NATIONAL ALLIANCE FOR
ACTION ON ALCOHOL

NAAA Submission:

WINE EQUALISATION TAX REBATE DISCUSSION PAPER

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Introduction

The National Alliance for Action on Alcohol (NAAA) appreciates this opportunity to provide a submission to the *Wine Equalisation Tax Rebate Discussion Paper* (Discussion Paper).

The NAAA is a national coalition representing more than 75 organisations from across Australia that has formed with one common goal: strengthening policy to reduce alcohol-related harm. Our membership covers a diverse range of interests, including public health, law enforcement, local government, Indigenous health, child and adolescent health, and family and community services.

We welcome the current review of Australia's taxation system, and believe there is substantial scope to improve tax arrangements to better reflect and minimise the burden of illness, injury and social and economic harms caused by alcohol. However, we are concerned that the Discussion Paper on wine taxation ignores these fundamental considerations, and risks missing an important opportunity to develop a more efficient and effective alcohol taxation system.

Alcohol taxation in Australia is complex, incoherent and flawed from both a public health and economic perspective. As our joint submission to the Tax White Paper indicates (see attached), urgent tax reform is needed to reduce alcohol-related harms in Australia and to address the economic spillover costs that result from these harms.

Central to this reform is the replacement of the Wine Equalisation Tax (WET) with a volumetric tax. Under the WET, wine and other fruit-based alcohol products are taxed based on their wholesale price, rather than alcohol content. The cheaper the wine, the less it is taxed. The WET therefore encourages the production and consumption of cheap wines, contributes to the harmful consumption of alcohol, fails to reduce or recoup the substantial spillover costs from alcohol use, and impedes the necessary structural adjustment of parts of the wine industry.

This submission briefly outlines the case for replacing the WET with a volumetric tax, and reiterates the importance of reforming the WET and the WET rebate as part of a comprehensive and evidence-based reform of alcohol taxation in Australia. It echoes the case made by an extensive coalition of community organisations, expert researchers and economic analysts who have called for the removal of the WET and its associated rebate. It is also supported by ten separate government reviews that have recommended that the WET be replaced with a volumetric tax rate.

Despite the overwhelming case for reform, we are disappointed that the Discussion Paper limits the scope of potential reform to modifying or removing the WET rebate. Changes to the WET itself are not considered. However, it is imperative that the WET and the WET rebate are reformed as a matter of urgency, and that *both* parts of the system are reviewed together and within the context of the wider alcohol taxation system. A review of the WET rebate in isolation will only lead to a piecemeal approach to change and delay meaningful reform of the wine taxation system. It will neither resolve the problems facing the wine industry nor overcome the market distortions that foster the harmful consumption of alcohol.

Critically, the Discussion Paper makes no reference to the underlying public health and economic implications of the current wine taxation arrangements. Supporting the sustainability and efficiency of the wine industry appears to be the exclusive focus – consideration of the impacts on consumers, the broader community, and the wider set of services and systems that bear the burden of alcohol-related harms is entirely missing.

The current review of Australia's tax system provides an important opportunity to overcome the shortcomings of alcohol taxation in Australia, and we welcome the sustained focus on wine taxation. However, a comprehensive approach must be taken ensure Australia's alcohol tax system is better placed to prevent harm from alcohol, reduce expenditure on responding to alcohol-related harms and collect revenue to address spillover costs associated with alcohol consumption.

The case for reforming wine taxation

The costs of alcohol-related harms are substantial

Alcohol-related harms impose a substantial cost on individuals and communities and present a major challenge for all levels of government.[*]

Alcohol accounts for a significant proportion of the total burden of disease and injury. In 2010, there were 5,554 deaths and 157,132 hospitalisations attributable to alcohol, equivalent to 15 deaths and 430 hospitalisations each day.[1] Alcohol is casually linked to over 60 different medical conditions, including cancers, cardiovascular disease and gastrointestinal disease.[2] In addition to short- and long-term health impacts, alcohol is responsible for harms associated with road traffic accidents, suicide, injury and violence, and lost productivity and wages.

