Supporting Australian Wine

Submission to the Federal Government October 2011 Tax Forum

A response to recommendations of Australia's Future Tax System
– the Henry Tax Review.

September 2011

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EXECUTIVE SUMMARY

In responding to the Australia's Future Tax System - the Henry Tax Review, Supporting Australian Wine recommends the Government maintains its position in supporting the status quo on wine taxation.

Supporting Australian Wine is backed by three of Australia's largest wine producers, Accolade Wines, Australian Vintage Limited and Casella Wines Pty Limited, which together comprise nearly 40% of the national crush and represent long-established wine brands including Hardys, Houghton, McGuigan, Tempus Two, Miranda and Yellowtail wines.

This submission is also supported by the Winemakers' Federation of Australia's small and medium winemaker committees and Australia's largest wine grape grower organisations including the Murray Valley Winegrowers.

The Winemakers Federation of Australia's small and medium sized forums include such iconic family wine companies as McWilliam's Wines, Tyrrells Vineyards, Campbell's Wines, Angove's, Yalumba, Taylors Wines, Brown Brothers, De Bortoli Wines and Tahbilk Wines.

Together Supporting Australian Wines' supporters represent over 60% of the nation's annual crush.

Supporting Australian Wine promotes the broad industry view that any change to the current system of taxation of wine through the Wine Equalisation Tax has the potential to significantly damage Australia's wine industry and threaten the economic viability and social fabric of Australia's major wine regions.

Supporting Australian Wine represents the majority of wine producers and grapegrowers in calling for the status quo in alcohol taxation for the sake of jobs and for the sake of regional Australia:

- The wine industry directly contributes 60,000 Australian jobs across 64 wine producing regional communities – any change to the status quo in alcohol taxation threatens jobs and has the potential to devastate regional communities.
- Wine differs from other alcohol beverage producers due to its regional footprint; it is a regional based agricultural product, employing regional Australians, supporting primary industries, establishing tourism destinations and creating and maintaining indirect employment for regional and rural Australians. Wine is typically also consumed with food, unlike other alcoholic beverages.
- The wine industry continues to face significant challenges, including access to water, climate change, imported surplus wine and the unprecedented strength of the Australian dollar.
- Australia's wine industry is already one of the highest taxed in the wine-producing world.
- It is pensioners who responsibly enjoy an occasional glass of wine with an evening meal who would be hit hardest by the proposed volumetric tax.
- Policies focusing on cultural shift and consumer behaviour rather than taxation are more effective than taxation in addressing alcohol misuse in the community.
- A volumetric tax has the potential to devastate regional communities; with the wine sector injecting around $100 million into regional communities each year, being among

the largest employer and creating indirect employment though a variety of industries including tourism.

- In addition the decline in sales of mainstream wines will hamper the competitiveness of wine exporters as it will affect Australian wineries' economies of scale and diminish their ability to compete in significant export markets.

1. INTRODUCTION

Supporting Australian Wine welcomes the opportunity on behalf of its members and the broader wine industry to make a submission to the Federal Government's October 2011 Tax Forum in relation to Session 5 of the Tax Forum Discussion Paper: Environmental and Social Taxes.

Our submission calls for the maintenance of the status quo for alcohol taxation for the sake of jobs in the industry, for the sake of regional Australia and for the sake of Australian consumers, the majority of whom consume wine responsibly.

Supporting Australian Wine is backed by three of Australia's largest wine producers, Accolade Wines, Australian Vintage Limited and Casella Wines Pty Limited, which together comprise nearly 40% of the national crush and represent long-established wine brands including Hardys, Houghton, McGuigan, Tempus Two, Miranda and Yellowtail wines.

