and out of bonded storages, it would be infinitely more complex and costly. This requirement is currently very trying for the brandy industry. Typically, accurate audit of tax liability and control of movement of product under an excise regime includes:

- Regular testing of the alcohol content of each product. To assess tax liability in a winery it may require testing each tank of wine destined for export;
- Varying excise rate twice annually in line with CPI;
- Establishment of bonded storage facilities,
- A five – year record – keeping requirement.

If, on the other hand, a broad based rate per litre of wine was established, it would be imprecise and inaccurate. Unlike beer and spirits, the alcohol content in wine is less controllable, as the sugar content of fruit can vary compared to the flavor development of fruit. This means that the resulting alcohol content of a wine can vary for the same wine style made in different seasons.

Consider the following example:

A large winery with a throughput of 200,000 T typically has 40% of the throughput destined for the domestic market. Assuming a volumetric tax of $47.09 at the current full strength beer rate, and a difference in alcohol content of 1%.

200,000T @ 730 L/T = 146 ML, which 40% or 58.4ML goes to the domestic market.
A variance in 1% alcohol by volume (across all wine for domestic sale) leads to 58.4ML x 1% x $47.09
= a variance in tax liability of **$27.5M**.[7]

If, in the pursuit of simplicity, a tax system was introduced that was this inaccurate in calculating the true tax liability it is difficult to see any improvement from the status quo.

Many complaints about the current WET regime make comparisons about the differential rates of tax per standard drink. This is irrelevant and in effect it is a red herring. Directly comparing the *ad valorem* taxation of wine with the taxation of beer and spirits which are volumetric is a misleading, classic case of comparing apples with oranges. *Ad valorem* wine taxation is no less credible than the current *ad valorem* taxation of goods and services under the GST. It is not "wrong"; it is just different.

IMPACTS OF A VOLUMETRIC TAX ON WINE

The amount of impact that will be felt from a volumetric tax will depend on the rate at which the alcohol is taxed, and whether there is a tax free threshold (currently 1.15% for beer) included in the tax. For the purposes of this submission, we will investigate the following scenarios:

- Imposition of a flat rate of tax at the full strength beer rate of $47.09 /LAL, with a tax-free threshold of 1.15% alcohol free from tax.
- Imposition of lower rates of Volumetric tax, in line with some wine companies that are advocating a "revenue neutral" change to volumetric tax from WET, inclusive of the tax –free threshold.

Imposition of a Flat Rate of $47.09 / LAL across all alcohol (The current full strength beer rate)

The price modeling has been made with the assumption that alcohol levels of cask and cheaper wine products is generally lower than higher value wine, which

[7] Note – this assumption ignores the inevitable decrease in sales from higher retail prices from imposition of Volumetric Tax, and it is likely that the volume of wine destined for domestic sales would significantly decrease.

is generally the case. There is an assumed retailer margin in retail price modeling of 33% which is in line with typical retail margin rates of 29% - 40%[8].

The most abrupt change in the lower priced segments, where the anticipated price of a typical 4L cask that currently sells for a retail price of $18.99 would be expected to increase to $42.79 with volumetric tax at the regular beer rate, which represents a price increase in the order of 126%. Similarly 2L casks would be expected to increase in price from $14.99 to $26.51.

