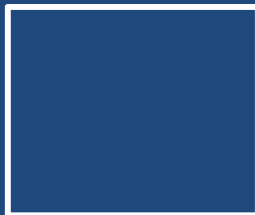
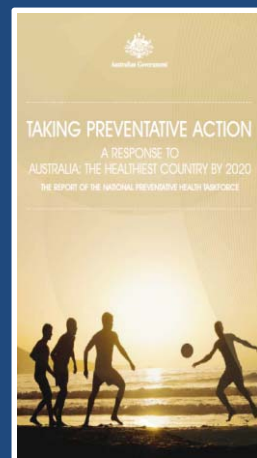




**Distilled Spirits Industry  
Council of Australia Inc.**

## **Submission to the Australian National Preventative Health Agency**

*Exploring the Public Interest Case for  
a Minimum (Floor) Price for Alcohol  
Issues Paper*



## **August 2012**

<b>Contact</b>	<b>Mr Gordon Broderick Executive Director</b>
<b>Phone</b>	<b>03 9696 4466</b>
<b>Fax</b>	<b>03 9696 6648</b>
<b>Email</b>	<b><a href="mailto:gbroderick@dsica.com.au">gbroderick@dsica.com.au</a></b>
<b>Web</b>	<b><a href="http://www.dsica.com.au">www.dsica.com.au</a></b>

## Who is DSICA?

The Distilled Spirits Industry Council of Australia Inc (DSICA) is the peak body representing the interests of distilled spirit manufacturers and importers in Australia. DSICA was formed in 1982, and the current member companies are:

- Bacardi Lion Pty Ltd;
- Beam Global Australia Pty Ltd;
- Brown-Forman Australia;
- Bundaberg Distilling Company Pty Ltd;
- Diageo Australia Limited;
- Mast-Jägermeister AG;
- Moët-Hennessy Australia Pty Ltd;
- Rémy Cointreau International Pte Ltd;
- Suntory (Australia) Pty Ltd; and
- William Grant & Sons International Ltd.

DSICA’s goals are:

- to create an informed political and social environment that recognises the benefits of moderate alcohol intake and to provide opportunities for balanced community discussion on alcohol issues; and
- to ensure public alcohol policies are soundly and objectively formed, that they include alcohol industry input, that they are based on the latest national and international scientific research and that they do not unfairly disadvantage the spirits sector.

DSICA’s members are committed to:

- responsible marketing and promotion of distilled spirits;
- supporting social programs aimed at reducing the harm associated with the excessive or inappropriate consumption of alcohol;
- supporting the current co-regulatory regime for alcohol advertising; and
- making a significant contribution to Australian industry through primary production, manufacturing, distribution and sales activities.

## Contents

Who is DSICA?	i
Executive summary	2
1 What is DSICA's vision for alcohol policy development?	6
1.1 Population wide versus targeted policies	7
2 Alcohol consumption in Australia	12
2.1 Long-term trends in alcohol consumption	13
2.1.1 The majority of Australians drink responsibly	14
2.1.2 Australia's comparative alcohol consumption	15
2.1.3 Impact of the 2008 Ready-to-Drink product tax increase	16
2.2 Trends in risky and high-risk drinking behaviours	23
2.3 Beverage preferences and choices	27
3 Circumstances surrounding the minimum (floor) price debate	30
3.1 Non-GST tax per standard drink	30
3.2 Discounting and promotional retail activities	32
3.3 Alcohol consumption patterns in Indigenous communities	34
4 Minimum pricing research and experience internationally	36
4.1 Introduction	36
4.2 Canada	36
4.3 Scotland	38
4.4 England and Wales	41
4.5 Conclusion	42
5 Summary of key issues	44
5.1 A minimum price would adversely affect sensible, moderate drinkers	44
5.2 A minimum price would adversely affect individuals/ households with low incomes	45
5.3 A minimum price would have little effect on heavy drinkers and young drinkers	47
5.4 The effects of minimum pricing on retailers and trade	49
6 Unintended consequences arising from the introduction of a minimum (floor) price	52
6.1 Potential alcohol industry responses	52
6.2 Additional costs to business	53
6.3 Minimum (floor) pricing may not be compliant with Australia's international trade obligations	55
6.3.1 Implications under the General Agreement on Tariffs and Trade 1994	55
6.3.2 Implications under Australia's Free Trade Agreements	56
6.3.3 Implications for products covered by a geographical indicator	57
7 Alternatives to minimum (floor) pricing	60