Alcohol also causes substantial harms to people other than the drinker. This includes violence on our streets and in our homes, vandalism, road traffic accidents, child maltreatment and neglect, lost productivity and costs to service systems including the criminal justice, welfare and health systems.[3] As a result of other people's drinking, there are more than 360 deaths, 14,000 hospitalisations and over 70,000 victims of alcohol-related assault each year.[3]

A number of studies have attempted to quantify the harms associated with alcohol consumption in Australia by estimating the total annual costs.[3,4,5,6] On public health grounds, the substantial health costs arising from alcohol provide legitimate grounds for intervention, irrespective of whether the resulting costs are fully borne by drinkers (i.e. private costs) or not. However, from a conventional economic perspective, the distinction between private costs and externalities is important, as it is the presence of significant externalities that provides a rationale for government intervention.[7]

Regardless of how the scope of costs is defined, the estimated total costs of alcohol significantly exceed the total alcohol tax revenue received by the Commonwealth Government. When the full range of private and social costs place are considered, the estimated annual cost of alcohol-related harms is $36 billion.[6] Conservative estimates that consider only the short term and direct external costs of alcohol suggest the total costs of alcohol harms in Australia are easily in excess of $15 billion per year. In 2013-14, the Government raised $5.1 billion in alcohol tax revenue, of which $826 million was derived from WET revenue. Thus, even the most conservative estimates suggest that the costs from alcohol are more than double the total annual alcohol tax revenue.[5]

Despite the range and magnitude of alcohol-related harms, NAAA is disappointed that the Discussion Paper makes no reference to the overall costs of such harms. Public policy requires, at a minimum, that for any change to be efficient the benefits to the community must exceed the costs.

[*] A more comprehensive listing of the harms associated with alcohol is provided in NAAA's joint submission to the Tax White Paper, which is appended to this submission.

Accordingly, it is imperative that overall benefits and costs of current wine taxation arrangements are systematically evaluated and factored into the current review.

In short, from both a public health and economic perspective, reducing the significant harms and costs of alcohol is a public policy priority that must be paramount in reviewing and reforming wine taxation.

Alcohol taxation is the most effective and cost-effective measure to reduce alcohol harms

There is overwhelming consensus among leading Australian and international health authorities that alcohol taxation, when used to increase the price of alcohol, is one of the most effective policy interventions to reduce the level of alcohol consumption and related problems.[8,9,10] The impact of alcohol pricing and taxation has been more extensively studied than any other potential alcohol policy measure. In a systematic review of 112 studies, Wagenaar and colleagues concluded that a "large literature establishes that beverage alcohol prices and taxes are related inversely to drinking", and that there is "no other preventive intervention to reduce drinking that has the numbers of studies and consistency of effects seen in the literature on alcohol taxes and prices".[11]

A key feature of alcohol taxation policy is its effectiveness in targeting heavy or problem drinkers and reducing related harms. This has been a consistent and robust finding across different countries, time periods, study designs and analytic approaches, and outcomes. Even small increases in the price of alcohol can have a significant impact on consumption and harm.[2] In the context of drinking patterns associated with wine, Australian evidence shows that, compared to premium wines, cheap cask wines are responsible for more alcohol-related harms and are also more responsive to changes in price.[12,13,14,15,16] The evidence base also suggests that the effects of pricing are pronounced among young people, who are often the focus of government attention.[17] As the World Health Organisation concluded, increasing the price of alcohol is effective in reducing the proportion of people who are young drinkers, reducing underage drinking, and reducing per occasion binge drinking.[18]

Although tax has been under-utilised as a means of recouping and reducing the social costs of alcohol in Australia, there are examples that illustrate its potential to reduce harmful consumption. The Northern Territory's 'Living With Alcohol' (LWA) program, which ran from 1991 to 2000, was a comprehensive, whole-of-government program that included levies on alcoholic beverages. The levy was set at 5 cents per standard drink for products containing more than 3 percent alcohol, and a 35 cent per litre levy on cask wines. Prior to the program, cheap cask wine was, along with beer, the drink of choice in most Northern Territory Aboriginal communities.