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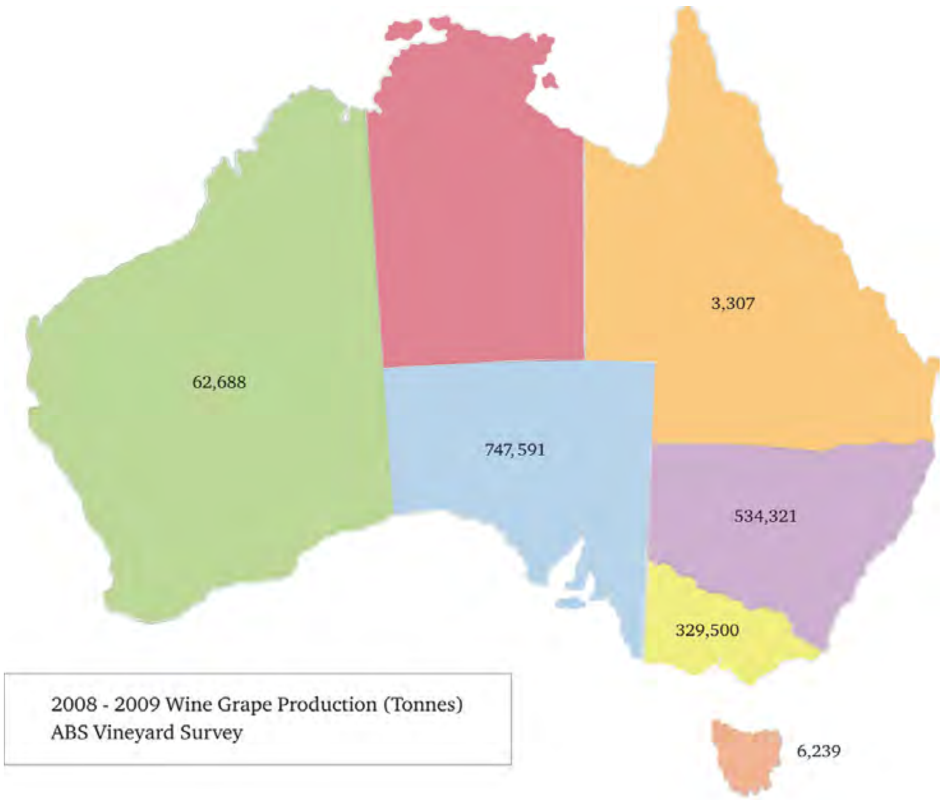
SAW promotes the broad industry view that any change to the current system of taxation of wine through the Wine Equalisation Tax has the potential to significantly damage Australia's wine industry and threaten the economic viability and social fabric of Australia's major wine regions.

2. THE WINE INDUSTRY IN AUSTRALIA

Regional Importance

Wine directly supports 60,000 Australian jobs across 64 wine producing regional communities.

Every State in Australia is home to grape producers, with South Australia the largest producer, New South Wales the second largest followed by Victoria and Western Australia. Tasmania and Queensland are smaller producers.



Regional and rural areas are the foundation of the wine industry in Australia. The Riverland (South Australia), Murray Valley (Vic/NSW) and Riverina (NSW) produce almost 65% of Australia's wine grape harvest (ABS 2010 Vineyard Survey).

Regional communities all over Australia have been involved in grape growing and wine winemaking for generations, grapes are grown and wine made in regional and rural areas by companies ranging from large corporations through to many smaller family-run businesses.

These communities rely on the wine sector directly as a major employer and purchaser of goods and services from local businesses which indirectly supports a large number of additional regional jobs.

Wine is different from other alcohol beverage production due to its regional footprint:

- It is a regional based agricultural product;
- It is a capital intensive industry with long lead times due to growth patterns of grapevines and the production process;
- Employing regional Australians;
- Supporting primary industries;
- A value add export;
- An industry the nation is proud of;
- Establishing and maintaining tourism destinations; and
- Creating and maintaining employment for regional and rural Australians.

As such, Supporting Australian Wine strongly believes that wine should be taxed differently to other forms of alcohol and the current Wine Equalisation Tax should be maintained. Taxing wine in any other way will negatively impact the wine industry with a particular impact on regional areas.