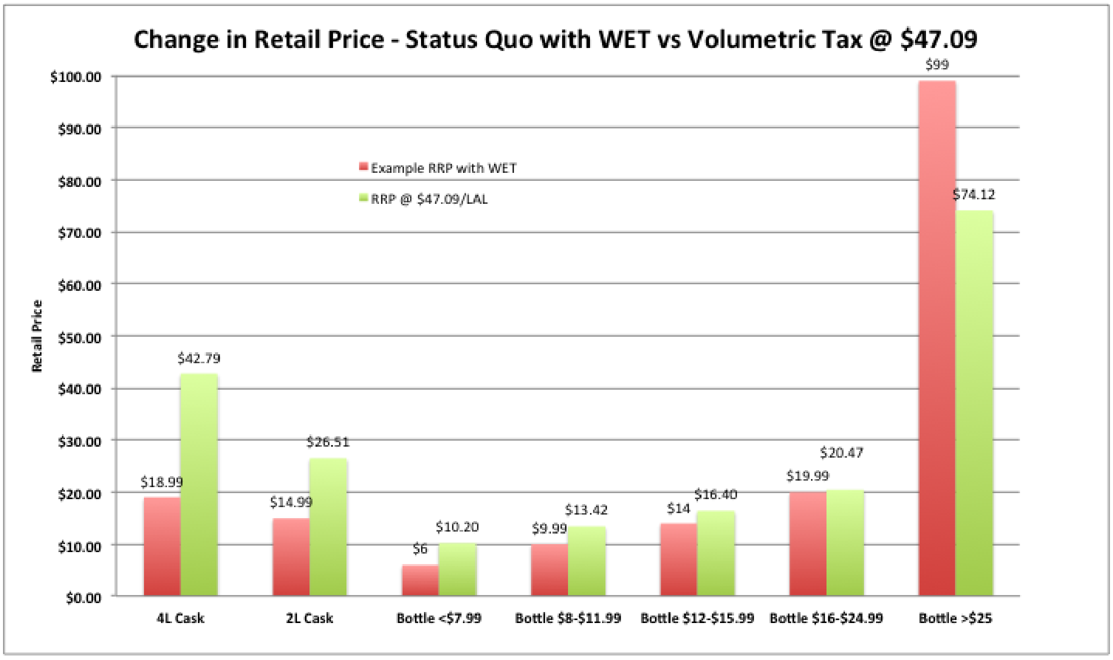


Chart 3: Change in retail price from current price under WET and VT at $47.09/LAL (Example product prices shown)

Clearly an increase in price of over 160% will have negative impacts on sales of these products. The potential benefit of this tax setting is questionable because, as previously mentioned these consumers are in the main:

- Moderate drinkers;
- Very price sensitive, as they are on low or fixed incomes.

The anticipated impact on supply from the significant increase in price on a price – sensitive consumer can be modeled using the following formula:

$$\frac{x_w^1}{x_w^0} - 1 = \left(\frac{p_w^1}{p_w^0}\right)^{\varepsilon_{ww}} - 1$$

Where:

x_w^0 Is the initial demand for wine

x_w^1 Is the demand for wine following increase in price;

[8] "Expert Report on the Profitability and Dynamics of the Australian Wine Industry", Centaurus Partners, 2013.

p_w^0 Is the initial Price (under WET in this case)

p_w^1 Is the final price (under VT in this case)

ε_{ww} Is the Own Price elasticity of demand of wine.

This relationship was established from work previous done by Deloitte Access Economics[9] to model the suggested impact that imposition of a volumetric tax would have. In that study, different price elasticities of demand of -0.9, -0.7, -0.5 for wine were used to model the impact under "worst case", "expected", and "best case" scenarios respectively. For the purpose of this modeling, the average or "expected" case scenario of -0.7 has been used.

Example Product	4L Cask	2L Cask	Bottle <$7.99	Bottle $8-$11.99	Bottle $12-$15.99	Bottle $16-$24.99	Bottle >$25	Totals
STATUS QUO UNDER WET								
Approx Sales Volumes (ML)	70.47	30.20	75.19	61.66	44.67	25.17	7.24	
Alcohol / vol (%)	12.00%	13.00%	13.00%	14.00%	14.50%	14.50%	14.50%	
Approximate market share	22.40%	9.60%	23.90%	19.60%	14.20%	8.00%	2.30%	
Example RRP with WET	$18.99	$14.99	$6	$9.99	$14	$19.99	$48.75	
Total Tax	$4.48	$3.53	$1.42	$2.36	$3.30	$4.72	$23.36	
Tax /L	$1.12	$1.77	$1.89	$3.15	$4.40	$6.29	$31.15	
Total Tax in Category	$78,928,604	$53,307,010	$142,361,765	$194,032,819	$196,566,454	$158,394,138	$225,376,065	$1,048,966,854
Revenue - removal of bulk and unbranded rebate								$1,116,966,854
ANTICIPATED OUTCOME UNDER VOLUMETRIC TAX AT $47.09/LAL								
RRP @ $47.09/LAL	$42.79	$26.51	$10.20	$13.42	$16.40	$20.47	$40.00	
Total Tax	$24.33	$13.57	$5.12	$5.76	$6.20	$6.57	$8.35	
Tax /L	$6.08	$6.79	$6.83	$7.68	$8.27	$8.76	$11.13	
Total Tax in Category	$428,645,745	$204,922,416	$51,330,439	$47,357,162	$36,930,667	$22,047,659	$8,056,037	$799,290,125
Expected change in demand	-43.37%	-32.91%	-31.03%	-18.67%	-10.48%	-1.65%	4.04%	
Estimated revenue	$242,731,641.10	$137,487,685.20	$35,404,685.02	$38,517,203.98	$33,058,723.74	$21,684,476.43	$8,381,164.32	$517,265,580
Revenue Difference from Staus Quo								-$531,701,274
Revenue Difference from WET less bulk rebate								-$599,701,274

Table 3: Anticipated impact from price changes under a VT of $47.09/LAL on wine.

