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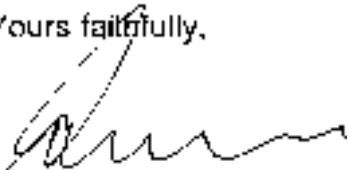
Dear Sir/Madam,

**Response to Consultation Questions Regarding Reform of the Taxation of
Alcoholic Beverages**

I refer to the previous submission lodged with the AFTS Secretariat by CCA regarding the opportunities for reform to the taxation of alcohol. In the Consultation Paper Summary released in December 2008, further submissions were invited in relation to this area of taxation. In particular questions 11.1 and 11.2 were particularly relevant to the future structure of our system for taxing alcohol.

CCA is pleased to provide a response to those two questions to further assist in developing the debate on this important area.

Yours faithfully,



**Terry Davis
Group Managing Director**

SUBMISSION

We refer to our previous submission lodged with the AFTS Secretariat under cover of letter dated 15 October 2008. CCA would like to make a further submission on the issue of alcohol taxation in response to questions 11.1 and 11.2 in the Consultation Paper Summary document released in December 2008 by the Review.

CCA is a participant in the alcohol industry through its 50% stake in Pacific Beverages Pty Ltd which is a joint venture between CCA and SAB Miller. Pacific Beverages distributes beer, alcoholic ready to drink products (ARTD's) and full bottled spirits. Pacific Beverages is building a new brewery in NSW to support its growth in the beer market.

Q11.1 Is it appropriate to use taxes on specific goods and services to influence individual consumption choices, and if so, what principles can be applied in designing the structure and rates of such tax?

1. Introduction

There would likely be endless debate over whether it is appropriate for Government to use tax as a way of influencing consumer choices. This debate would centre on the actual effectiveness of the tax to depress demand compared to an education campaign. However what we believe is clear is that the answer to question Q11.1 is "no" where the Government attempts to micro manage consumption by trying to target particular products within a category on the basis of being more or less harmful relative to others and moving the tax rates accordingly. In our view, whilst the tax system can be used to have at least some influence on consumption of certain products, this can only be done efficiently at a very broad level. The more granular the influence tries to become the less successful it becomes.

As stated in our previous submission, the tax system should be about raising revenue as efficiently as possible, not trying to micro manage social issues. In this context the idea of a volumetric, flat rate approach to taxation of alcohol would provide the simplest and fairest way to raise revenue from the consumption of alcohol. As a social policy lever, it would be limited to influencing the overall consumption of alcohol.

The Government's "alco-pop" tax is the high point of trying to micro-manage consumption through the tax system and highlights the inappropriateness of this. It seems this measure will be resurrected by the Government after initially being defeated in the Senate. Regardless of the ultimate outcome of the tussle between the Government, Opposition and independents over this legislation, the insights gained from the outcomes and behavioural changes that occurred during the first 12 months of this measure are instructive.

2. Lessons from the alco-pop experience

Prior to its defeat in the Senate, the Government had acknowledged that the revenue they would raise from this measure had fallen dramatically because of the severe reduction in ARTD sales post the introduction of the tax. At first blush this would appear a good social outcome in that it would appear the Government has achieved a reduction in alcohol usage albeit more dramatic than anticipated. However the question then was, do we believe that due to the tax increase on one type of product, the people the Government were concerned about have suddenly decided to reduce their alcohol usage? Realistically, most people would say this outcome was unlikely.

2.1 Consumers' response to alco-pop tax

CCA's own sales figures reveal that there has been a dramatic shift from the ARTD pre-packaged spirits toward full bottled spirits combined with a significant lift in sales of packaged Coke at off-premise outlets. This leads to the obvious conclusion that the shift to "mix your own" identified in CCA's previous submission has continued. Further there has been a clear and identifiable increase in beer sales. Beer sales had been largely flat for some years. However an increase in beer sales coincided with the alco-pop tax showing a switch in drinking preference from pre-mixed spirits to full strength beer. As identified in our previous submission, the alcohol content in a 375ml can of Jim Beam and Cola and a 330ml bottle of full strength beer is virtually identical. It seems clear that consumers have reacted by changing drinking preferences rather than by reducing alcohol consumption.

Cask wine has always been a cheap low taxed alternative for consumers. The current market conditions for the wine industry is also making very cheap bottled wine widely available to consumers. This provides another alternative for price conscious consumers to switch to in response to the alco-pop tax and it is relevant to note the relatively higher alcohol by volume of wine compared to an ARTD.

2.2 Manufacturers' response to alco-pop tax

On the other side of the equation, there have been press articles about some manufacturers releasing new products ("malternatives"). These products looked and tasted like the so-called "alco-pop's" but which because they are made using a brewing process were not caught under the "alco-pop" tax.

So both consumers and manufacturers responded to a narrowly targeted tax increase by finding fairly obvious ways around it. The Government then acted to plug the "malternative" loophole and will now have to deal with numerous unintended consequences of this change. So the attempt to use the tax system in a narrowly targeted way is following a familiar path. That is, legislation is introduced to target a perceived problem in one small area. The next few years are spent plugging loopholes and fixing unintended consequences. What we will be left with is another instalment in an incredibly complex and inefficient tax system.