Current Challenges for the Wine Industry

It has been well publicised that the Australian wine industry is facing challenges and continues to endure its toughest period in two decades.

Growth in demand for Australian wine has slowed as competition in export markets has increased and the nation's competitive edge has been diminished by the unprecedented strength of the Australian dollar while supply has been slow to contract. These factors have placed downward pressure on wine and grape prices and forced many wine businesses to reduce export margins and become more dependent on domestic sales.

Wine companies have been reflecting their reduced margins in lower grape prices and recent assessments by State Government Departments of Primary Industry suggest that change is occurring.

Victorian Department of Primary Industry figures reported in The Weekly Times on September 7 showed that in the Murray Valley and Swan Hill region the grape crush was down 20% in 2011 compared to the previous season.

The South Australian Department of Primary of Industries reported a similar trend in the Riverland (Australia's largest grape growing area) noting a reduction by 4,306ha (17%) of irrigated grapevines between July 2007 and January 2011.

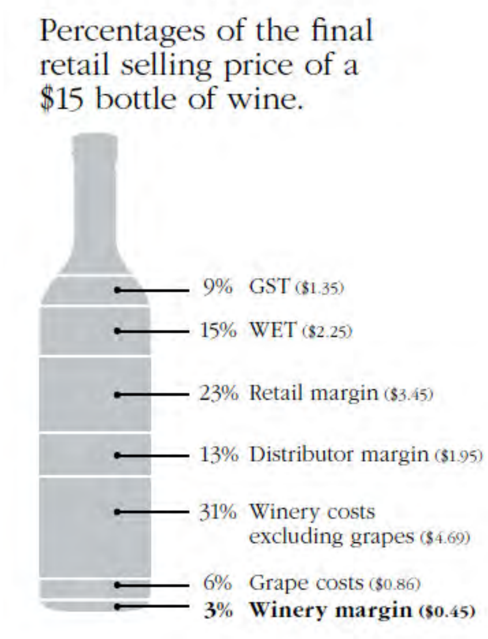
In addition to this, growers and wineries are adjusting to the realities of climate change and changes to access to water in warm grape growing regions.

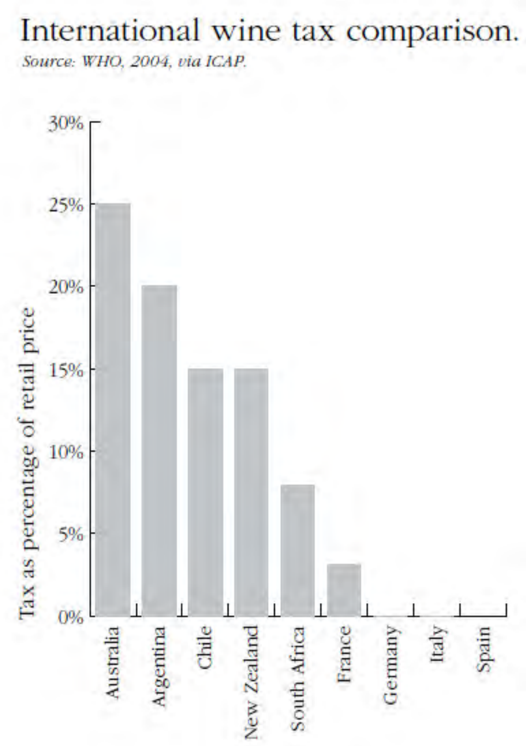
These issues are increasing the vulnerability of the wine industry at both the grower and the producer level. .

3. CURRENT TAXATION SYSTEM

Australia's wine industry is already subject to one of the highest tax regimes in the wine-producing world and a change to a volumetric tax will further increase the differential between Australian producers and our international competitors.