The implementation of the program resulted in substantial reductions in alcohol consumption and related harms, including fewer alcohol-related road crash deaths and hospitalisations, declines in acute and chronic alcohol-attributable deaths, fewer alcohol-related assaults, and reductions in alcohol-related prison receptions.[19,20,21,22] In particular, there was a reduction in quarterly consumption of cask wines, from 0.73 litres of pure alcohol per person to 0.49 litres. There was no accompanying increase in the consumption of other alcohol products, such as full-strength beer. In the period immediately after removal of the levy, per capita consumption of cask wine increased to 0.58 litres of pure alcohol per quarter.[23] As a study of the LWA concluded:

> The imposition of additional alcohol control measures has made a significant contribution to the reduction of estimated per capita consumption in Central Australia. The evidence demonstrates that the most effective of these measures have been those which indirectly increased the average price per litre of alcoholic beverages (i.e. the removal of lower priced cask table and fortified wines from the market) and which directly increased the average price (i.e. the so-called 'alcopops tax').

> This finding with regard to the impact of price is consistent with the international evidence, and with evidence from the Greater Darwin region over the same time period.[22]

Beyond being effective in reducing alcohol consumption and related harms, controlling price through taxation measures is also highly cost-beneficial. The ACE Prevention Report, which undertook a comprehensive assessment of the comparative cost-effectiveness of policy interventions to prevent non-communicable disease in Australia, found that there was a robust evidence base supporting a tax increase on alcohol.[24] This report found that volumetric taxation would provide a significant improvement in health outcomes and would result in direct economic returns to government. The conclusions of the ACE Prevention Report are echoed by other Australian research. For example, one study found that appropriate alcohol taxation measures could reduce the social costs of alcohol by up to 39 percent[4]; whereas another study found that a volumetric tax based on alcohol content had the lowest intervention costs and provided the greatest reduction in harm measured in disability-adjusted life years.[25]

Current taxation arrangements distort production and consumption and are not effective in recouping and reducing alcohol-related harms

Australia's alcohol taxation system is complex, incoherent and does not reflect the extent of harms that result from alcohol consumption. As the Henry Tax Review concluded, "current alcohol taxes reflect contradictory policies", are "complex, and distort production and consumption decisions with no coherent policy justification", "do not reflect the risks of consuming different products", and do not target the spillover costs of consuming alcohol.[26]

From both a public health and economic perspective, reducing the significant harms and costs of alcohol should be a key objective of alcohol taxation arrangements. The current system for taxing alcohol, however, does not fulfil this objective. Instead, existing tax arrangements encourage consumers and producers to consume and produce alcohol on the basis of volume rather than value, driving more consumption and production of alcohol than is safe or desirable. As the Allen Consulting Group suggest in their report on alcohol taxation reform:

> The case for reform is not based merely on the observation that current alcohol taxation arrangements are unprincipled, disorderly and expensive. The key point is that rather than actually help in mitigating economic, health and social harms associated with alcohol use and misuse the current arrangements may enlarge these harms. [27]

The Wine Equalisation Tax (WET) and its associated rebate represent the most problematic and anomalous aspects of the alcohol taxation system. The WET is a value-based tax that is set at 29 percent of the wholesale price of wine and other fruit-based alcohol products. Unlike the excise tax that applies to beer or spirits, the WET bears no relation to the alcohol content. As a result, the WET favours the production of cheap, high alcohol-content and mass-produced wine. That is, it creates a price incentive for people to buy, and a profit motive for industry to produce, low-cost wines.

The WET gives rise to significant discrepancies in the tax applied to different types of alcohol. This disparity is most evident in the price of cask wine compared to other products – the tax per standard drink of cask wine is a mere 5 cents, while $1 is paid per standard drink of spirits, and 45 cents for a standard drink of full strength packaged beer.[28] Since the WET came into effect, the price of wine has fallen dramatically relative to the consumer price index (CPI),[28] and alcohol is more affordable in Australia now than it has been in the past three decades. This affordability in turn contributes to the way that alcohol is consumed and the harms it causes.

In addition to encouraging the production of cheap mass-produced wines, the introduction of the WET has coincided with an increase of the alcohol content of wines. As the WET is based on value, not alcohol content, there is no incentive for wine producers to control the alcohol content, and over the past 20 years the alcohol content of Australian wine has gradually increased.[29]

A further consequence of the WET has been the proliferation of cheap wine-based products that imitate other alcoholic products such as spirits, but pay a much lower rate of tax.[33] Imitation spirits are usually presented on the spirit shelves of bottle shops, and packaged and marketed to imitate traditional spirits. Compared to spirits, however, wine-based imitation drinks attract a much lower rate of tax by exploiting the favourable tax treatment given to wine.[30] Accordingly, such products are much cheaper, with the price per standard drink between a quarter and half the price for spirits.

