



Terry Davis
Managing Director

COCA-COLA  AMATIL

15 October 2008

AFTS Secretariat,
The Treasury,
Langton Crescent,
PARKES ACT 2600

Coca-Cola Amatil Limited
ABN 26 004 139 397
71 Circular Quay East
Sydney NSW 2000
GPO Box 145
Sydney NSW 2001
AUSTRALIA
Telephone: +61 2 9259 6049
Facsimile: +61 2 9259 6626

Dear Sir/Madam,

Submission Regarding Reform of the Taxation of Alcoholic Beverages

On behalf of Coca-Cola Amatil Limited (CCA) I would like to lodge the attached submission with the AFTS Review. I have previously had correspondence with The Prime Minister regarding the issues raised in our submission. CCA was requested to raise the issues which were the subject of that correspondence with the Review.

I believe there is a need for a fundamental reform of the taxation of alcoholic beverages by moving to a volumetric basis of taxation for all types of alcoholic products with a single flat rate of tax. There are both tax system and social benefits to be gained from adopting this approach and I commend the submission to you for consideration.

CCA stands ready to provide assistance to the Review to further consider the issues raised in the submission.

Yours faithfully,

Terry Davis
Group Managing Director

Submission

Executive Summary

Coca-Cola Amatil Limited (CCA) requests that The Australia's Future Tax System Review Panel (the Panel) include a review of the taxation of alcoholic beverages in the issues to be canvassed in the discussion paper the Panel will release later this year.

In CCA's view the taxation of alcoholic beverages should be overhauled and significantly simplified by moving toward a system which applies a single standard rate of tax on all products based on the volume of alcohol in the product.

CCA has recently entered the alcoholic beverage sector via its establishment of a joint venture company with SAB Miller Plc. The joint venture company Pacific Beverages Pty Limited distributes a wide range of alcoholic beverages including alcoholic ready to drink (ARTD's), beer and full bottled spirits.

Discussion

The taxation of alcoholic products is currently effected through the imposition of customs duty on imported products, the imposition of excise duty on locally manufactured products and wine equalisation tax (WET) on wine.

The current system imposes numerous different rates of taxation on different types of alcoholic products. This leads to unnecessary complexity in administration and collection of customs and excise. However it also results in dramatically different levels of overall taxation on different products with a similar level of alcohol. Accordingly, the taxation system is impacting upon consumer choices as a result of the pricing impacts of the different rates of taxation applied to different types of alcohol.

It is CCA's submission that alcohol should be taxed based on a volumetric approach only with one flat rate being applied to alcoholic products. The current plethora of rates implicitly passes judgement on different types of alcohol as being less harmful or more harmful. These implicit judgements currently exist in the form of higher rates of taxation on certain types of alcoholic products.

The attached table produced by the Distilled Spirits Industry Council of Australia (DSICA) shows the dramatic difference in taxation for different types of alcoholic products when viewed on a "standard drink basis". The table demonstrates that although the amount of alcohol in each item listed is the same, the taxation of spirits is almost three times that of packaged full strength beer and many times that of cask wine.

As an example, a 330ml bottle of Peroni beer has 5.1% alcohol. A 375ml can of Jim Beam and Cola has 5% alcohol. Allowing for the slightly larger overall volume of the

can, the alcohol in both products is roughly the same. However the tax on the spirit based ARTD product is more than double that of the beer.

This disparity has obviously developed over time and as with other areas of taxation, the plethora of rates occurs due to layer upon layer of small changes over many years. The review being conducted by the Panel provides an opportunity to step back and review this area of taxation with a view to dramatically simplifying it and taking away the current inherent influence on consumer behaviour.

The disparity in the taxation of alcoholic beverages was recently highlighted and compounded by the Government's decision to impose the so-called "alco-pop" tax on ARTD's (ie pre mixed, packaged spirit based products). Whilst well intentioned, the Government's attempt to be being seen to act on the problem of teenage binge drinking has clearly demonstrated that the taxation system is a less than ideal tool to effect changes in a social issue that has so many causes and complexities.

As flagged early on by CCA when the "alco-pop" measure was announced, the response to the increase in excise on "alco-pops" and therefore increased selling price has been a marked decline in sales of these products but a corresponding increase in sales in bottles of full spirit with consumers now preferring to "mix their own" and save money.