The Federal Government collected $707 million in alcohol specific tax from the wine sector under the current Wine Equalisation Tax (WET) in 2008/2009. The wine industry paid $280 million in GST payments in 2008/2009.





Source: Australian Wine: Regional, Sustainable, Essential
WFA

In addition, it should be noted that wine taxation in most other wine producing nations is lower than that on beer and spirits. This reflects in part the special place that the wine industry has in many traditional wine producing nations, especially in relation to its place at the heart of regional communities.

In basing the tax on the value of the wine the WET has the balance right; contributing significant revenue to the Federal Government whilst also recognising the wine industry as a unique industry which makes an important contribution to regional Australia providing a sustainable business environment and level playing field for small and large winemakers.

4. HENRY TAX REVIEW

The Henry Tax Review, released on May 2 2010, suggested a move to a volumetric tax system for all alcohol sold in Australia.

Recognising the challenges the wine sector is already facing the Federal Government has advised Supporting Australian Wine (Letter from Cabinet Secretary and Parliamentary Secretary for Energy Efficiency Hon Mark Dreyfus QC MP, 18 July 2011) and noted in the Tax Forum Discussion Paper released on 28 July 2011 that it will not support the introduction of a volumetric tax. Similar support for the retention of the status quo on the taxation of wine has been received from State Governments, regional parliamentarians and local councils.

Supporting Australian Wine recognises that there has been vocal pressure from the anti alcohol lobby and commercial competitors from other parts of the alcohol industry to change to volumetric taxation. Their intention is for taxation to be used to increase the price of wine - which clearly a volumetric tax would do.

Unfortunately there is no evidence an increase in the price of wine would deliver the social and health benefits desired. Evidence suggests problem drinkers will simply swap forms of alcohol, continuing to repeat the same behaviours.

Supporting Australian Wine supports the status quo in alcohol taxation any change to alcohol taxation or the implementation of a minimum floor price would lead to devastation of the Australian wine industry as highlighted above.

We note that the implementation of a minimum floor price is clearly before the Australian National Preventative Health Agency (and therefore will not be on the agenda at the October 2011 tax forum) however given the similarity between the two proposals and the devastating impact on the wine industry and regional Australia they would cause it would be remiss of Supporting Australian Wine not to mention it in this submission.