3. **Volumetric flat rate approach is the fairest method**

A volumetric approach would ensure these predictable behavioural outcomes that occurred under the current system in response to the alco-pop changes by both consumers and manufactures are simply not relevant. If a flat rate is applied to all alcohol, a decision by Government to increase taxation on alcohol cannot be avoided by changing drinking preferences. The Government can be guaranteed of achieving either higher revenue or lower alcohol consumption. In terms of manufacturers, a flat rate of tax on a volumetric basis means the best form of tax planning is to reduce alcohol content in products rather than trying to imitate a higher taxed product with a lower taxed one.

As we acknowledged in the previous submission it may well be that the adoption immediately of a strict volumetric approach with a flat rate is not practical given the price impact particularly on cheaper wines. But the Government could materially improve the efficiency and fairness of the taxation of alcohol by immediately moving toward that outcome by flattening the rates of taxation and bringing the taxation of all alcoholic products under one system. The underlying principle that should be applied is a very simple one. More alcohol (regardless of type) equals more tax, less alcohol equals less tax. The ultimate rates that are settled on would no doubt require significant financial modelling to protect current Government revenues and these rates may require adjustment during a settling in period. However if such rate changes are applied according to the clear and concise underlying principle of the system, the problems of the current system will not arise.

4. **Current system has many inconsistencies**

Apart from the alco-pop experience there are many inconsistencies and inequities in the current system. As pointed out in our previous submission, the variation in taxation of a standard drink depending on which type of alcohol is hard to reconcile on equity grounds including in particular the fact that wine is taxed under a completely different system that results in a very concessional tax treatment. Even within categories of alcohol there are anomalies such as larger kegs of beer being taxed less than smaller kegs of beer. Firstly this favours the larger producers over smaller producers. Further it also seems to send a message of bigger is better and favours the larger "beer hall" establishments over smaller licensed premises. Is this good tax policy? This anomaly does not make sense from either a revenue raising, health policy or an industry assistance perspective. Clearly the system is in need of overhaul.

Q11.2 Can the competing potential objectives of alcohol taxation, including revenue raising, health policy and industry assistance, be resolved? What does this mean for the decision to tax alcohol more than other commodities?

1. Introduction

The competing objectives of alcohol taxation can be accommodated in a more sustainable way through the introduction of a flat rate volumetric approach to the taxation of alcohol.

2. Raising Revenue

As can be seen from the "alco-pop" tax experience so far, the current system of differentiating between various types of alcohol encourages the Government to apply "targeted measures" to be seen to be doing something about a social issue but without upsetting the broader community of voters by an across the board increase in tax on alcohol.

This approach has been unsuccessful. As alluded to above, to date it has done nothing to curb binge drinking and it failed as a revenue raising exercise. Why? Because of the differentiation in the system which was exacerbated by the "alco-pop" tax, consumers and manufacturers change behaviour to take advantage of the differentiation.

A flat rate volumetric approach does away with this differentiation and therefore the Government can be more certain of its revenue raising outcomes and can be more transparent with the community as to the motivation for tax increases.

3. Health Policy

Again the flat rate volumetric approach should aid the implementation of health policy as well. The targeting of particular types of drinks consumed by particular age groups through the cumbersome tool of the tax system was always a high risk course of action in terms of achieving the desired outcome. Where the Government wants to reduce overall consumption of alcohol, the flat rate volumetric approach ensures that the price of all alcohol increase so that people simply just can't change their preferred drink. Further it holds a very clear and concise message that lowering the alcohol content of products is the only way to defeat the tax and therefore price increases. So consumers are encouraged to drink less by the higher prices and manufacturers are encouraged to implement across the board reductions in alcohol content.

Where a particular segment/age group in the market is identified as being more at risk, the Government could use spending programs to target these issues rather than ineffective revenue raising measures. The flat rate volumetric approach ensures the Government will be able to raise revenue from the alcohol market to pay for these programs if necessary.

The general community would likely be more accepting of an across the board tax increase if there was a direct link between the money raised and targeted spending programs to reduce harm being caused by alcohol consumption for particular groups. It would also send a signal that alcohol related problems reflect the habits and attitudes of the broader community to alcohol over a long period of time and the consequences of those problems should be borne by the broader community rather than singling out a particular group and punishing them.

4. Industry Assistance

The pure flat rate volumetric approach would not differentiate between different types of alcohol and therefore industry assistance in the form of lower rates or different systems of taxation for those industries is not accommodated. However, the system could be implemented in a way that did not apply a strict flat rate and hence allowed latitude for some industry assistance. However even in this scenario, resetting the whole system to have all alcohol taxed under the same system with a "target" flat rate would be a major step forward. From this target flat rate there could be rate concessions granted where the Government deemed it necessary. The key here is to allow targeted concessions rather than having a system of concession for some and penalties for others.

The process of resetting the system on this basis would also allow the Government an opportunity to look critically at where industry assistance was really needed, leading to a potentially more targeted scope of assistance. Such a process would also shine a light on the relative importance of industry assistance for certain sectors compared to the overall revenue raising and health policy considerations. In other words even if a tiered rate volumetric system was implemented, the opportunity would exist to ensure that departures from the target flat rate could be justified based on a balancing of the three competing objectives of revenue raising, health policy and industry assistance.

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CCA remains ready to provide any assistance to the Review Panel that we can in order to progress the thinking on this issue.