- This modeling suggests that due to the significant decrease in demand due to the significant changes in some price categories, under the regime where volumetric tax is imposed at the full strength beer rate overall revenue is expected to decrease.
- Under this scenario, low priced wine will increase the most in price, therefore affecting those on lower incomes the most.
- There will be limited substitution at the very low price end, given that the majority of these consumers are on low incomes and are very price-sensitive.

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[9] *"Regional economic impact of volumetric taxation of alcohol",* Deloitte Access Economics, for Accolade Wines Australia, 2012

- With this pricing regime, over 80% of wine sold in Australia would increase in price. This would have predictable flow-on impacts including an immediate "flood" of extra wine onto export markets, causing a significant increase in supply at the expense of value. Similar happened in Spain recently, with a very heavy crop leading to Spain attempting to export an extra 30% of wine, but it was effectively written down to the point where there was no overall extra revenue.
- There would be a commensurate and immediate reduction in the amount of fruit purchased in the Riverland and other warm inland regions. For a reduction of 43% in demand, it can be assumed that approximately 40% less fruit would be required. This equates to a reduction of approximately 180,000T of fruit, or 9,000 ha. As the average grower holding is now 20ha, this equates to 450 growers having no outlet for fruit, which is approximately half the total grower number.
- A significant number of grape growers would be forced out of business, and with them other allied service industries in the regions, such as transport, harvesting, contractors and agrochemical sellers such as Elders and Landmark would suffer.
- Such a reduction would in turn lead to pressures on the efficiency of winery production, with reduced throughput leading to amortization of fixed costs over reduced volumes. Wine companies would have little option but to continue the reduction in staff headcount that has been underway already.

The impact of such a tax decision therefore does not only limit the domestic market, but will also affect companies that export the majority of their wine.

This could also be expected to have a very significant negative effect on industry levies that currently fund research and development and marketing activities. Currently the Australian Grape and Wine Authority (AWGA) receives $2 for every tonne of fruit grown from growers plus $5 for every tonne of fruit crushed from wine companies, and this is matched by government. A reduction of 40% across warm inland regions would equate to a direct loss as follows:

Riverland	450,000 T
Murray Valley	390,000 T
Riverina	300,000T
Total	1,140,000T

Less 40% due to drop in demand; = Loss of 456,000T
R&D levy missed = 456,000 x $14 = **$6.38M less in R&D levies**.

There would also be similar impact the collection of voluntary contributions that are essential for the operation of peak and regional bodies such as WFA, WGGA, WGCSA, SAWIA and Riverland Wine.

In the event that a single rate of volumetric tax for all alcoholic beverages was introduced at the regular beer rate, as suggested under the Henry Review, not only would the price of lower value wine products be markedly *increased*, but the price of spirit and mixed spirit beverages would be expected to *decrease*; as the rate of excise on spirits would reduce from the current level of $79.77 per litre of alcohol to $47.09. A flat rate of tax would have the effect shown in Chart 4 (below).