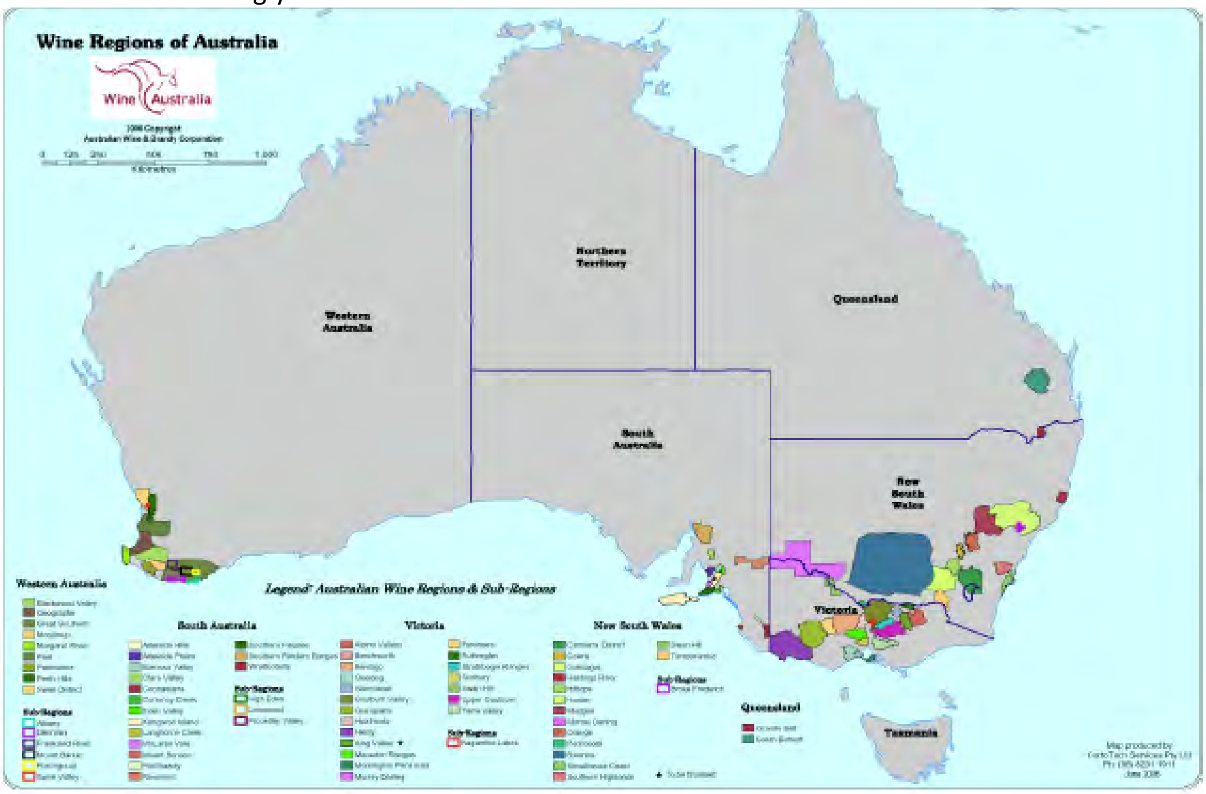
A proposed introduction of a minimum floor price is anti-competitive, it would unfairly targeting consumers of affordable wine which accounts for 95% of the Australian market threatening industry and jobs, and there is no evidence that minimum pricing achieves real social benefits.

Naturally, those competing against affordable wines, for market share, would celebrate the introduction of a volumetric tax which causes consumers to switch to brewed or distilled products. Unfortunately these industries cannot point to a deep involvement in regional Australia like the wine industry. For the anti alcohol lobby one must question the wisdom of an attack on wine to the benefit of other forms of alcohol. Wine is unique in that of all forms of alcohol it is most often consumed with food and consumed responsibly by the vast majority of Australians.

Reducing harm from alcohol must remain a priority for the community and alcohol industry but Supporting Australian Wine remains committed to achieving this through education to underpin required cultural change, rather than price intervention focused on only one part of the alcohol industry. We stress that any change to taxation of wine must take full account of the detrimental effect a price increase would have on the wine industry and Australia’s rural and regional communities and our competitiveness in international wine markets.

5. VOLUMETRIC TAX AND REGIONAL AUSTRALIA

As stated previously the wine industry directly contributes 60,000 jobs across 64 wine producing regional communities - any change in the status quo in alcohol taxation threatens jobs and has the potential to devastate regional communities, especially those in the inland irrigated regions which contribute most strongly to Australia's affordable wines.



Source: Australian Wine and Brandy Corporation

The Winemakers Federation of Australia stated in its submission to the Henry Tax Review that if wine was taxed at the same rate as beer:

- 95% of wine would rise in price;
- Sales would fall by 34%;
- There would be a reduction in valued vineyard area by 29,000 hectares;
- There would be 12,000 jobs lost including small producers forced out of business due to the loss of the WET rebate;
- Over 9000 jobs would be lost from the 64 regional communities; and
- An additional 3000 job losses would come from small wineries made unviable.