Pacific Beverages has seen a 32.2% fall in alcoholic ready to drink (ARTD) sales since the introduction of the tax but an increase of 47% in full bottle spirits. This shift is also reflected in scan data from the major liquor retailers.

Accordingly the tax change did not achieve anything in terms of curbing binge drinking. Indeed it may be contributing to it and other social issues such as drink "spiking". Pre-mixed, pre-packaged spirits offer a portion controlled drink so consumers can understand the comparative strength of each drink and therefore have the ability to make informed choices about how much alcohol they consume. However the mix your own scenario opens up the possibility and indeed probability that the drinks will be mixed in much stronger proportions than the ARTD's. This has the effect of fueling the problem drinking the Government wanted to stop. Further, the pre-mixed drinks are less likely to be spiked as it is only once they are opened are they vulnerable.

Clearly the taxation system has had a direct impact on consumer behaviour here but because of the differentiation in tax on alcoholic products consumers are circumventing the Government's hoped for impact on teenage binge drinking by simply changing their drink of choice. The tax system is a very blunt instrument to deal with what is in reality a social issue that needs to be dealt with at the micro level.

The tax system should be about the efficient collection of tax revenue. Not only does trying to effect social policy through the tax system lead to complexity in the system it is generally not a very effective way of achieving the social policy ends.

The other obvious anomaly in the system is the taxation of wine under the WET approach. Tax is levied based on the wholesale selling price rather than the alcohol content. It is well accepted that cheap cask wine has been a contributor to problem

drinking both in young people and in particular the indigenous communities. Yet cask wine is one of the least taxed alcoholic drinks at only 6 cents per standard drink compared to spirits at 84 cents per standard drink. This would seem at odds with Government policy of wanting to curb problem drinking and again highlights that the taxation system is not the avenue by which social policy should be enacted.

Accordingly CCA submits that all alcoholic beverages should be taxed at a flat rate based upon the amount of alcohol in the particular beverage. Where the Government perceives alcohol is contributing to social problems, an increased rate of taxation across all alcohol could be made to help pay for social programs to help limit these problems rather than making inherent judgements through the taxation system as to which particular types of alcoholic drinks are causing issues. As is now being demonstrated this “targeted approach” with its inherent judgements will simply lead to changes in consumption habits that circumvent the reason for the change and potentially make the problem worse.

In determining what the flat rate of taxation would need to be in order to protect Government revenue detailed work could be carried out to arrive at an appropriate rate based on a weighted average volume approach. The flat rate would lead to an increase in the rate of taxation on beer and wine but a reduction in the tax on spirits. CCA would be willing to provide resources to assist the Panel in undertaking this work.

CCA recognises that an immediate move to a flat rate of tax could produce dramatic impacts on the pricing on some alcoholic products, in particular the cheaper wine products. There may be arguments to support a phasing in of the flat rate system in recognition of some of these more dramatic impacts. Further applying a “flatter” series of rates rather than a single flat rate could be considered. However moving away from the single flat rate lessens the positive impacts CCA believes arise from the flat rate system.

It should be noted that CCA via Pacific Beverages distributes, ARTD’s, full bottled spirits and beer. The joint venture is currently building a new Brewery in order to significantly increase beer production and distribution. Accordingly our submission should not be discounted on the basis of a particular vested interest in a change in the relativities of the tax impost on beer verses spirits.

CCA believes its submission, if accepted, would enhance the operation of the tax system for what it should be used for, that is the efficient collection of tax. It would also in our opinion have the spin-off benefit of encouraging the Government to use more targeted social spending programs to tackle social issues rather than a very inefficient revenue raising measure to attempt to combat the issue.

Coca-Cola Amatil Limited
15 October 2008

NON-GST TAX PER STANDARD DRINK

(as at 1 August 2008)



* = 1.15% alcohol by volume excise-free threshold
 1 standard drink = 12.67 mls of pure alcohol
 Effective WET rate assumed to be 25% (including producer rebate)

Copyright DSICA 2008

Source: Updated from DSICA Pre-Budget Submission 08-09