7.1	Existing interventions are apparent across a wide variety of state and federal government departments	60
7.2	A minimum price may be achieved through alternative means which are demonstrated to be more effective: reform to a wholly volumetric alcohol taxation regime	62
7.2.1	The Henry Review and calls for a wholly volumetric taxation regime	62
7.2.2	DSICA's proposal for wine taxation reform	63
8	Conclusion	68
A	References	70
B	DSICA's proposal for wine taxation reform	74
B.1	Step one – retain the existing Wine Equalisation Tax as the taxing system	74
B.2	Step two – introduce taxation tiers (possibly defined by wholesale sales price points)	75
B.3	Step three – identify the volumetric taxation rate applicable to each band	75
B.4	Step four – accelerate the indexation factor applied to the economy band	76
B.5	Concept overview	77
B.6	Advantages of this reform proposal	78

## Executive summary

The Distilled Spirits Industry Council of Australia (DSICA) is committed to supporting strategies that can be shown to reduce the uptake of alcohol use by underage Australians, and also reduce the levels of harmful drinking amongst adult Australians. We recognise that the overwhelming majority of consumers drink in moderation, creating no problems for themselves or society as a whole. We therefore do not support measures which fail to address harmful drinking, and which impose an extra burden on the majority of the drinking population.

DSICA understands that the Australian National Preventative Health Agency (ANPHA) has been tasked with responsibility ‘to develop further the concept of the public interest case for a minimum (floor) price of alcohol to *discourage harmful consumption* and *promote safer consumption*’ (emphasis added),<sup>1</sup> not as a means to reduce total alcohol consumption. We believe that a ‘minimum (floor) price for alcohol’ (minimum price) does not meet the necessary policy and evidence thresholds for its implementation in Australia, and is a blunt, population-wide instrument which will not effectively address the policy objectives identified above.

Australia does not have a high level of per capita alcohol consumption compared with comparable Organisation for Economic Co-Operation and Development (OECD) countries. Levels of risky and high-risk drinking amongst young people, and several adult age group cohorts have, in fact, generally been trending downwards over the last decade, on both a short-term and a long-term basis. Any perception of an increasing ‘epidemic’ of high-risk drinking amongst young people, or all adult age groups, is not supported by the best available evidence. The case for the introduction of a minimum price to reverse increasing levels of alcohol-related harm amongst young people, and other age groups, cannot be made.

A minimum price is a population-based strategy, and not a targeted measure. We do not accept the proposition that population-based strategies are (always) more effective than targeted measures in reducing levels of alcohol-related harm. There is compelling evidence that targeted measures – in conjunction with appropriate population-based strategies – provide significant opportunities for reducing the levels of excessive alcohol consumption in Australia.

However, we do not believe that a minimum price is an appropriate population-based measure for Australia. A minimum price in Australia will:

- adversely affect sensible, moderate drinkers;
- adversely affect low income individuals and households;
- be inconsistent with Australia’s international trade obligations;
- lead to windfall profits in the retail supply chain; and
- produce a wide range of unintended consequences.

Most importantly, DSICA believes that there is an evidence vacuum with respect to the minimum price model, particularly with respect to its capacity to reduce alcohol consumption or alcohol-related harms amongst underage and at-risk adult drinkers.

There is no definitive evidence which conclusively shows that a minimum price will reduce the consumption of those drinking at high-risk levels in Australia. There is also no evidence that a minimum price will not impact unfairly on the overwhelming majority of moderate drinkers. This lack of evidence should be a matter of considerable concern to policymakers. The only

<sup>1</sup> Australian National Preventative Health Agency, *Exploring the Public Interest Case for a Minimum (Floor) Price for Alcohol: Issues Paper* (Australian Government, 2012), [1].

evidence used in support of minimum pricing comes primarily from academic studies and overseas econometric modelling.