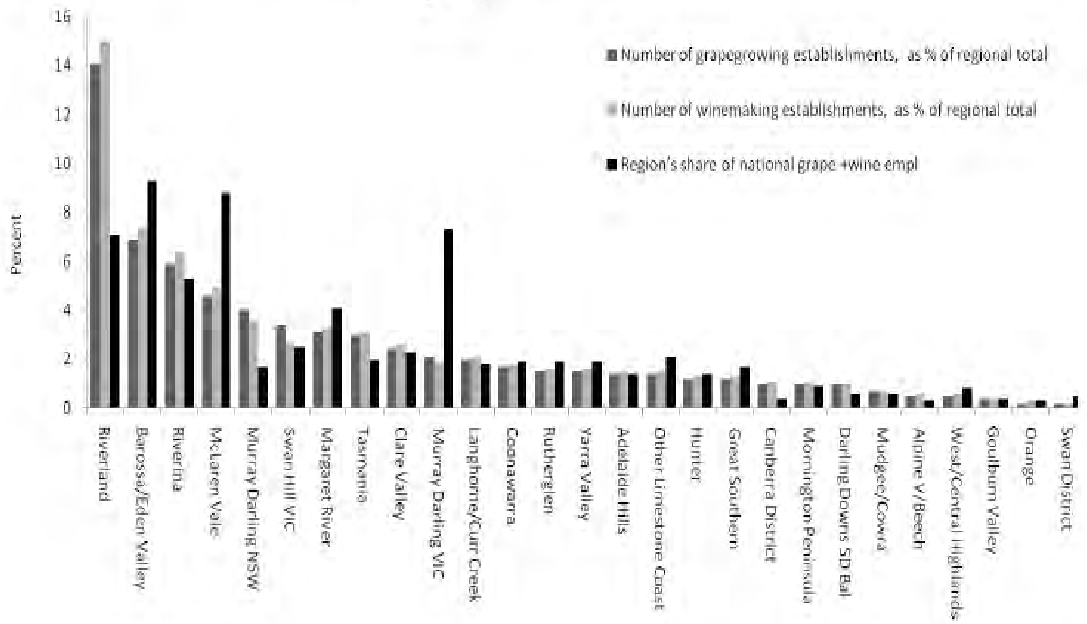
Proposals to introduce a volumetric tax at a lower rate such as $12.50 per litre of alcohol fail to point out that this will increase the price of over 51 per cent of wine currently sold in Australia. This would obviously have a severe impact on consumer choice.

Any change in the current tax treatment of wine will have a negative impact throughout the production chain from the grower to the producer level and all grape/wine associated industries who supply products and services to the sector.

The wine sector injects around $262.3 million to the Australian economy and around $100 million to Australia's regional communities each year (Anderson, Adelaide University 2030 Report); it is one of the largest employers in wine regions as well as creating indirect employment though a variety of industries including tourism.

Figure 6: Regional diversity in terms of shares of grapegrowing and winemaking establishments, 2008, and grape and wine employment nationally, 2006

(percent)



Source: Anderson, K, Nelgen, S, Valenzuela, E, & Wittwer, G 2009, Data underlying ABS Catalogue No. 1329.0, accessed from www.abs.gov.au, December 2008 and employment data in the TERM Model database, based on the 2006
ABS census data

Any change to the alcohol taxation system would therefore have a significant impact on regional employment, trade and tourism.

It would result in a critical drop in sales, rendering vineyards in areas already facing difficult times unviable; small, medium and large wineries would all be impacted.
Vineyard area would be rendered virtually worthless.

In addition the decline in sales of mainstream wines domestically will reduce throughput in major Australian wineries, hampering the competitiveness of wine exporters as it will affect the Australian wineries' economies of scale and diminish their ability to compete in significant export markets against other global producers.

6. WET REBATE

SAW considers that potential abuse of the WET rebate scheme could be addressed almost immediately through action by the Australian Tax Office without requiring significant restructuring of the scheme.

The WET rebate was introduced to help smaller and regional wineries and it has been successful in achieving that objective. The dismantling of the scheme would have a severe impact on the viability of smaller wineries, reducing the diversity of the Australian industry, the appeal to both local and overseas tourism and ultimately impacting regional employment.

7. CASK WINE IN AUSTRALIA

We would like to make some observations about cask products. In the rhetoric of the anti-alcohol lobby of late cask wine has been equated with cheap wine and one could be forgiven for believing it to be the cause of all alcohol related harm.

