Murray Valley
Winegrowers Inc

SUBMISSION

Draft National Alcohol Strategy

February 9, 2018

Murray Valley Winegrowers Inc.

Murray Valley Winegrowers (MVW) represents the interests of 350 winegrape growers in the Murray-Darling and Swan Hill wine regions of Victoria and NSW. This is Australia's second-largest production zone, accounting for around 20 per cent of the national annual winegrape crush. The triumvirate of Murray-Darling/Swan Hill, Riverland South Australia and NSW Riverina account for around 70 per cent of Australia’s winegrape production – equating to around one million tonnes (subject to seasonal variation).

Headquartered in the regional city of Mildura in NW Victoria near the junction of the Murray and Darling rivers, MVWs principal functions are to provide extension services, inform growers of market and industry intelligence, advocate to protect and promote growers’ interests, and assist members in their commercial dealings.

Funding is derived from access to grower levies administered under the Victorian Agricultural Industry Development Act, which are collected and supervised by the statutory Murray Valley Wine Grape Industry Development Committee (IDC). A lesser voluntary levy is collected at the same time. MVW applies to the IDC for project funding through a process that engages growers in an annual poll.

Industry synopsis

For much of the past decade, many winegrape growers have been under intolerable pressure, coping with drought, water restrictions, spiralling costs, global grape over-supply and cascading prices. Farm-gate profitability was eroded to zero for many growers, leading to a landscape of abandoned properties in the area of the Murray Darling catchment in North West Victoria and South West NSW.

Until recently, this was the operating environment under which growers were labouring. However, since 2016 the Australian wine industry has seen signs of fledgling recovery. In the 12 months to December 2017, wine exports increased by 15 per cent to $2.56 billion, the highest annual growth rate in 13 years. Over this period, winegrape prices for key varieties in the Murray-Darling/Swan Hill regions have gradually risen as well. For example, from an unsustainable low base, the price of Chardonnay grapes increased by 22 per cent, and Cabernet Sauvignon and Shiraz gained in price by more than 20 per cent.

The ten-year downturn in industry fortunes drove hundreds of MVW members out of the sector; in the 10-year period 2007 to 2017, the growers’ database maintained by MVW tracked a decrease in grower numbers from more 1000 to 350. Those that remain are looking forward to a vastly improved market environment**. However, the positive outlook is under threat from proposals in the draft National Alcohol Strategy for a minimum alcohol price and the introduction of a volumetric-based alcohol tax on wine.**

Submission focus

MVW supports the submissions of the Winemakers Federation of Australia (WFA) and Alcohol Beverages Australia (ABA). Like these bodies, MVW is supportive of an evidence-based National Alcohol Strategy (NAS) and a number of the measures put forward as possible solutions to alcohol-related harm, such as:

- Effective policing and enforcement,
- National standardisation of Responsible Service of Alcohol requirements,
- Improved awareness and enforcement of secondary supply legislation,
- Alignment of a national advertising code, improved treatment, information and support services, effective compliance activities, and
- Improved treatment, information and support services.

However, MVW shares concerns relating to a minimum floor price and the proposal to discard the ad valorem system of taxing wine in favour of a volumetric tax.

Minimum floor price

This is a sledgehammer approach that would greatly disadvantage the majority of Australians who consume wine in moderation. Moreover, the livelihoods of many hundreds of winegrape growers and processors would be under threat.

In its submission, the WFA refers to a Northern Territory liquor licensing review recommendation for the introduction of a $1.50 minimum unit price for a standard alcoholic drink. If implemented at that rate in all States and Territories, a four-litre cask of red wine would cost at least $61.50. Similarly, a two-litre cask of white wine would cost consumers at least $27.00. As the WFA points out, a floor price will directly increase profits for the large liquor retailers, with no additional revenue generated for government health expenditure and no flow-on benefits for producers.

A minimum floor price would unjustly target low socio economic consumers and pigeonhole them as the main source of alcohol abuse. The impact of increased prices on lower cost products would not result in any health gains for people with serious alcohol addiction, but would increase alcohol prices and the cost of living for the less well off.

As reported in the 2016 National Drug Strategy Household Survey (NDSHS), people in the lowest socio economic range were:

- Much more likely to abstain from alcohol than people in the highest area (32 per cent compared with 18.2 per cent);
- Less likely to exceed the lifetime risk guidelines (15.8 per cent compared with 17.6 per cent), and
- Less likely to exceed the single occasion risk guidelines (23 per cent compared with 26 per cent).