The loopholes in Australia's wine taxation system have also underpinned the expansion of Australia's cider industry. Traditional cider is subject to the WET, giving it a price advantage over beverages with similar alcohol content – an advantage that is accentuated by WET rebate entitlements. Over the past five years, per capita consumption of cider in Australia has increased by 144 percent, equating to an annual growth rate of nearly 30 percent.[31] This growth has been most pronounced among young people, and research indicates that regular cider drinkers are more likely to engage in harmful drinking than other drinkers.[32] The dramatic growth in cider consumption coincides with the introduction of the 'alcopops' tax, which was put in place to curb the rapid growth in ready-to-drink beverages (RTDs). A primary factor behind the increased RTD sales was a taxation loophole, whereby alcopops were taxed at a rate equivalent to full-strength beer. In 2008, the Australian Government closed this loophole, bringing alcopops taxation into line with full-strength spirits. However, as this loophole was closed, the subsequent growth in the consumption of alcoholic cider exposed another alcohol tax anomaly.

In sum, the WET favours certain products over others, creating price signals that drive consumers towards lower cost, higher alcohol content products. It is applied regardless of the amount of alcohol in the product or the harms associated with consumption. This creates a distortion that results in mass-produced cheap wine having favourable tax treatment over quality wines. It also results in favourable taxation treatment of wine, cider, and imitation spirits over other alcohol products. This approach does not meet the needs of the community in reducing harms, nor does it meet the needs of the wine industry by supporting smaller producers and local quality wines.

The WET rebate is not fulfilling its original policy objective

In addition to the favourable tax arrangements provided by the WET, a tax rebate was introduced in 2004 to allegedly support small rural and regional wineries in Australia. This scheme provides rebates of up to $500,000 to wine producers, and applies to all products subject to the WET.

The WET rebate accounts for a significant and growing amount of forgone annual revenue. In 2013-14, it is estimated to have cost taxpayers $333 million. In 2015-16, the Treasury estimates the rebate will cost $350 million.[33] The WET is also administratively cumbersome and complex.[34]

As the Discussion Paper indicates, it is clear that the WET rebate has been applied beyond its original intent and is impeding the value, positioning and profitability of the Australian wine sector. Although the ostensive aim of the rebate was to support smaller local wineries, the wine market continues to be dominated by large suppliers who account for the vast majority of Australia's wine production. Beneficiaries of the rebate include larger producers, producers of bulk and unbranded wines, and producers from New Zealand. Ongoing reports of 'rorting of the system' further undermine the intent of the rebate. In addition, by propping up elements of the wine industry that would otherwise be economically unviable, the rebate has directed skills and investment away from more productive activities, thereby undermining overall economic efficiency and productivity.

Ten government reviews have recommended reforming the WET

Ten separate governmental reviews[†] have recommended that the WET and the WET rebate be abolished and replaced with a volumetric tax rate. As the Australian National Preventive Health Agency (ANPHA) concluded, the WET fails to take account of public health considerations:

> The effective preferential treatment of wine under the WET results in price distortions in the alcohol market in particular in favour of cheap wine. Therefore, from a public health perspective, the current WET as an ad valorem tax does not target alcohol content effectively. Preferential treatment of wine, particularly at the lower value end, is likely to be contributing to social and health harms.[35]

This echoed the finding of the Henry Tax Review, which recommended long-term convergence towards a common rate of volumetric taxation on alcohol content but, significantly, said that immediate action should be taken on the WET.[36]

Proposals for improving Australia's wine taxation system

The need for comprehensive reform of alcohol taxation

Given the health, social and economic implications and the extent of government revenue at stake from the taxation of alcohol, it is imperative that any reform is approached in a coordinated and comprehensive way. Proposed reforms need to be evaluated in terms of their social, health and economic impacts. Further, tinkering with one component of the system, such as the WET rebate, will only lead to a piecemeal approach and delay meaningful reform of the alcohol taxation system. It will neither resolve the problems facing the wine industry, nor overcome the market distortions that foster the harmful consumption of alcohol.

