



Distilled Spirits Industry Council of Australia
Inc.

20 May 2004

Mr Brenton Holmes
Committee Secretary
Senate Select Committee on the Free Trade Agreement between Australia and the United States of
America
Suite S1.30.1
Parliament House
CANBERRA ACT 2600

Dear Mr Holmes

**Submission to the Senate Select Committee on the Free Trade Agreement between
Australia and the United States of America**

Thank for your letter of 14 April 2004 inviting the Distilled Spirits Industry Council of Australia Inc
(DSICA) to make a submission to the Senate Select Committee Inquiry on the Free Trade
Agreement between Australia and the United States of America (the Committee).

On behalf of DSICA, I am pleased to provide the following submission for the consideration of the
Committee.

DSICA is the peak body representing the interests of distilled spirit manufacturers and importers in
Australia. DSICA was formed in 1982 and currently represents more than 80% of the importing,
distilling and local manufacturing sector of the spirits industry.

DSICA would like to take this opportunity to express its support for the Australia – United States
Free Trade Agreement (FTA) in general, and particularly, in respect to the changes it proposes for
imported spirits.

Immediate removal of Australia's 5% ad valorem customs tariff

The most significant change the FTA proposes in relation to the spirits industry is the immediate
removal of the 5% ad valorem customs tariff currently imposed by Australia on spirits (bulk and
packaged) and ready-to-drink alcohol products (RTDs) imported from the US. RTDs are generally
below 10% alcohol by volume (abv) and often comprise a spirit base with a flavoured mixer.

DSICA has repeatedly called for the removal of this protective tariff as a measure which is harmful
not only to the spirits industry, but also to Australian consumers.

"Free The Spirit"

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DSICA's reasons for seeking the removal of the protective tariff include:

- there is no longer any sector of the domestic spirits industry in Australia which needs protection from imported spirits and imported RTDs;
- collection of the 5% ad valorem tariff imposes a significant administrative burden on the industry; and
- the tariff has no effect other than causing Australian consumers to pay higher prices for imported spirits and RTDs than they otherwise should.

Each of these issues is discussed further below.

(a) The protective nature of the tariff

The 5% ad valorem tariff on imported spirits and RTDs was originally instituted as a measure to protect the Australian spirits industry. DSICA submits that, with very few exceptions, there is no longer any sector of the domestic spirits industry which Australia needs to protect from competition with imported spirits and RTDs. The ad valorem component of customs duty, therefore, no longer has any rational justification beyond pure revenue-raising and has become, in effect, a nuisance tariff.

Since there is no longer any defensible policy rationale behind the 5% "protective" tariff, DSICA supports its removal as proposed in the Australia-US FTA.

(b) Administrative costs to the industry

Paying the 5% ad valorem tariff places significant administrative burdens and costs on the Australian spirits industry, especially in the case of imported spirits to be used in the manufacture of RTDs in Australia (bulk RTD spirit). Government administrative procedures applying from 1 February 2002, require the payment of the 5% ad valorem component on bulk RTD spirit to be made to the Australian Customs Service (Customs) followed by a subsequent payment of the volumetric component as excise duty to the Australian Taxation Office (ATO). A number of DSICA members have had to change their administrative and operating procedures to accommodate these new arrangements, entailing both a considerable one-off cost and increased ongoing administrative costs generally.

The abolition of the 5% ad valorem tariff will significantly simplify the administrative burdens placed on the spirits industry by vastly reducing the number of occasions the industry is required to deal with two government departments to pay what is, in effect, the same type of duty.

(c) Current effects of the tariff

DSICA believes that there is no longer any substantive policy justification for a tariff which acts as a burden on the industry, and which forces Australian consumers to pay higher prices for imported spirits and RTD's than they otherwise should.

18 year phased tariff removal on Australian spirits exported to the United States

DSICA recognises that the value of Australian spirits exports to the US is low compared to imports from the US. DSICA would nonetheless like to express its disappointment with the lack of reciprocal tariff removals on some Australian spirits exports to the US. The proposed FTA includes an 18 year phase-out period for US tariffs on bulk neutral spirit of 80% alcohol by volume or higher (HTSUS 22071030), bottled rum valued US\$3 or less per proof litre (HTSUS 22084020) and bulk rum valued US\$0.69 or less per proof litre (HTSUS 22084060).

Rum is one of the few spirits Australia produces in exportable quantities and thus represents a product for which immediate and complete removal of US tariffs would have been highly desirable. The US is currently a difficult market for Australian rum exporters to penetrate and the Australia-US FTA does not provide those exporters with reciprocal benefits equivalent to those given to US exporters.

Despite this concern, DSICA believes the proposed Australia-US FTA to be overwhelmingly positive in its effects on the Australian spirits industry and Australian consumers. DSICA strongly recommends the Committee support the proposed removal of the 5% ad valorem tariff as outlined in the draft Australia – United States Free Trade Agreement.

Support for complete removal of the 5% tariff on all imported spirits

DSICA recommends the Committee take the opportunity provided by its inquiry into the Australia-US FTA to support DSICA's call for the complete removal of the 5% protective tariff from all imported spirits and RTDs.

Although DSICA recognises removal of the tariff from US imports is an important step in the right direction, only a complete removal of the 5% tariff on all imported spirits and RTDs will alleviate the undesirable effects the tariff currently causes, as outlined above. In particular, removal of the tariff only in respect to spirits imported from the US will require the industry to maintain its current administrative systems for spirits and RTDs imported from other countries. The overall administrative costs to the industry and price costs to consumers will continue to remain unnecessarily burdensome. It is conceivable that having separate tariff regimes for US and non-US spirits (and RTDs) imports may actually have the effect of exacerbating the administrative burden on some importers caused by the 5% ad valorem tariff. For this reason, DSICA's objective is that the 5% ad valorem tariff be removed from all imported spirits and RTDs as soon as practicable.

DSICA does not accept the argument that the Australian Government wishes to retain the tariff (in the case of other countries) to use as leverage in the current Doha round of world trade negotiations.

DSICA recommends that the Committee support DSICA's call for the complete removal of the 5% protective tariff from all imported spirits and RTDs.

Please do not hesitate to contact me directly if you wish to discuss this submission further.

Yours sincerely



Gordon Broderick
Executive Director