Alcohol consumption declining

The drinking habits of Australians have changed. Alcohol consumption per capita has declined significantly, without the 'help' of draconian taxation measures or the imposition of minimum pricing. Findings of the 2016 NDSHS confirm the trend to reduced alcohol consumption:

- A greater proportion of people living in remote or very remote areas abstained from alcohol in 2016 than in 2013 (26 per cent compared with 17.5 per cent) and a lower proportion exceeded the lifetime risk guidelines (26 per cent compared with 35 per cent). Overall, drinking in excess of the recommended lifetime risk guideline continued to decline in 2016, down from 18.2 per cent in 2013 to 17.1 per cent in 2016, continuing a downward trend since 2004 when 21 per cent exceeded the recommended lifetime risk guideline;

- Compared with 2013, people were drinking less frequently in 2016. A significantly lower proportion drank daily or at least weekly and a significantly higher proportion drank less often than weekly;
- Fewer people aged 12 - 17 drank alcohol in 2016. The proportion abstaining from alcohol significantly increased between 2013 and 2016 (from 72 per cent to 82 per cent);
- People aged 14 - 24 continued to delay drinking alcohol. The age at which they first tried alcohol has increased since 1998 from 14.4 to 16.1 years in 2016.
- Considerable improvement was made among teenagers (12 - 17 year olds), with the proportion abstaining significantly increasing between 2013 (72 per cent) and 2016 (82 per cent - up from 56 per cent in 2007).
- Since 2010, young adults (18 - 24 year olds) have reduced their consumption of alcohol, with fewer exceeding the lifetime risk guidelines (from 31 per cent to 18.5 per cent in 2016). According to the 2016 NDSHS, this has been driven by both an increase in those abstaining and an increase in those drinking at levels considered to be at low risk to health over a lifetime (on average, no more than two drinks per day).
- Quoting the 2016 NDSHS…Since 2007, the 18–24 year old cohort has historically been the female age group most likely to drink more than two standard drinks per day average. But average daily consumption of alcohol in this age group has considerably reduced over time, from 20 per cent in 2007 to 12.8 per cent in 2016.

Excise (Volumetric) tax devastating for large inland wine regions

The Draft NAS recommends implementation of the 2010 Henry Tax Review recommendations to remove the Wine Equalisation Taxation (WET) system and incorporate wine under the volumetric excise system along with beer and spirits. This would have serious financial consequences for most wine businesses, especially small businesses, which would be crushed by the administrative excise requirements. Inland wine businesses would also experience a double-hit by the change to a volumetric system.

It has long been the obsession of the beer and spirits industries to get the government to tax wine according to its alcohol content for no other reason than to make most wine more expensive. This, they believe, would result in consumers drinking more of their product. But at what cost?

Unlike the largely metropolitan-based major beer and spirit conglomerates, growing grapes and making wine is the industry of rural and regional Australia: more than 6000 winegrape growers and 2500 winemaking businesses scattered around Australia.

If the interests promoting replacing the current ad valorem system of taxing wine with a volumetric formula succeed in their campaign, 80 per cent of all wine sold in Australia will increase in price. Bottled wine in the sub $12 category and cask wine, which together account for around 80 per cent of sales, would skyrocket in price. Cask wine, which is favoured predominately by the older members of our community, would more than double in price.

Much of the more affordable wine produced in Australia comes from the three major inland wine regions of Murray-Darling/Swan Hill NSW/VIC, Riverland SA and Riverina NSW. They would feel the impact the most, putting at risk the livelihoods of 2000 growers.

The spirits and beer industries have long argued that wine should not be treated separately; that wine taxes should be levied at the same rate as that imposed on them. However, the process involved in making and selling wine differs markedly, and wine taxes in Australia already are among the highest in the world.

A volumetric excise tax would make our wine more expensive and the job of selling it around the world even more difficult.

Wine is produced largely in regional areas from grapes processed over a three-month period, using equipment and facilities that mostly lie dormant the rest of the year. The majority of Australian wine is exported, last year earning $2.56 billion, which far exceeds the export earnings of Australian produced beer and spirits.