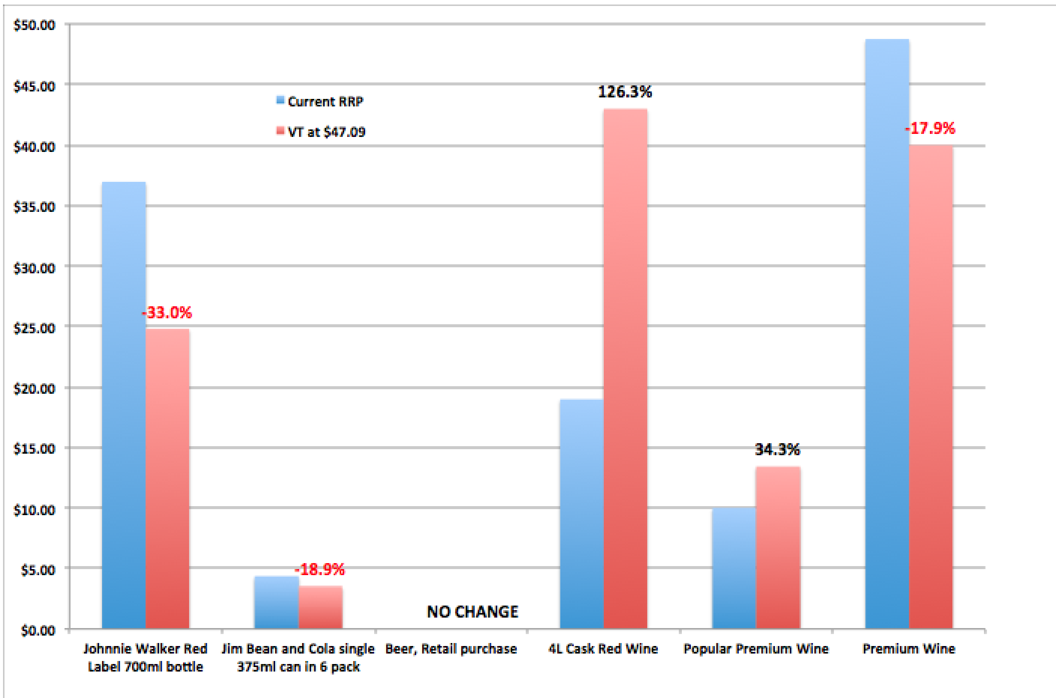

Chart 4: Anticipated changes to retail price of various products with volumetric tax at the full strength beer rate ($47.09/LAL)

Bearing in mind the earlier evidence about the type of beverage that different consumer cohort choose, this scenario would result in products such as spirits and ready to drink (RTD's) which are more favored by young risky drinkers and binge drinkers becoming **cheaper** in price. **A flat rate of volumetric tax on alcohol would not, therefore, lead to positive outcomes in terms of drinking behavior.**

Imposition of a "Revenue Neutral" Volumetric Tax

While it remains to be seen why a government would experience the futility of changing a tax system without the benefit of raising overall revenue, this is a policy option being promoted by some parties. There are claimed benefits that it would allow for the restructure of pricing and encourage wine producers to focus on trying to produce "premium" products. The following modeling examines the likely price responses with a volumetric tax at $15.50 /LAL.

Example Product	4L Cask	2L Cask	Bottle <$7.99	Bottle $8-$11.99	Bottle $12-$15.99	Bottle $16-$24.99	Bottle >$25	Totals
STATUS QUO UNDER WET								
Approx Sales Volumes (ML)	70.47	30.20	75.19	61.66	44.67	25.17	7.24	
Alcohol / vol (%)	12.00%	13.00%	13.00%	14.00%	14.50%	14.50%	14.50%	
Approximate market share	22.40%	9.60%	23.90%	19.60%	14.20%	8.00%	2.30%	
Example RRP with WET	**$18.99**	**$14.99**	**$6**	**$9.99**	**$14**	**$19.99**	**$48.75**	
Total Tax	$4.48	$3.53	$1.42	$2.36	$3.30	$4.72	$23.36	
Tax /L	$1.12	$1.77	$1.89	$3.15	$4.40	$6.29	$31.15	
Total Tax in Category	**$78,928,604**	**$53,307,010**	**$142,361,765**	**$194,032,819**	**$196,566,454**	**$158,394,138**	**$225,376,065**	**$1,048,966,854**
Revenue - removal of bulk and unbranded rebate								**$1,116,966,854**
ANTICIPATED OUTCOME UNDER VOLUMETRIC TAX AT $15.50/LAL								
RRP @ $15.50/LAL	**$22.74**	**$15.55**	**$6.09**	**$8.97**	**$11.78**	**$15.84**	**$35.37**	
Total Tax	$8.80	$5.08	$1.93	$2.31	$2.62	$2.99	$4.77	
Tax /L	$2.20	$2.54	$2.57	$3.08	$3.49	$3.99	$6.36	
Total Tax in Category	**$155,038,330**	**$76,713,771**	**$193,491,695**	**$189,921,954**	**$156,061,851**	**$100,338,659**	**$46,020,712**	**$917,586,971**
Expected change in demand	-11.85%	-2.53%	-1.04%	7.83%	12.85%	17.69%	25.18%	
Estimated revenue	$136,663,718.61	$74,769,280.03	$191,485,590.51	$204,793,562.53	$176,110,266.96	$118,088,777.10	$57,609,091.35	**$959,520,287**
Revenue Difference from Staus Quo								**-$89,446,567**
Revenue Difference from WET less bulk rebate								**-$157,446,567**

Table 4: Anticipated outcomes from volumetric tax at $15.50/LAL

As can be seen from Table 4, the anticipated revenue that may be raised at $15.50/LAL is lower than that collected under the current WET. Similar problems with dislocation of production and processing would occur with the previous example of volumetric tax at $47.09/LAL, although at a less pronounced scale.

