



Winemakers' Federation of Australia

For the Industry by the Industry

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2 March 2009

Mr Elton Humphery
Committee Secretary
Senate Community Affairs Committee
Parliament House
CANBERRA ACT 2600

Sent by email: community.affairs.sen@aph.gov.au

Dear Mr Humphery

**Senate Community Affairs Inquiry into
Excise Tariff Amendment (2009 Measures No. 1) Bill 2009 and
Customs Tariff Amendment (2009 Measures No. 1) Bill 2009**

The Winemakers' Federation of Australia would like to make the following comments in relation to the Senate Community Affairs Inquiry into the above Bills. The following submission does not address each of the terms of reference of the inquiry, rather it comments on matters that relate directly to wine and the Australian wine sector and where we believe we have a contribution to make to the debate.

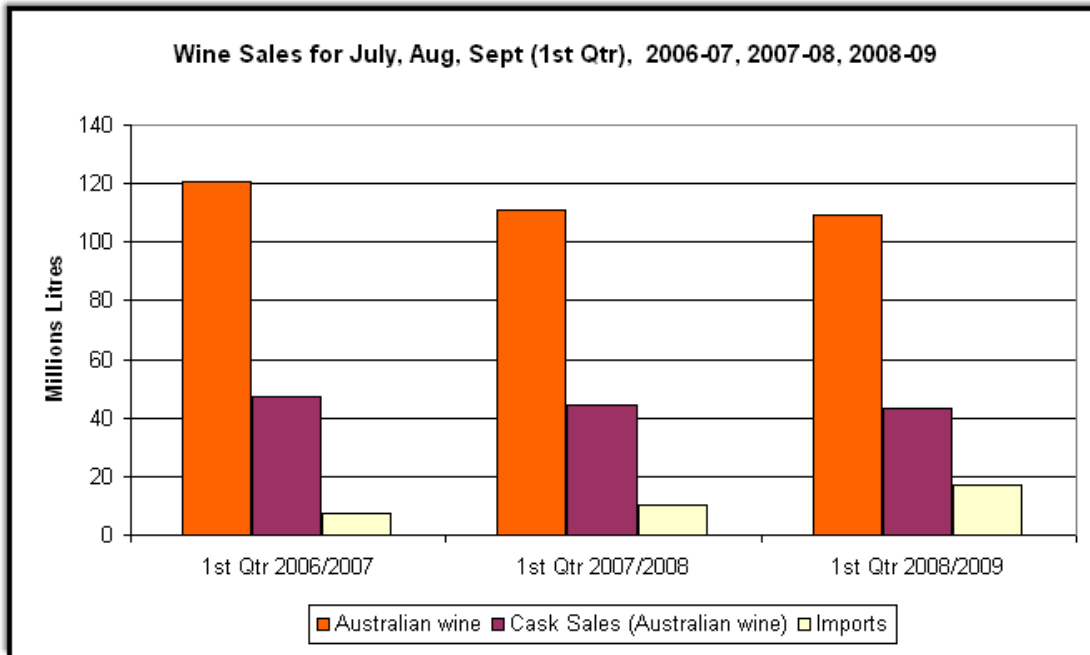
The Winemakers' Federation of Australia (WFA), established in 1990, is the national peak body for the wine industry, representing Australia's wineries on all national and international issues.

Term of Reference (b): Substitution effects flowing from the alcopops tax measure

Term of Reference (d): Changes in consumption patterns of all alcoholic beverages by sex and age group following the introduction of the alcopops tax.

The WFA has analysed publicly available data on wine sales following the tax increase on RTDs to evaluate the extent of any substitution effect from RTDs in favour of wine. Please note that wine consumption data by sex, age and alcohol beverage for the period after the introduction of the increased RTD excise in April 2008 is not currently available. However, data is available on winery depletions (sales) which is a useful proxy for consumption.

Chart 1



Source: ABS Catalogue No. 85.04. Sales of Australian wine & Brandy by Winemakers

It can be observed from the above chart that for the first quarter of 2008-09 (July, August, September 2008) after the introduction of the increased RTD excise;

- sales of Australian produced wine decreased,
- sales of cask wine also decreased, and
- sales of imported wine increased marginally, due to the increased popularity of NZ Sauvignon Blanc.