On the contrary, it may be the case that higher prices can (amongst other factors) lead to a potentially higher frequency of ‘binge drinking’. Recent international research concludes that:

*Among all the 40 countries in the present analysis, a non-significant trend was observed, whereby higher prices, higher drinking age and stronger alcohol controls were associated with a lower weekly drinking frequency, but a potentially higher frequency of binge drinking.<sup>2</sup>*

There is no compelling international precedent that is relevant to Australia. These research shortcomings in relation to alcohol-related harms have been noted by Mr Michel Perron, CEO of the Canadian Centre on Substance Abuse, who, in the course of Scottish Parliament Committee proceedings, commented:

*There is no direct evidence anywhere in the world that minimum pricing policies are effective for reducing harmful drinking at the population level.<sup>3</sup>*

Reference to the pending introduction of a minimum price in Scotland, and consideration of a minimum price in the United Kingdom, should be viewed with caution, given the different alcohol policy environments there, coupled with the reliance on limited research to underpin support for the approach.

Reference to the implementation of a similar model in Canada should particularly be treated with considerable caution. Canadian provinces have a history of a rather different approach and legislative framework with respect to the provision of alcohol at the community level. In fact, Canadian officials advised a Scottish Parliamentary Committee that there is no research evidence that shows a causal link between their Social Reference Pricing (SRP) model and a reduction in alcohol-related harms.<sup>4</sup>

A minimum price was not supported by the *Australia’s Future Tax System Review* (the Henry Review), which favoured a single volumetric tax for all alcohol in Australia.<sup>5</sup> DSICA believes that a preferred alternative to addressing the minimum price issue in Australia would be to undertake a phased reform of the Wine Equalisation Tax (WET) into a volumetric tax, consistent with the principles set out in the Henry Review. DSICA has developed a detailed model for such a reform.

There is no basis for a public interest case for introducing a minimum price in Australia, due to:

- the lack of a detailed analysis of the current situation with respect to drinking patterns and harms;
- the lack of an in-depth analysis of the relative merit of differing strategies for addressing harms;
- the absence of compelling research evidence that identifies the harms that will be best addressed through the fiscal mechanism being promoted;

<sup>2</sup> Conor Gilligan, Emmanuel Kuntsche and Gerhard Gmel, ‘Adolescent Drinking Patterns Across Countries: Associations with Alcohol Policies’ (2012) 0(0) *Alcohol and Alcoholism* 1, 5.

<sup>3</sup> Health and Sport Committee, Scottish Parliament, *Alcohol etc (Scotland) Bill: Stage One – Official Report* (2010), [2999].

<sup>4</sup> *Ibid.*, [2996].

<sup>5</sup> Ken Henry et. al., *Australia’s future tax system: Report to the Treasurer (Part Two – Detailed Analysis)* (Australian Government, 2009) 442.

- the lack of any compelling evidence that the preferred approach actually reduces harms in other countries of direct relevance to Australia;
- the absence of any evidence that the preferred approach is effective, robust, exportable, and will not lead to unintended consequences;
- the lack of any detailed advice that such an approach is not inconsistent with Australia's international trade obligations;
- the failure to commit to the development of, and provide public access to, a comprehensive econometric model of the alcohol market in Australia to forecast the likely impact of such an approach; and
- the lack of any credible comparative analysis of the potential merits of alternative models, such as the phased volumetric WET reform proposed by DSICA.

In conclusion, there is insufficient evidence to establish a public interest case for a minimum price for alcohol in Australia.



# 1 What is DSICA’s vision for alcohol policy development?

DSICA appreciates the opportunity to provide this submission in response to the ANPHA Issues Paper *Exploring the Public Interest Case for a Minimum (Floor) Price for Alcohol* (the Issues Paper).<sup>6</sup> This submission broadly follows the structure of the Issues Paper.

As a key stakeholder in the alcohol industry, DSICA supports the aim of the Issues Paper to focus on, amongst other things, ‘potential mechanisms available to reduce harmful alcohol consumption’.<sup>7</sup>

DSICA particularly commends ANPHA for the even-handed approach taken in the Issues Paper. That is, the Issues Paper is not intended to either promote or oppose the introduction of a minimum price on alcohol, but to provide information and assistance to those participating in the inquiry.

At the outset, DSICA wishes to state that it strongly supports the principle, enunciated by a former Parliamentary Secretary to the Minister for Health and Ageing, that:

*...(the) advocates for change bear the burden of proof in demonstrating the need for that change.*<sup>8</sup>

The central issue is, therefore, that the advocates for the introduction of a minimum price must bear the burden of producing the evidence that such a measure will reduce harmful alcohol consumption in Australia, and promote safer consumption.