Tax as a catalyst for Industry Restructure?

Far from being a welcome change and a “spur” toward the downsizing that may help industry, such a change would be devastating. Any change to the current production base would be best handled by building an export program through improved marketing and increasing demand. Any change that would be inflicted by the influence of tax would be sudden, and misdirected. The change from a volumetric tax would, though its disproportionate focus on warm inland regions, further distort the already skewed production base of the Australian Wine industry.

Chart 4 (page 15) shows the distribution of wine in different value categories. Due to the low value, it is ideal that all of the category “D” and “E/F” should emanate from the Riverland and other warm inland regions. Due to the ability to effectively produce wine grapes of suitable quality at low cost, it is preferable that this category is supplied from warm inland rather than cool and temperate regions, where production cost is contained and flavor profile is suitable.

However, the amount of fruit that is currently supplying both export and domestic wine for these regions can be calculated as:

279ML + 238ML + 75ML + 378ML = 970ML

assuming an extraction rate of 730L/T, = **1,328,800 T** of contributing fruit.

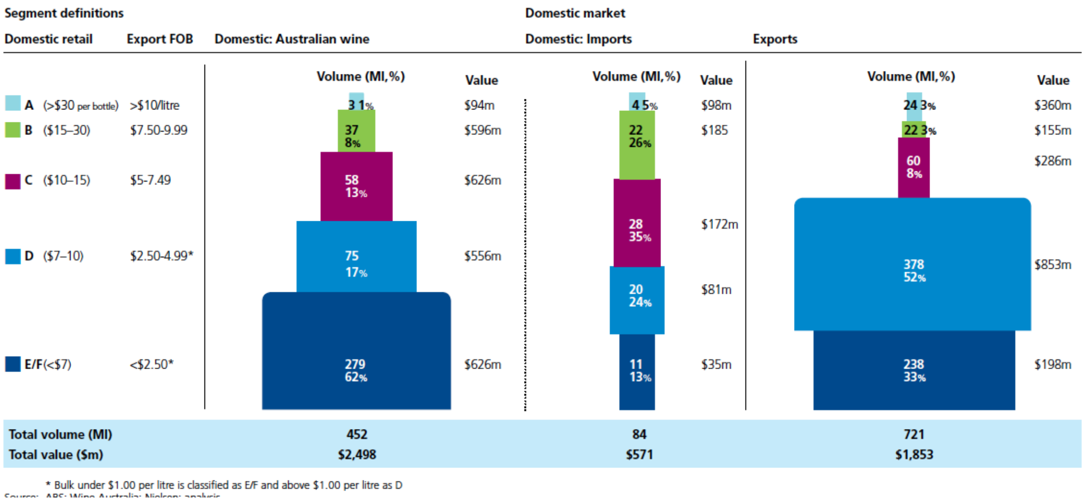

Chart 4: Wine Demand by Price & Quality Segment
Source: "Expert Report on the Profitability and Dynamics of the Australian Wine Industry", Centaurus Partners, 2013.

Current production in the warm inland regions is approximately ;

Riverland[10]:	450,000T
Murray Valley:	350,000T
Riverina	300,000T
Total	**1,100,000T**

Which means that on average there is effectively a difference of 229,000T of fruit emanating from cool and temperate regions that is supplying lower value wine product. It is unlikely that production of this fruit and the resulting wine would be sustainable. This disparity has been noted during Wine Australia presentations for years. A reduction in the sustainability of warm inland regions precipitated by tax policy would further exacerbate this imbalance.

WET Rebate

Some of the advocacy for a change to volumetric tax is based on dissatisfaction with the WET, with claims that it is too complex, that the rebate system is being abused, and arguments that volumetric tax would encourage an industry restructure. The current problems with WET and the rebate would be addressed if the federal government accepted the proposal from WFA and the many other industry representative bodies that offered support to the removal of rebate on bulk and unbranded wine, removed the advantage the New Zealand producers receive from claiming WET rebate, and use part of those savings to

[10] Average yields shown for the regions listed. There is some seasonal variation around these figures.

invest in a renewed marketing effort at this critical time to lift demand and stimulate industry recovery.