The winemaking sector believes that a fall in wine consumption domestically, as a result of significant price rises through the imposition of a volumetric tax, would damage the international competitiveness of Australia's wine producers. This would occur due to a reduction in the economies of scale; less wine produced for the domestic market would increase the fixed costs carried by each unit of wine, including those produced for export markets, thereby reducing Australia's competitiveness in an already difficult global environment. (Australian wine exporters already pay higher taxes than competitor countries).

It is not alarmist to suggest that wine sales would plummet under a volumetric excise tax regime. In the firing line will be the 2000 winegrape growers in the "big three" inland regions of Australia, which grow the grapes for the "affordable" wines consumed by the majority of Australians.

Members of the health lobby may argue that the harm caused to industry through reduced grape and wine sales would be worth it; that it would be a small price to pay if alcohol consumption decreased. But would this equate to reduced alcohol-induced harm?

It has been clearly established that the majority of wine bought in Australia is priced at around $15 or less (bottle and cask), and that a volumetric tax would result in price hikes for all wine worth $12 and less. Indeed, the price of cask wine would more than double. But people who drink cask wine are not regarded as those most at risk from alcohol abuse, as found by University of Adelaide researchers Wendy Umberger and Simone Mueller in a 2009 study. They concluded that consumers of cask wine typically were:

- Mostly aged 55+; only 12% are 34 or younger;
- Earn less than AUD$50,000 per annum;
- On average drink fewer glasses per drinking occasion (one or 2 per night); and
- Usually eat food while drinking wine.

Nielsen Sales Data records a steady decline in sales of cask wine even though it's one of the cheapest forms of alcohol per standard drink. It is not the product of choice for abusers of alcohol; it's for older consumers and the budget conscious.

Wine *is* different. The industry is largely regionally based with over 2500 individual producers, making and selling a product with an alcohol content that varies from year to year, from batch to batch and between varietals. The cost of compliance with an excise-based system would be burdening a fragile industry with additional costs and red tape. WET is a much simpler system to administer than the excise system for beer and spirits, the reasons being:

- WET is based on the wholesale price of the wine, not its alcohol and volume. This is a more practical approach for a product that's not manufactured according to a recipe and has an

alcohol volume that fluctuates season to season due to the fact that wine is an agricultural product, with variations in climate affecting natural sugar levels;
- WET is not indexed in line with the CPI – and is therefore a consistent rate allowing for simpler compliance systems;
- Wine can be moved freely as the tax is based on its value not its volume (there is no costly expense of running bonded premises or monitoring movement of the product to bonded premises only);
- WET suits a regionally based product. An excise system would pose issues for a regionally based product such as wine, as audits would be costly and difficult;
- Wine can be stored for lengthy periods, in contrast to beer and the majority of spirits. A bonded warehouse system would be a significant burden on wine businesses, and
- WET is reported and paid on the business activity statement, the same way as other taxes are paid. There is no weekly payment requirement, therefore reducing paperwork and compliance costs.

Wine production is totally dependent on one agricultural season each year and vulnerable to the vagaries of weather. Compare this to beer and spirits production, which can be made multiple times during the year using stored inputs sourced internationally and with significantly shorter production times. The inclusion of wine under the excise system would lead to substantial industry consolidation, closure of family businesses and job losses, and cause significant harm for many of the 172,000 employees currently sustained by the wine industry.

An excise-based system would require auditing of hundreds of bonded warehouses required for the storage of wine, which would create a major auditing challenge for the Australian Taxation Office. The cost of compliance would be significant for the over 2500 individual wine producers in Australia, most of them small businesses.

Australian wine is already one of the most heavily taxed in the world. A recent study by Professor Kym Anderson of the University of Adelaide shows that Australia is taxing wine, relative to other alcohol beverages, more than other wine exporting countries. A change to a volumetric tax would further increase the differential between Australian wine producers and their international competitors, by adding to higher operating costs and increasing taxes.

Economically, the Murray-Darling/Swan Hill winegrape industry is on a knife-edge. Prices for major grape varieties are emerging from a decade-long slump. But having to cope with substantial price hikes, brought about by a floor price and a tax on alcohol content, would stifle any chance of recovery.

The imposition of an unfair, unwieldly and unnecessary volumetric excise tax, coupled with higher wine retail costs would be catastrophic for our winegrape growers and the wineries that buy their fruit.

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