In essence, DSICA does not believe that the Issues Paper provides such evidence. DSICA believes that there is no compelling international evidence that a minimum price approach has resulted in a reduction of harmful alcohol consumption in any overseas jurisdiction, including Canada.

DSICA believes that there is an increasing tendency in Australia and overseas for policymakers to view alcohol in isolation from other important social and cultural issues which impact on individuals and society. It is DSICA’s view that we should move beyond this simplistic notion to one which more accurately reflects the place of alcohol as an integral component of the social, economic and cultural fabric of Australia.

In order to contribute to a more sophisticated debate regarding the role of alcohol in Australian society, DSICA published *Alcohol in Context*.<sup>9</sup> This comprehensive publication set out DSICA’s views and vision for alcohol policy development in Australia. Those views are relevantly summarised below.

A competent national approach to alcohol policy should be aligned with the dual expectations of the ability to access and consume alcohol free of unnecessary regulations coupled with a targeted focus on alcohol misuse and a duty of care to vulnerable Australians.

DSICA believes that a comprehensive and inclusive set of national approaches to alcohol in Australia should have at its core a commitment to the following:

- partnership between government (Commonwealth, Territory, State and Local), the alcohol industry and other relevant stakeholders;

<sup>6</sup> Australian National Preventative Health Agency, above n 1.

<sup>7</sup> Ibid., [3].

<sup>8</sup> The Hon Christopher Pyne MP, ‘Teenage Drinking – Who’s responsible?’ (Speech Delivered at the National Press Club, Canberra, 1 December 2004).

<sup>9</sup> Distilled Spirits Industry Council of Australia, *Alcohol in Context* (Distilled Spirits Industry Council of Australia, 2011).

- nationally agreed targets for reducing the scale and impact of alcohol misuse coupled with rigorous evaluation of outcomes of all strategies implemented;
- enforcement of existing regulations targeting underage drinking, public intoxication and drinking and driving. There is already more than enough legislation in place; the key is to ensure appropriate enforcement of existing legislation, not to create more;
- targeted education of professionals on evidence-based strategies for tackling alcohol misuse;
- increased community-based services at the primary care level in the areas of early and brief interventions;
- national mass-media campaigns to increase the reach of messages aimed at promoting a culture of moderation in relation to all alcohol used in Australia; and
- recognition that reducing the misuse and abuse of alcohol cannot be achieved without paying attention to those factors in modern Australia which undermine social cohesion and personal responsibility.

Furthermore, DSICA advocates for the following specific policy objectives:

- encouraging the consumption of alcohol in moderation;
- endorsing the absolute right of adults to purchase and consume alcohol without the imposition of intrusive controls;
- reducing community tolerance towards, and the incidence of, intoxication;
- developing and implementing comprehensive age-appropriate educational alcohol programs within the school curriculum, including a renewed emphasis on the transition years between school, further education and the workplace;
- developing and implementing a national approach to appropriately inform pregnant women and other at-risk populations;
- a commitment to rigorous, evidence-based evaluation of policies to ensure efficacy and cost-effectiveness; and
- a commitment that all categories of alcohol product of equal strength be treated equally by all governments.

## 1.1 Population wide versus targeted policies

There is considerable debate regarding the most appropriate policy approach to take with respect to reducing the harms associated with alcohol misuse. Increasingly over recent years there has been a growing interest in targeting patterns of drinking as opposed to the so-called ‘population-based approach’.

The Issues Paper makes the case that a minimum price is a pricing policy, and also that:

*...policies that target the whole population are more effective than those (policies) targeting high-risk groups.<sup>10</sup>*

<sup>10</sup> Australian National Preventative Health Agency, above n 1, [20].

DSICA does not accept the proposition that whole of population policies are proven to be more effective than targeted policies, in reducing levels of alcohol-related harm.

The International Center for Alcohol Policies in its *Guide to Creating Integrative Alcohol Policies* population model makes the following comments with respect to both approaches:

*Control measures are aimed at restricting access to and availability of alcohol through a range of measures applied to the population as a whole. The goal of these control measures is to reduce the overall per capita consumption in an effort to reduce the incidence of harm.*

*The ‘control of consumption’ approach relies on the notion of a defined and linear relationship between the level of alcohol consumption across a population and the level of harm.<sup>11</sup>*

Advocates for population-based measures have long argued that reducing overall consumption across all alcohol consumers will impact on the levels of alcohol-related harm. Governments have increasingly adopted control policy measures, alcohol consumption has fallen, and yet there appears to be no impact on the levels of excessive drinking amongst certain subsets of the community.