Moreover, focusing on one aspect alone can obscure the unintended effects of a given measure. It is not enough to simply 'patch up' one narrow aspect of the alcohol tax system without fully considering the consequences for the system as whole. As the growth of wine-based imitation spirits illustrates, the alcohol industry are adept at subverting tax increases by identifying tax loopholes and creating 'similar' products that circumvent higher tax rates.

Despite the compelling need for comprehensive change, we are disappointed that the Discussion Paper fails to consider the broader economic, social and health impacts, and limits the scope of potential reform to modifying or removing the WET rebate. Changes to the WET itself are not considered. However, it is imperative that the WET and the WET rebate are reformed as a matter of urgency, and that *both* parts of the system are reviewed together and within the context of the wider alcohol taxation system.

Critically, the Discussion Paper makes no reference to the underlying public health and economic implications of the current wine taxation arrangements. Supporting the sustainability and efficiency

† Reviews that have recommended a volumetric tax be applied to wine include: the 1995 Committee of Inquiry into the Wine Grape and Wine Industry; 2003 House of Representatives Standing Committee on Family and Community Affairs Inquiry into Substance Abuse; the 2006 Victorian Inquiry Into Strategies to Reduce Harmful Alcohol Consumption; the 2009 Australia's future tax system (Henry Review); the 2009 National Preventative Health Taskforce report on Preventing Alcohol Related Harms; the 2010 Victorian Inquiry into Strategies to Reduce Assaults in Public Places; the 2011 WA Education and Health Standing Committee Inquiry Into Alcohol; the 2012 Australian National Preventive Health Agency Exploring the public interest case for a minimum (floor) price for alcohol, final report; and the 2015 House of Representatives Standing Committee on Indigenous Affairs Inquiry into the Harmful Use of Alcohol in Aboriginal and Torres Strait Islander Communities.

of the wine industry appears to be the exclusive focus – consideration of the impacts on consumers, the broader community, and the wider set of services and systems that bear the burden of alcohol-related harms is entirely missing.

Alcohol taxation reform must be based on clear policy objectives that acknowledge the harmful nature of alcohol and that aim to maximise benefits to the community. Revised tax arrangements for wine should be consistent with these objectives. The key principles that should underpin comprehensive alcohol reform are outlined in NAAA's joint submission to the Tax White Paper (see attached). Additional considerations specific to wine taxation are outlined below.

Replace the WET with a volumetric tax

NAAA urges the government to abolish the WET and replace it with a volumetric tax rate. As the foregoing discussion makes clear, the WET is the most problematic and incoherent part of the alcohol tax system and requires urgent reform.

A volumetric taxation regime encourages consumers to make more responsible consumption decisions. In contrast, the tax applied to wine bears no relation to the content of alcohol and the propensity of a product to cause social harm. Because the tax is applied based on the retail value, the WET encourages the production and consumption of cheap products, irrespective of alcohol content or quality.

A volumetric tax would relate the alcohol tax base more closely to social harm, with tax increasing for products with a higher volume of alcohol. It would remove the distortion in price signals currently faced by consumers, and provide more incentive for the production and consumption of lower strength alcohol products. The replacement of the WET with volumetric taxation would also some of the administrative complexities that bedevil the current alcohol taxation system. In addition, the introduction a volumetric tax would support the sustainability of the wine industry, incentivising the production of premium products, and overcoming some of the structural problems that are encouraging the production of low quality cheap wine and damaging the reputation of Australian wine in international markets.

Rather than introducing a flat rate across all product categories, NAAA supports a graduated or tiered approach to volumetric taxation, where alcohol products are taxed based on their alcohol content within their product categories. This approach recognises the potential to produce harms is greater for high alcohol content beverages, and it therefore offers the best prospect for reducing negative externalities. For example, a tiered approach would apply a higher rate to spirits, as they are cheaper to produce and have a greater potential to cause harms due to the 'speed to intoxication' ratio. Spirits are currently taxed at a higher rate, and the application of a uniform volumetric rate across all alcohol products would reduce their price and increase their consumption and associated harms. NAAA recommends that any reforms should not be designed to produce a decrease in the price of alcohol, other than for low-alcohol products.