This demonisation is unfair to the growers of grapes used in these products, the producers and of course, the responsible consumers of wine packaged in cask formats.
Research shows that the typical cask wine consumer is aged over 55 and enjoys one or two glasses of wine in their home with an evening meal (Mueller & Umberger 2009). The average consumer of cask wine tends to be on a lower income (often because they are a pensioner) and one could expect that this consumer tends to drink a glass of water from the tap rather than the bottled mineral water oft quoted by the anti alcohol lobby.

One or 2 glasses a night is well within the recommended guidelines and is recommended to reduce the risk of cardiovascular disease (British Medical Journal), Prostate Cancer (International Journal of Cancer) and Alzheimer's disease (Wake Forest University).

The typical cask wine consumer favours this product because its packaging allows a glass or two to be consumed at a time and the remainder to be saved, without quality being impacted, for a number of weeks after opening.

Price is a factor with this consumer, on average, earning less than $50,000 a year (Mueller & Umberger, 2009).

Cask drinkers are continually and incorrectly depicted as alcohol miss users and irresponsible drinkers looking for the cheapest form of alcohol, however data illustrates that cask wine sales continue to be long-term decline while reportedly the growth in problem drinking is increasing.

"Despite cask wine being one of the cheapest forms of alcohol per standard drink, sales have continued to decline for the past seven years and over every quarter following the rise in 'alcopops' taxes." (See graph below, Nielson Sales data).

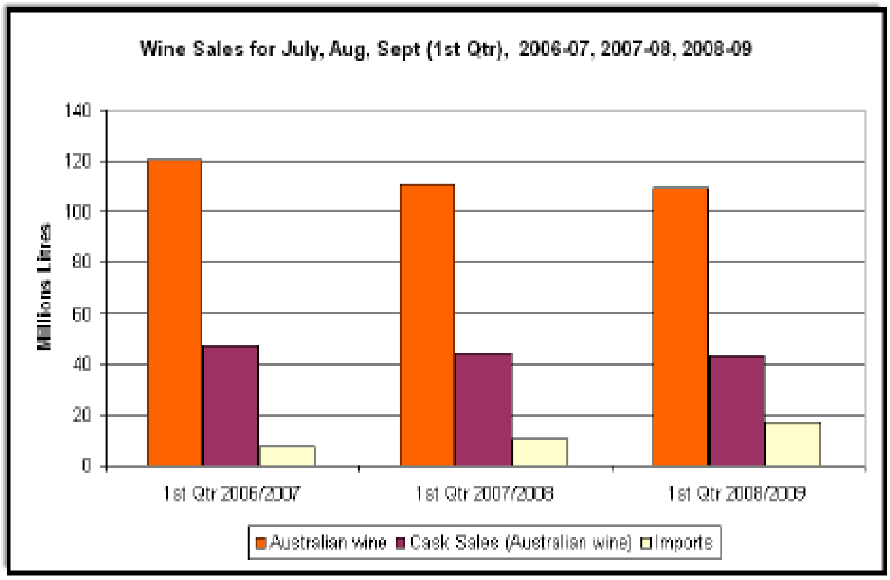


Table 4.3: Drink types most commonly consumed by those who drank alcohol in the past week,*†# Australia, 2008

	Age								
	12–15 year olds			16–17 year olds			Total		
Beverage type	Male (%)	Female (%)	Total (%)	Male (%)	Female (%)	Total (%)	Male (%)	Female (%)	Total (%)
Beer (ordinary)	29.2	6.5	18.5	40.6	3.7	23.2	34.7	5.1	20.8
Wine	7.0	7.0	7.0	3.4	5.4	4.3	5.3	6.2	5.7
Premixed spirits	16.0	46.9	30.6	15.6	53.8	33.6	15.8	50.3	32.1
Spirits	35.6	25.7	30.9	35.1	26.7	31.1	35.3	26.1	31.0

* Percentages of total in each age and gender category.