**Population measures are broad and non-specific.** As a result they:

- cannot differentiate between those who drink responsibly and those who abuse alcohol;
- are insensitive to variations and cultural difference in the role of alcohol in society;
- require legislation and structural change for their implementation;
- rely on enforcement to be effective;
- are not tailored to the reality of drinking; and
- are inflexible to change and shifting societal needs.

The aim of targeted interventions is to reduce misuse and the harms that flow from that, not to necessarily reduce overall consumption. Targeted interventions seek to reduce the potential for harm by specifically and selectively focusing on problematic drinking patterns amongst those individuals, settings and behaviors where risk of harm from drinking is increased.

**Targeted measures include:**

- provision of information, raising awareness, and alcohol education, particularly for at-risk groups;
- social norms marketing and life skills approaches;
- brief interventions for problem drinkers;
- drink-drive countermeasures (in conjunction with Blood Alcohol Concentration [BAC] level measures);
- responsible hospitality and server training; and
- local accords and community action.

<sup>11</sup> International Center for Alcohol Policies, *Guide to Creating Integrative Alcohol Policies*, (International Center for Alcohol Policies, 2008), 2.

**Targeted measures:**

- specifically address harm where it occurs;
- can be tailored to individual, societal, and cultural differences;
- do not require structural change or legislation for implementation;
- make best use of resources that are available;
- avoid most unintended outcomes by virtue of their specificity; and
- are responsive to the immediacy of community needs.

DSICA believes that the intention behind targeted approaches is to focus attention on those alcohol-related issues causing the greatest concern within the community. The strategy behind targeted approaches does not have as its endpoint a reduction in the overall consumption of alcohol within the community. However, what it does seek is to reduce the level of harmful drinking and its impacts on individuals and communities.

A significant benefit of targeted approaches is that they do not rely exclusively on governments for their implementation, but require a whole of community response. DSICA would argue that there is considerable scope for communities of interest to formulate a collective approach to reducing harms associated with alcohol misuse.

A new research study published in the prestigious journal *Alcohol and Alcoholism* in July 2012 raises a broad question with respect to the efficacy of control policy measures in reducing alcohol abuse/binge drinking amongst young people. The study reaches the following conclusion that:

*Among all the 40 countries in the present analysis, a non-significant trend was observed, whereby higher prices, higher drinking age and stronger alcohol controls were associated with a lower weekly drinking frequency, but a potentially higher frequency of binge drinking. It is important that future research explores the causal relationships between alcohol policy measures and alcohol consumption patterns to determine whether strict policies do in fact have any beneficial effect on drinking patterns, or lead to rebellion and an increased prevalence of binge drinking.<sup>12</sup>*

This research finding is particularly important in the Australian context, as we need to ensure that the policy directions we take are appropriately targeted to address binge drinking amongst young people, and address at-risk adult groups.

DSICA has over many years contributed in a variety of ways to targeted strategies aimed at helping encourage moderation in the use of alcohol and to reduce alcohol misuse. In particular, we have voluntarily adopted our own set of responsible marketing principles and guidelines, adopted standard drink and health information labelling, and worked closely on the establishment of DrinkWise Australia.<sup>13</sup>

DSICA has long-recognised the importance of collective responsibility both for promoting moderation in the use of alcohol and for assisting in promoting cultural norms, which are consistent with a reduction in alcohol-related harm. Given this, DSICA believes that the time is now right for a root and branch assessment of what the appropriate approach to alcohol misuse

<sup>12</sup> Gilligan, Kuntsche and Gmel, above n 2, 5.

<sup>13</sup> DrinkWise Australia, see [www.drinkwise.org.au](http://www.drinkwise.org.au).

and related harms should be in Australia. Re-examination of the place of targeted alcohol education at all levels of the school and tertiary system should be a priority, along with a focus on parents as role models. The concept of personal responsibility appears to have been relegated to the sidelines of the public policy debate around alcohol. DSICA believes that holding individuals and groups responsible for the outcomes of their behaviour, will go a long way to helping reduce those patterns of drinking associated with harm for individuals and communities.

