Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

4 – 6 June 2013

Question: BET 93

Topic: Alcohol Taxation

Hansard Page: Written

Senator CROSSIN asked:

Background to question

Australia's current alcohol taxation system creates gross inequalities which results in significant forgone revenue to the Commonwealth Government through low tax rates and rebates to the wine industry. There are significant opportunities for savings by addressing these inequalities. With the Commonwealth Budget under critical stress it is opportune to address these issues, which would also result in reductions in alcohol-related harms across the country.[1] Both results would be a positive step for the country.

The most inequitable part of the alcohol taxation system is the Wine Equalisation Tax (WET) and WET rebate. In Australia wine is taxed on its wholesale price rather than its volume of alcohol. All other products are taxed, at different rates, based upon their alcohol content, albeit at different rates. Nine separate government reviews have now concluded that the alcohol taxation system and in particular that the WET needs to be overhauled.[2]

A benefit cost analysis in 2012 found that alcohol taxation reform is cost beneficial and that 85 per cent of Australians would be financially better off by reforming the WET.[3]

In addition to the WET, Australia also pays money to wine producers through the WET rebate. In 2010-11 the Commonwealth Government paid $200million to the wine industry with $30million going to New Zealand wine producers. [4] The current situation, as the Government reviews have concluded illogical and the case for reforming the WET in Australia has never been stronger.

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1 Australian National Preventive Health Agency [ANPHA] (2012). Draft Report *Exploring the public interest case for a minimum price*

2 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 Federal 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; and the 2012 Australian National Preventive Health Agency Exploring the public interest case for a minimum (floor) price for alcohol, draft report.

3 Marsden Jacob Associates (2012) Bingeing, collateral damage and the benefits and costs of taxing alcohol rationally, report to the Foundation for Alcohol Research and Education, October.

4 Premium Wine Brands Pernod Ricard (2011). Premium Wine Brands Calls for Tax Reform to Address Oversupply of Australian Wine, media release. http://www.premium-wine-brands.com/company/media-centre/documents/200911-PWBcallsforTaxReform_FINAL_.pdf

Reforming the WET makes good economic sense and good sense for the health of the nation. Changing the WET would result in a net benefit of $230 million to the Australian community[3] and abolishing the WET rebate would results in projected savings of over $200 million over one year.

The WET must be reformed as a matter of urgency for the following reasons:

1. the current alcohol taxation system is incoherent and at the centre of this is the WET
2. nine separate government reviews have concluded that the WET needs to be reformed
3. the wine glut has ended and can no longer be used as a reason to delay reforming the WET
4. reforming the WET is cost beneficial
5. the majority of the alcohol industry supports reforming the WET, and
6. claims about the catastrophic impacts of changes to the WET on the wine industry have been discredited.[5]

Lastly the WET also encourages the production of cheaper wine which results in significant costs to the community through alcohol-related harms. Evidence clearly shows that low alcohol prices result in higher consumption, and lower prices result in lower consumption.[6]

Clear cost savings can be made by replacing the WET with a volumetric tax rate, through increased revenue to Government and in the longer term through reduced costs of alcohol-related harms. The WET and WET rebate should be abolished immediately for economic and health reasons.

Questions

1. Given the budget deficits why does the Commonwealth Government continue to hand considerable sums of tax payer money (around $200million) to wine producers through the Wine Equalisation Tax (WET) rebate? And why does the Commonwealth Government give at least $30 million to New Zealand wine producers through this rebate?

2. Why is the Commonwealth Government putting the <u>wants</u> of wine producers, head of the <u>needs</u> of the health of our population?

3. When will the Commonwealth Government abolish the WET rebate, called illogical by its own reports, generating around $200 million per year in savings?

4. Why, despite nine separate Government reviews finding that the current alcohol taxation system is illogical and incoherent has the Government not sought to change the alcohol taxation system?

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5 Foundation for Alcohol Research and Education (2012). 2013-2014 Pre-Budget submission Submission to Treasury and the Department of Health and Ageing.

6 WHO (2012) Addressing the harmful use of alcohol : a guide to developing effective alcohol legislation, Geneva

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5. Why does the Commonwealth Government continue to maintain the Wine Equalisation Tax in the face of opposition that it is creating cheap wine and related harms in our community and that its reform would result in a net benefit of $230 million to the Australian community?

Answer:

93. Questions 1-5 go to matters of policy and consequently are matters for the Government.