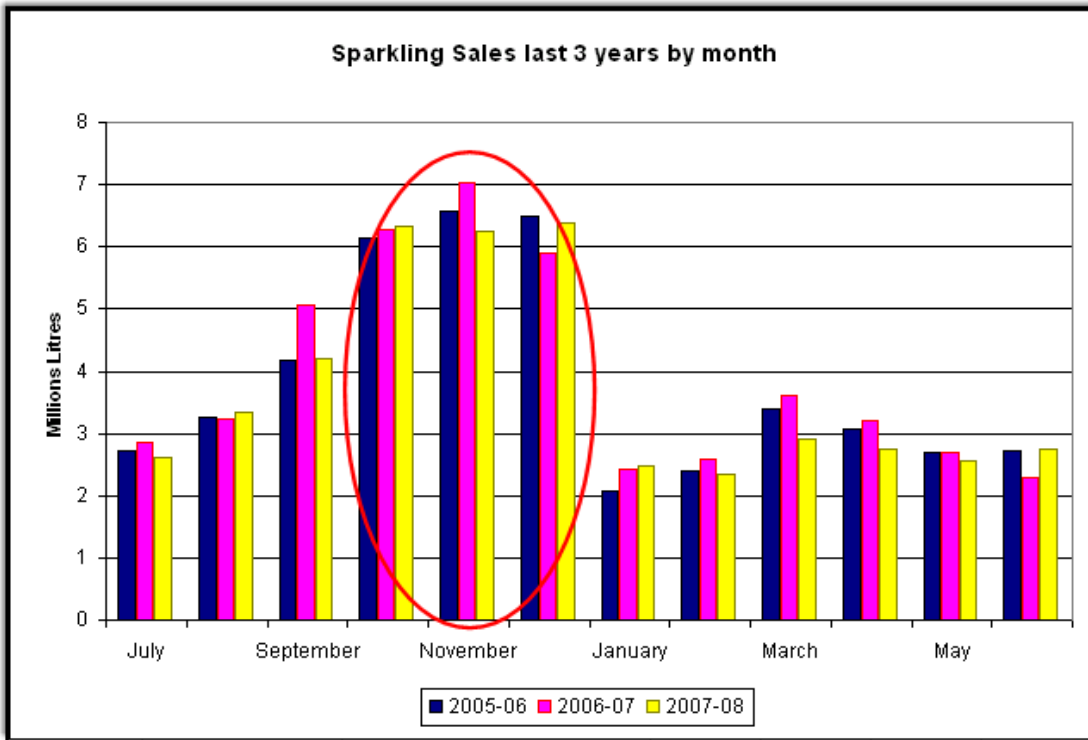
Table 1

	Compound Growth Rate	
	<i>Annual growth rate, Last 10 years</i>	<i>Monthly growth rate - Since RTD excise increase (May - Dec 2008)</i>
Total Wine	2.81%	2.95%
Bottled table wine	5.97%	4.09%
Cask table wine	-0.05%	-0.77%
Sparkling	1.65%	10.20%

Source: ABS Catalogue No. 85.04. Sales of Australian wine & Brandy by Winemakers. Data includes Australian and imported wine.

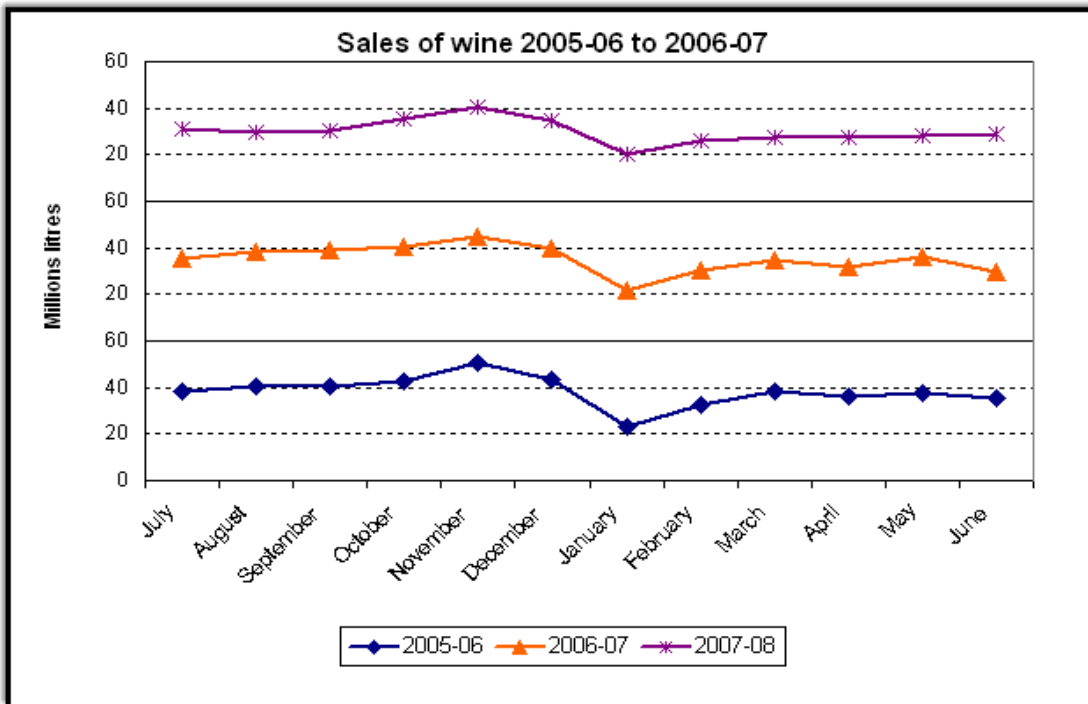
Table 1 demonstrates the long term compound growth rate of total wine sales, bottled table wine, cask table wine and sparkling wine sales. If these are compared with the compound monthly growth rate for the 8 months after the introduction of the increased RTD excise there is very little difference in depletions except for sparkling wine. However, the following chart shows the sparkling wine increase to be a normal seasonal trend leading up to Christmas. There is no evidence that sparkling wine is being substituted for RTDs. In fact, total sparkling wine sales have declined by 2% in the 12 months ended December 2008.