We know which drinking patterns create most community concern, and it is contingent on the community as a whole, led by government, to implement targeted strategies aimed at changing attitudes and behaviours as a matter of priority. Continuing the focus on light and moderate drinkers will continue the abject failure of public policy to reduce the abuse of alcohol that should be the singular goal for alcohol policy in Australia.

#### **Key point**

DSICA believes there is compelling evidence that targeted measures – in conjunction with appropriate population-based strategies – provide significant opportunities for reducing the levels of excessive alcohol consumption in Australia. However, DSICA does not believe that a minimum price is an appropriate population-based approach for Australia. See Section 2 for further discussion.



## 2 Alcohol consumption in Australia

The Issues Paper provides a useful overview of current alcohol consumption in Australia. This confirms the fact that the overwhelming majority of adult Australians consume alcohol at a low-risk level, and clearly wish to continue to enjoy the benefits of moderate consumption.

However, a detailed analysis of trends in consumption by at-risk groups (including underage drinkers) is essential to fully understanding the Australian context. See also further discussion in Section 3.

DSICA strongly supports the approach taken in the Issues Paper to utilise the definitions for ‘risky’ and ‘high-risk’ alcohol consumption as set out in the 2001 National Health and Medical Research Council *Australian Alcohol Guidelines: Health Risks and Benefits*.<sup>14</sup> This approach is necessary to allow consistency of analysis of survey results which utilised those definitions prior to 2009, when the Guidelines were altered. DSICA’s analysis throughout this submission utilises the 2001 definitions as well.

DSICA supports the Government’s commitment to changing Australia’s drinking culture and addressing alcohol misuse. DSICA considers that policy development and program implementation aimed at achieving targets to reduce harmful alcohol consumption must be based on the best available evidence, and must involve collaboration between state and federal governments, the community, the alcohol industry and other key stakeholders.

Contrary to some persistent claims of increasing levels of ‘binge drinking’ and ‘alcohol abuse’, recent independent reports and analysis of data relating to alcohol consumption patterns, behaviours and trends indicate that:

- there is a stable trend in Australian adult per capita alcohol consumption;
- the majority of Australians drink responsibly, at levels below the risk of long-term harm;
- levels of risky and high-risk drinking amongst young people, and several adult age group cohorts have, in fact, generally been trending downwards over the last decade, on both a short-term and a long-term basis. Any perception of an increasing ‘epidemic’ of high-risk drinking amongst young people, or other adult age groups, is not supported by the best available evidence;
- available evidence indicates that bottled wine is the preferred beverage of choice for Australian consumers aged 14 years and older. At this point in time, there is insufficient contemporary evidence available to ascertain whether there is a correlation between particular beverage categories and risky and high-risk drinking behaviours; and
- the April 2008 Ready-to-Drink product (RTD) tax increase has had no substantive effect on total alcohol consumption levels, instead resulting in switching/substitution out of RTDs and into other alcohol beverage categories. This is completely contrary to the impression given in the Issues Paper reference to the analysis undertaken by Skov et. al.<sup>15</sup> There is no evidence that the consumers who switched from RTDs were predominantly those drinking at risky or high-risk levels.

Each of these facts is discussed in further detail below.

<sup>14</sup> Australian National Preventative Health Agency, above n 1, 7. See also Steven Skov et. al., ‘Is the “alcopops” tax working? Probably yes but there is a bigger picture’ (2011) 195(2) *Medical Journal of Australia* 84.

<sup>15</sup> Ibid., 13.

## 2.1 Long-term trends in alcohol consumption

DSICA estimates adult per capita (population 15 years and over) alcohol consumption for 2010-11 in Australia at 10.11 litres of pure alcohol (LPAs). This is down from 10.37 LPAs adult per capita consumption in 2009-10. These figures are primarily derived from the Australian Bureau of Statistics' (ABS) *Apparent Consumption of Alcohol, Australia* series. It is also supplemented from industry sources on 'traditional' cider (as traditional cider is not included in the ABS data collection). DSICA strongly supports the Issues Paper reference which highlights this omission from the ABS data, and which also highlights the fact that:

