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Mr Russell Campbell  
General Manager  
Small Business Tax Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600  
[wineequalisationtax@treasury.gov.au](mailto:wineequalisationtax@treasury.gov.au)

Dear Mr Campbell,

### **Wine Equalisation Tax Rebate**

Thank you for the opportunity to provide a submission to The Treasury's review of the Wine Equalisation Tax rebate.

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.

Surgeons are dramatically confronted with the effects of alcohol misuse when treating patients with injuries resulting from road traffic trauma, interpersonal violence and personal accidents that are caused by excessive alcohol consumption. Alcohol misuse is also a significant contributor to the total burden of disease, including liver failure, GI bleeding, upper GI and oropharyngeal cancer and infections related to malnutrition.<sup>i</sup> Overall, hospitalisations relating to alcohol misuse continue to represent a significant and concerning proportion of the surgical workload.

The total cost to society of alcohol-related problems in Australia in 2010 was estimated to be \$14.352b, while the Australian Government received an estimated \$7.075b in total alcohol tax revenue.<sup>ii</sup> Alcohol's negative impact on others was estimated at a further \$6.807b.<sup>iii</sup>

International scientific evidence consistently shows that rates of alcohol consumption and resultant harm are influenced by price.<sup>iv</sup> Alcohol taxation is one of the most effective policy interventions to reduce the level of alcohol consumption and related problems, including mortality rates, crime and traffic accidents. Even small increases in the price of alcohol can have a significant impact on consumption and harm.<sup>v</sup> However, despite its reported effectiveness, taxation as a strategy to reduce alcohol-related harm has been under-utilised in Australia.<sup>vi</sup>

The Henry Review of Australia's taxation system described Australia's present alcohol tax system as 'incoherent', and recommended a new approach based on volumetric or alcohol content-based tax. The Australian Government's Preventative Health Taskforce also called for taxes on alcohol to be overhauled.

Please see below the Royal Australasian College of Surgeons' responses to the questions raised in the Discussion paper.

1. Is the WET rebate delivering benefits to the wine industry and/or contributing to distortions in the wine industry? How?

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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, current taxation 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.

The Wine Equalisation Tax (WET) and its associated rebate are the most problematic and illogical parts of the alcohol taxation system. Under the WET, wine and other fruit-based alcohol products are taxed based on their wholesale price, rather than alcohol content, which means that cheap wine attracts less tax. This, in turn, creates a price incentive for people to buy, and a profit motive for industry to produce low-cost wines.

The WET is different to other alcohol taxes in that it has no consideration for the alcohol content of the product and instead incentivises the production of cheaper, mass produced wine.

In addition to the WET, a WET rebate exists that provides rebates of up to \$500,000 to wine producers, costing Australians \$250 million each year. Although it was originally designed to support small producers in rural and remote areas of Australia, the intent of the policy has been undermined by its availability to all producers, with large producers taking advantage of tax loopholes, and New Zealand producers having access to the rebate.

Since the introduction of the WET and the associated rebate, the price of wine has fallen dramatically relative to the consumer price index (CPI).<sup>vii</sup> Wine is now more affordable in Australia than it has been in three decades, and its affordability contributes to the way it is consumed and the harms it causes. Depending on the specials available on any particular day, wine is available for around 30 cents per standard drink, compared to beer at \$1 and the cheapest spirits at around \$1.50 per standard drink.<sup>viii</sup>

Evidence shows that low alcohol prices result in higher consumption levels, which in turn lead to increased harms. A 2009 meta-analysis of 112 peer reviewed studies on the effects of alcohol price and taxation levels on alcohol harms showed that there was "overwhelming evidence of the effects of alcohol pricing on drinking".<sup>ix</sup>

2. Is the future sustainability of the Australian wine industry linked to the production of high quality wine? How?

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The Discussion paper does not acknowledge the public health and economic imperatives of comprehensive reform of Australia's alcohol taxation. Supporting the sustainability and efficiency of the wine industry should not come at the expense of using a harm minimisation and community safety approach to alcohol regulation. While there may be economic implications for industry as a result of taxation, a harm minimisation approach acknowledges there are also social and economic costs to the taxpayer when alcohol is not adequately regulated.

3. Is there a policy case to be made for the WET rebate continuing to operate in its current form?

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RACS does not support the continuation of the WET or rebate. Numerous reviews and an extensive coalition of community organisations, expert researchers and economic analysts have demonstrated the need for

Reform of the WET and rebate. RACS recommends removing the WET and replacing it with a volumetric tax on all alcohol. This reform would achieve tangible public health benefits for the

Australian community and have knock-on social and economic benefits, enhancing the well-being and productivity of individuals and communities.

4. How could the WET rebate be redesigned to better support the wine industry?

The Australian Government has an obligation to adopt a harm minimisation and community safety approach to alcohol regulation, which the WET and rebate currently do not support.

5. Should the purpose of the WET rebate be to support rural and regional winemakers only? How could this be achieved?

This question is not relevant to RACS medical expertise.

6. What other policy goals should the WET rebate pursue? Why?

RACS recommends that the WET and rebate be removed as soon as possible, with both parts of the system being reviewed together. A review of the rebate in isolation is a piecemeal approach to meaningful reform of the alcohol taxation. Replacing the WET and rebate with a volumetric tax on all alcohol will help resolve problems facing the industry and overcome market distortions that foster the harmful consumption of alcohol.

RACS is a member of the National Alliance for Action on Alcohol, and in addition to the recommendations outlined above, we support those put forward by the NAAA as part of this consultation process.

Yours sincerely



**MR GRAEME CAMPBELL, FRACS**  
**COLLEGE VICE PRESIDENT**

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<sup>i</sup> Global burden of disease and injury and economic cost attributable to alcohol use and alcohol-use disorders. *The Lancet* 373(9682): 2223-2233. 2009

<sup>ii</sup> Manning M, Smith C and Mazerolle P (2013) Trends & issues in crime and criminal justice series: The societal costs of alcohol misuse in Australia No. 454, Australian Institute of Criminology.

<sup>iii</sup> Laslett A-M, Catalano P, Chikritzhs Y, Dale C, Doran C, Ferris J, Jainullabudeen T, Livingston M, Matthews S, Mugavin J, Room R, Schlotterlein M and Wilkinson C (2010) The Range and Magnitude of Alcohol's Harm to Others. Fitzroy, Victoria: AER Centre for Alcohol Policy Research, Turning Point Alcohol and Drug Centre, Eastern Health.

<sup>iv</sup> Babor T, et al. *Alcohol: No Ordinary Commodity*. Second Edition. New York: Oxford University Press. 2010.

<sup>v</sup> Chikritzhs T, Stockwell T, Pascal R. The impact of the Northern Territory's Living With Alcohol program, 1992-2002: revisiting the evaluation. *Addiction*. 2005; 100(11):1625-36.

<sup>vi</sup> Stockwell T. Australian alcohol policy and the public interest: a brief report card. *Drug and Alcohol Review*. 2004; 23:377-9.

<sup>vii</sup> 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. Canberra.

<sup>viii</sup> Campbell R (2015) *The goon show: How the tax system works to subsidise cheap wine and alcohol consumption* The Australia Institute, June 2015.

<sup>ix</sup> Wagenaar AC, Salois MJ and Komro KA (2009). Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies. *Addiction* 104: 179-190.