† Percentages exclude responses from students who gave more than one type of drink.

\# Percentages do not add to 100 as only the most frequent responses are listed.

8. PRICE AND CONSUMPTION

> "The excise taxation of alcohol is a fairly blunt instrument, causing welfare losses to non-harmful users while at the same time not adequately controlling the drinking of harmful users,'' *(Source: S Cnossen, (2006) ''Alcohol Taxation and Regulation in the European Union'').*

Supporting Australian Wine recognises that alcohol abuse is an issue in some sectors of the community and strongly supports the responsible consumption of alcohol. We are concerned however that any proposals to impose a volumetric tax on wine, or a minimum price based on standard drinks would do little to address real social issues while significantly increasing costs for many consumers who simply enjoy wine in moderation.

It is inequitable to impose a tax on the whole population especially on those of modest means, making all pay for the harm caused by a minority of consumers.

Research shows that heavy drinkers have an inelastic demand for alcohol and are not price sensitive, where as moderate and low risk drinkers who consume alcohol responsibly are the most price sensitive and may have an externality close to zero (Ayyagari P et al, 2006).

Simone Mueller (University of SA Ehrenberg Bass Institute for Marketing Science) and Wendy Umberger (Adelaide University Department of Agriculture, Food & Wine) in their 2009 study of cask wine consumers found that "policies attempting to curb binge drinking by reducing the sale of higher alcohol beverages would seem to make more sense than limiting sales of higher volume cask wine products (e.g taxes on higher alcohol versus volumetric tax)."

There are more effective policies that focus on consumer behaviours and cultural influences rather than implementing taxation measures to address alcohol abuse.

Governments across Australia have recognised the benefits to a proactive approach to managing alcohol abuse including:

- Increased support in mainstream health services including GPs, emergency rooms and other health care professionals;
- Improved access to support services;
- Community education programs;
- Targeted programs for at risk groups including teenagers, pregnant women, sporting clubs and Aboriginal Australians (Victorian Alcohol Action Plan 2008-2013); and

- Improved education and research into better understanding the drivers of binge drinking behaviours in order to effect required cultural change.

9. SUMMARY

In responding to the Australia's Future Tax System - the Henry Tax Review, Supporting Australian Wine recommends the Government maintains its position in supporting the status quo on wine taxation.

Supporting Australian Wine represents the majority of wine producers and grapegrowers in calling for the status quo in alcohol taxation for the sake of jobs and for the sake of regional Australia:

- The wine industry directly contributes 60,000 Australian jobs across 64 wine producing regional communities – any change to the status quo in alcohol taxation threatens jobs and has the potential to devastate regional communities.
- Wine differs from other alcohol beverage producers due to its regional footprint; it is a regional based agricultural product, employing regional Australians, supporting primary industries, establishing tourism destinations and creating and maintaining indirect employment for regional and rural Australians. Wine is typically also consumed with food, unlike other alcoholic beverages.
- The wine industry continues to face significant challenges, including access to water, climate change, imported surplus wine and the unprecedented strength of the Australian dollar.
- Australia's wine industry is already one of the highest taxed in the wine-producing world.
- It is pensioners who enjoy an occasional glass of wine with an evening meal who would be hit hardest by the proposed volumetric tax if it was to be implemented, those already feeling the impact of increasing costs of living.
- Policies focusing on cultural shift and consumer behaviour rather than taxation are more effective than taxation in addressing alcohol misuse in the community.
- A volumetric tax has the potential to devastate regional communities; with the wine sector injecting around $100 million into regional communities each year, being among the largest employer and creating indirect employment though a variety of industries including tourism.
- In addition the decline in sales of mainstream wines will hamper the competitiveness of wine exporters as it will affect the Australian wineries' economies of scale and diminish their ability to compete in significant export markets.

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