Chart 2



Source: ABS Catalogue No. 85.04. Sales of Australian wine & Brandy by Winemakers

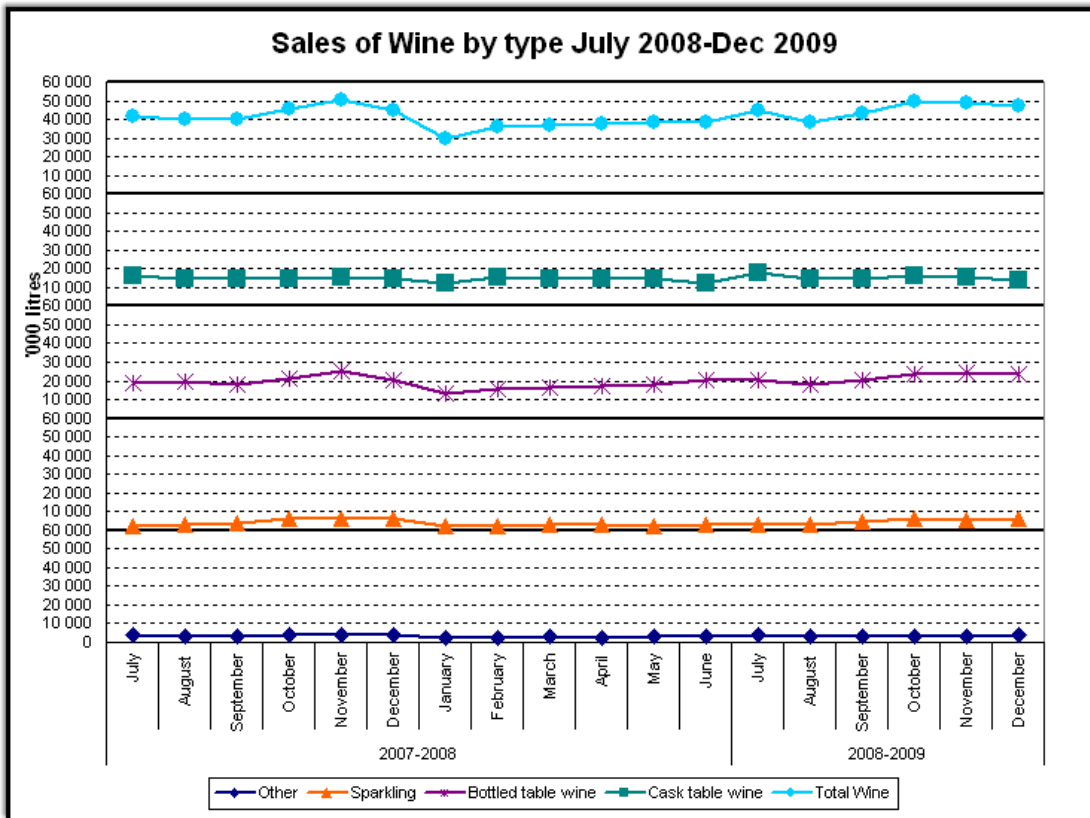
Chart 3



Source: ABS Catalogue No. 85.04. Sales of Australian wine & Brandy by Winemakers

Chart 3 shows total wine sales in the Australian market over a three year period, where the previously mentioned seasonal increase leading up to Christmas can be clearly seen. Sales are relatively stable with the 2007/08 fourth quarter (April, May and June) figures being almost the same as the 2005/06 figures for the same period. There were sales of 110ML for the fourth quarter 2005/06, 112 ML in 2006/07 and 115ML in 2007/08, a marginal 3% increase between the last two years. Sales of Australian produced wine dropped very slightly for these periods.

