It's a case of apples and pears: Cider/perry's turn to highlight disparities in Australia's alcohol taxation system

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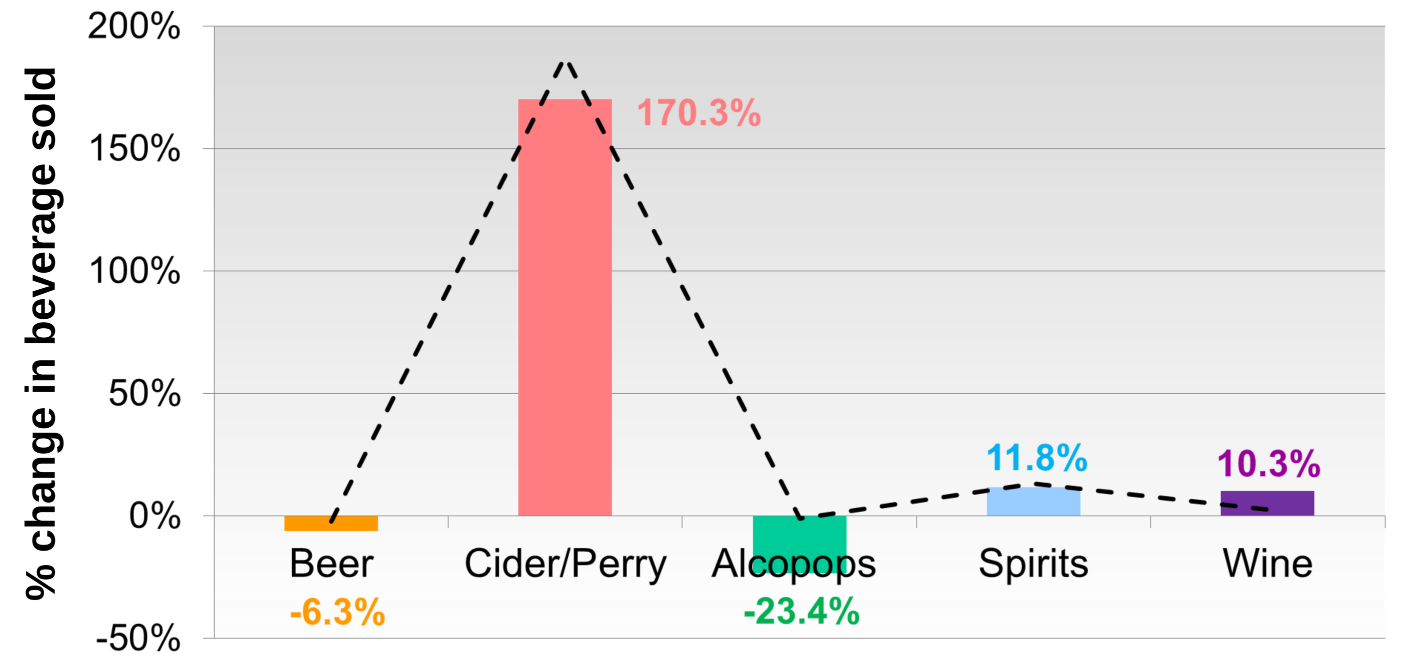
Apple of the industry's eye

Stellar growth in the Australian cider market in recent years

In both absolute and per capita terms, the value and volume of cider/perry sales increased by 150-188% between 2007 and 2011 (Euromonitor International, 2012).

These increases dwarfed all other types of alcohol (see Figure 1). In 2011, the cider/perry market was valued at $552 million, with a volume of 57 million litres.

Figure 1. **Percentage change in absolute volume and value of beverages sold between 2007 and 2011 (million litres)**



Note. - - - Absolute value change. Absolute volume change denoted by percentages in colour.

Cider is made from fermented apple juice; perry is made from fermented pear juice.

Australia's alcohol taxation system under scrutiny

Traditional cider is taxed at a low rate (see Table 1).

Table 1. **Alcohol taxation rates**

Alcoholic beverage	Tax per standard drink
Cask wine	8 cents
Traditional cider	23 cents
Full strength draught beer	30 cents
Alcopops	95 cents
Flavoured cider	95 cents
Spirits	95 cents

Ad valorum tax called the Wine Equalisation tax (WET)

Volumetric tax and subject to bi-annual consumer price index increases

This tax advantage is accentuated by WET rebate entitlements exempting boutique cider manufacturers from paying the WET. This rebate is ***not*** available to small flavoured cider or premixed spirits producers.

Cider manufacturers are also avoiding paying higher taxes by blurring the boundaries between traditional and flavoured cider products through innovative product development and adaptive marketing (Distilled Spirits Industry Council of Australia [DSICA], 2012).

- This echoes a similar trend by spirits manufacturers who developed beer- and wine-based alcopops to circumvent the spirits-based alcopops tax.

Why has the cider/perry market grown so rapidly?

The last beverage to display such large-scale increases, relative to other beverages, was alcopops:

- Volume sales of alcopops increased by 33% between 2004 and 2007 (Doran & Digiusto, 2011).

Taxation loophole

One of the primary factors cited for the increased production and consumption of *alcopops* was a taxation loophole (Fogarty & Chapman, 2011), which allowed alcopops to be taxed equivalently to full-strength packaged beer from 2000-2008.

In April 2008, the Australian Government closed this loophole, bringing alcopops taxation into line with full-strength spirits (Jones & Barrie, 2011).

However, focussing on just one loophole, rather than restructuring the alcohol taxation system merely creates an incentive for the industry to exploit other loopholes (Doran & Shakeshaft, 2008).

Aim

This poster reviews Australia's extant alcohol taxation arrangements and suggests that the phenomenal increase in cider/perry reflects, at least in part, the next iteration of industry efforts to exploit loopholes in Australia's alcohol taxation system.

Options for closing the cider loophole

Option 1: Increase tax on traditional cider

However, this will most likely prompt the alcohol industry to increase prices incrementally to offset marginal tax loss.

Adjusting the tax on cider alone is also unlikely to achieve sustained reductions in alcohol consumption:

- Previous experience of targeted taxation on alcopops indicates substitution to other beverages, and only a temporary hiatus in sales (Euromonitor International, 2012).

Option 2: Volumetric taxation

Tax *all* alcoholic beverages on the basis of alcohol content:

- Structured to balance the reduction in spill-over costs from alcohol misuse against the cost of taxation imposed on low-risk drinkers.
- Retain 1.15% tax-free threshold to encourage the production and consumption of low-strength beverages (Doran et al., 2011).

A volumetric tax on traditional cider alone would yield an additional $496million from 2012-2016 (DSICA, 2012). This revenue could be hypothecated for prevention and treatment of related harms.

The Henry Review (2010) and National Alliance for Action on Alcohol support volumetric taxation. The Rudd government rejected volumetric taxation due to industry restructuring and a wine glut. No changes in alcohol taxation were included in the Gillard government's 2012-13 federal budget.

Feature findings and take home message

- The Australian cider/perry market has experienced enormous growth in recent years.
- This growth is due, at least in part, to a taxation loophole favouring traditional cider over beverages of similar alcohol content (i.e., flavoured cider, beer, premixed/unmixed spirits).
- This trend parallels a previous taxation loophole favouring alcopops.
- If the cider taxation loophole remains, cider volume sales will reach an estimated 146 million litres by 2016 and a market value of $1.5 billion (Euromonitor International, 2012).
- Taxation loophole = industry exploitation = reactive government response. Volumetric taxation offers an efficient way off this merry-go-round.

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