Categorising beverages by alcohol content and not by type of beverage would have the advantage of dispensing with the multiple definitions of different types of beverage that now clutter the excise (and customs) tariff. In other words, it would no longer be necessary to define beer, cider, whisky and so on. Categorising beverages by alcohol content would also eliminate the incentive for producers to try to get around the current definitions.

A number of studies have demonstrated the economic, social and health benefits of replacing the WET with a volumetric tax. In one study undertaken by Doran and colleagues, economic and epidemiological modelling of four different tax scenarios revealed that replacing the WET with a volumetric tax on wine would increase taxation revenue by $1.3 billion per year, reduce alcohol consumption by 1.3 percent, save $820 million in healthcare costs, and avert 59,000 DALYs. This study found that a tiered volumetric approach would lead to even greater taxation revenue and higher falls in alcohol consumption and associated harms and costs. These findings are affirmed in modelling undertaken by Allen Consulting, which shows that replacing the WET with a volumetric tax will reduce the consumption of cask wine, and deliver overall monetary and health benefits.

In short, removing the WET and applying a volumetric tax will ensure alcohol is consistently taxed according to its alcohol content and propensity to cause harm. This will not only support a more efficient and sustainable wine industry, but will also reduce overall alcohol consumption, improve health, reduce social costs and externalities, and increase the amount of alcohol taxation revenue.

Abolish the WET Rebate

The WET rebate should be abolished immediately. It imposes a substantial impost on taxpayers and, together with the WET, is perpetuating the circumstances that are damaging the value, profitability and reputation of the wine industry and grape growers. It is contributing to the oversupply of wine and wine grapes, thereby supporting the availability of cheap wine. Abolishing the WET will result in significant savings to the taxpayer, prevent rorting, improve the efficiency and sustainability of the local wine industry, reduce administrative and compliance costs, and remove incentives that favour the oversupply of cheap, low-quality wine.

Transitional arrangements

While the removal of the WET and its associated rebate will help to secure a more sustainable and productive quality wine industry, it will impact on sections of the wine industry and on individual producers and growers. If the Australian government determines that transitional assistance is needed to support the industry through this change, the policy objectives underpinning a support package should be clearly articulated, based on clear policy principles, and based on an identified need.

Importantly, any transitional package should be developed independent of the alcohol taxation system and should not undermine policies to reduce alcohol harms. As the Henry Tax Review noted, tax concessions and rebates can undermine other policy priorities and tend to lack transparency, are poorly targeted, impose costs on the community, and reduce the efficiency of the taxation system:

> Policies that are unrelated to social harm, including industry assistance, regional development, and the promotion of small business, undermine the capacity of alcohol tax to target social harm, and should not be delivered through alcohol taxes. To the extent that these programs are desirable, direct government funding or concessions should be delivered in a manner unrelated to the method or quantity of production.[36]

The focus should be upon providing transitional assistance to enable the industry to adjust to new arrangements that encourage less production and consumption of harmful products.

The process for reviewing and reforming alcohol taxation in Australia

WET Rebate Consultative Group

Alcohol taxation policy has significant implications for the health of communities and the economy; it should not be determined by industry. We are concerned that the current review of wine taxation prioritises wine industry interests and neglects broader health, economic and public interest considerations. The failure to adopt a broader perspective is reflected in the membership of the consultative group. Aside from a representative from Treasury, the consultative group is comprised exclusively of representatives from the wine industry. NAAA does not believe this provides sufficient independence and the breadth of expertise needed to deliver effective, evidence-based reform.

Conclusion

Health, tax and economic experts all agree that Australia's current alcohol taxation is incoherent, and that reform is urgently needed. This review provides an ideal opportunity to deliver such reform. However, if a more efficient and effective alcohol tax system is to be achieved, it is imperative that the underlying public health and economic implications of the current alcohol taxation arrangements are considered. Removing the WET and the associated rebate are critical to ensuring Australia's alcohol tax system produces better social and economic outcomes and removes the complexity, anomalies and market distortions embedded in the current system.

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