Chart 4



Source: ABS Catalogue No. 85.04. Sales of Australian wine & Brandy by Winemakers

Chart 4 covers an 18 month period showing sales by type of wine and by total wine. Seasonal trends can be clearly seen. This graph demonstrates that there are no obvious increases resulting from the RTD excise increase. Consequently there is no evidence of wine being substituted for RTDs.

Term of Reference (e): Any unintended consequences flowing from the introduction of the alcopops tax, such as the development of so-called 'malternatives' (beer-based ready-to-drink beverages)

Following the decision by the Australian Government in April 2008 to increase the excise on ready-to-drink beverages, there was speculation that this would result in the production of RTDs manufactured using ethanol stripped from wine or beer – so called 'wine-pops' and 'malternatives'.

Under the *Wine Equalisation Tax Act and Regulations*, Grape Wine Products are defined as containing at least 70% grape wine, have no ethyl alcohol added from any other source, and contain between 8 and 22 per cent ethyl alcohol by volume. Under this definition, it is possible for 'wine-based RTDs' to be produced (albeit at high alcohol levels of 8% minimum).

In addressing the Government's intent with the introduction of the RTD excise increase, the Federation's position has been to ensure that wine-based RTD products above 8% alcohol by volume are not produced or imported into Australia under a more favourable tax treatment than spirits-based RTDs, while still maintaining Wine Equalisation Tax treatment for existing traditional grape wine products such as vermouth and marsala.

With this in mind, the Federation wrote to the Hon Wayne Swan MP, Treasurer, on 23 May and 9 July 2008 supporting regulatory changes to close this loophole and committing to work with the Government to ensure the category of grape wine products was not exploited for the purposes of creating new wine-based RTDs that would be taxed at a lower rate than other RTD products.

The Federation welcomed the Government amendments to the Excise Tariff Amendment (2009 Measures No. 1) Bill 2009 and the Customs Tariff Amendment (2009 Measures No. 1) Bill 2009 which were introduced into Parliament on 25 February 2009. These amendments, which narrow the definition of wine products, will close this unintended loophole while still protecting existing grape wine products.

In addition, the Federation currently has an application before Food Standards Australia New Zealand (FSANZ) to prescribe the term 'wine based beverage' for all products meeting the definition of wine product in the Australia New Zealand Food Standards Code.

If this application is successful, it will mean that a product that meets the definition must have the name on the package. This will ensure that the consumer will be able to clearly identify that the product is not a spirit, preventing the consumer from being misled.

Term of Reference (i): The value of evidence-based decision-making in the taxation of alcoholic products.

The WFA supports government initiatives to reduce alcohol abuse that are effective, that do not unduly punish responsible consumers and that do not have unintended negative consequences on industries or regional communities supported by those industries.

Measures need to be specifically targeted towards those in the community who are engaging in harmful levels of alcohol consumption, or to underage consumers.

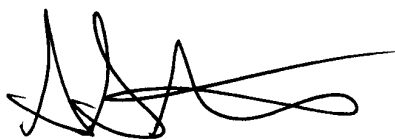
Using tax to alter price is a blunt social policy tool that does not distinguish between harmful consumption and responsible drinking – it penalises those who consume responsibly as well as those who are the object of the measure.

There is little evidence to demonstrate net population benefits through overall increased alcohol taxation: responsible consumers are likely to reduce or cease consumption depending on the level of price increase involved – leading to a decrease in associated benefits from moderate intake, and irresponsible consumers are considered less price sensitive and more likely to either switch products or switch substances.

The Australian wine sector supports policy and regulation on the basis of clear evidence of outcomes measured against the impact on stakeholders.

I appreciate the opportunity to provide the above comments. If you have any queries, or would like further information please do not hesitate to contact me.

Yours sincerely



STEPHEN STRACHAN
Chief Executive
Winemakers' Federation of Australia