Riverland Wine supports the position offered by WGGA and WFA in the pre-budget submission process, that the WET rebate should be removed from bulk and unbranded product, and that part of those savings should be reinvested in marketing and raising export demand for Australian wine, in order to rebuild the industry.

WET is a progressive tax in that it apportions greater taxation burden on higher value products, or on those consumers more able to pay. Volumetric tax is regressive, in that lower value products disproportionately carry the burden of tax.

Volumetric taxes are traditionally used on beer and spirits products, as they are a manner of modifying consumptive behavior. Previous evidence shows that the case for modifying the consumptive patterns of wine is weak, and unlikely to be achieved through the ill-directed instrument of taxation.

SUMMARY

Much of the opposition to cask wine and targeting for tax increase is predicated on the false belief that because it is the cheapest product when measured by standard drink, it will only be consumed in excess and abused. In fact few consumers make the calculation about the cost per standard drink when buying an alcoholic beverage. This explains the finding that few young drinkers rate cask wine as a beverage of choice. Does anyone really think that a 20-year old male would walk into a nightclub, and say the following in a loud and steady voice in front of his friends?
“Bartender, pour me a glass of house red, for that is the cheapest product in terms of price per standard drink that you have”.

The flavor profile and type of beverage, aspirational qualities linked to the brand, and overall price of the package are strongest drivers in consumer choice.

Volumetric tax indiscriminately punishes all consumers, regardless of their consumptive habits. As moderate drinkers are more price sensitive, they will be responsive to price increases, whereas those who drink at problem levels will not. Evidence suggests that those who drink at excessive levels will still do so, but they will save money elsewhere. Tax is a poorly directed manner of trying to modify consumptive behavior, as can be seen by the binge drinking habits in other countries. In Italy and Spain, where alcohol prices are relatively low the incidence of binge drinking is lower than in Finland or Iceland where alcohol prices are high[11].

[11] Wine and Spirit Trade Association Response – *Finance Committee call for written evidence on the Alcohol (Scotland) (Minimum Pricing) Bill*

Moreover, just because a wine is low in price does not necessarily mean that it is "bad". Cask wine, while it has been decreasing as a proportion of total wine sales in recent years, is a legitimate product. In many cases consumers of lower priced wines can be more discriminating than those consuming premium wines, as they have higher expectations of consistency of the product. Much of the opposition to and negative commentary of lower priced wines appears to be thinly – veiled elitism. It should be recognized that the vast majority of global wines sales are lower – priced wine.

Riverland Wine opposes the imposition of a volumetric tax on the following grounds:

- The Australian wine industry currently pays its fair share of tax, which addresses the need for raising revenue and covering spillover costs attributable to misuse of wine.
- The Australian wine industry is relatively highly taxed in comparison with other wine exporting countries.
- Youth or binge drinkers do not predominantly consume cask wine, the product category most impacted by a potential change to a volumetric tax.
- There is no evidence that volumetric tax would result in favorable outcomes in regard to curbing youth and binge drinking – in fact, if spirit - based drinks were cheaper, it may well encourage undesirable consumption.
- Wine is a regionally – based product, with seasonal production cycles and high capital investment for the current returns. Imposition of a volumetric tax would further imperil struggling regions and allied industries within those regions.
- A volumetric tax would be disproportionately damaging to low-income consumers and warm inland producers and growers.
- Volumetric tax will not lead to a favorable restructure of the wine industry, but will exacerbate the mismatch that exists between fruit supply at sustainable production costs.
- Due to the anticipated scale of price changes it is likely that change to a flat rate of volumetric tax across all alcohol products will result in reduced revenue from the wine industry. There will be limited substitution for low value products due to these consumers being extremely price sensitive, so total government revenue is likely to be lower. In essence, there would be much pain for questionable gain.

Riverland Wine does not support any increase in the level of taxation of wine, and does not support the modification of wine consumption through the ill-directed instrument of taxation.

Riverland Wine strongly advocates that taxation policy should be evidence-based, and not based on emotive argument.

CONCLUSION

Riverland Wine is grateful for the opportunity to make a submission. We would be pleased to expand on any issues raised herein, and welcome the opportunity to discuss these matters further.

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