*...the exclusion of this data makes it difficult to determine the effect of cider on overall consumption and trends.<sup>16</sup>*

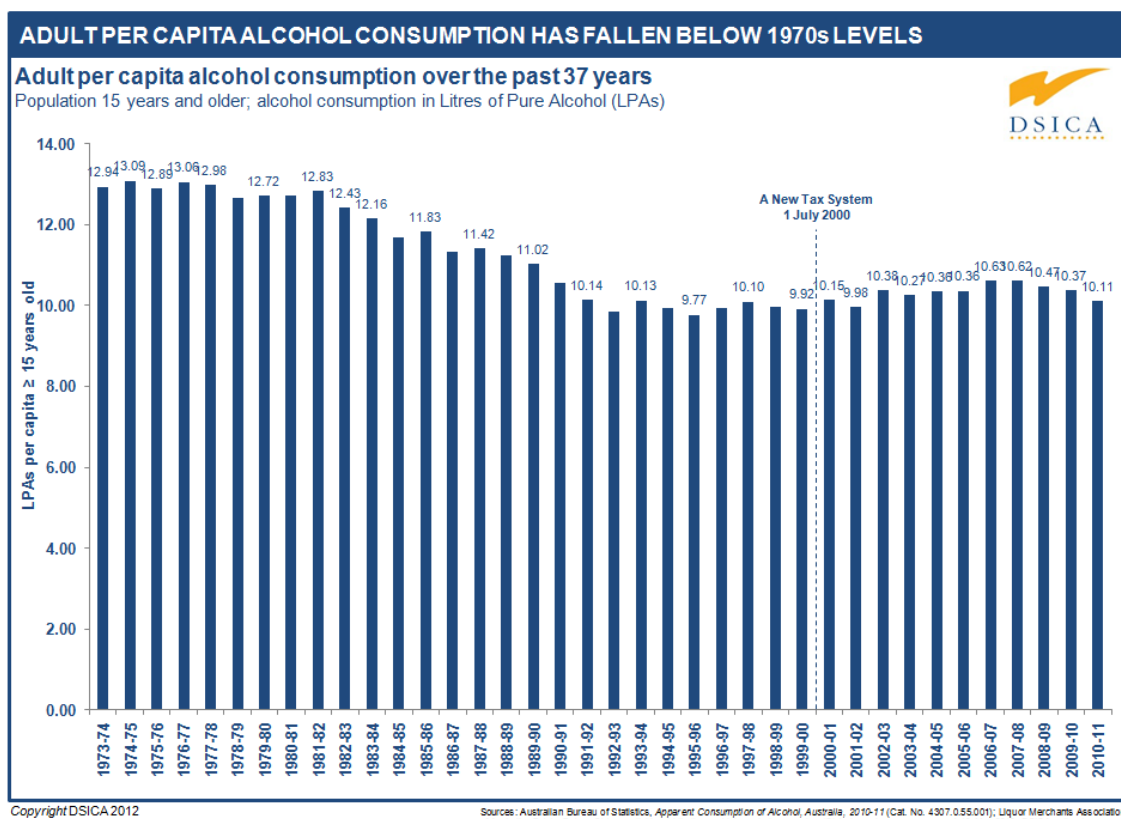
A time series of adult per capita alcohol consumption from 1973-74 to 2010-11 is provided at Figure 2-1. DSICA highlights the following observations and insights in relation to this time series:

- current adult per capita consumption has fallen below levels in the 1970s and is now more than 20 per cent below its 30-year high reached in 1974-75;
- there has been no significant increase in adult per capita consumption since the *A New Tax System* reforms of 1 July 2000, which included a reduction in the tax rate applied to RTDs; and
- while the reduction in RTD volumes after the RTD tax increase on 27 April 2008 was entirely offset by switching/substitution to full-strength bottled spirits, beer, traditional cider and wine, growth in alcohol volumes has been outpaced by population growth. As a result, per capita consumption declined to a very minor extent in 2008-09 and 2009-10.

---

<sup>16</sup> Ibid., [7].

Figure 2-1: Adult per capita alcohol consumption in Australia (1973-74 to 2010-11)<sup>17</sup>



The Australian Institute of Health and Welfare (AIHW) confirmed this stable trend in per capita alcohol consumption and daily drinking patterns, and noted:

*Between 1993 and 2007, the daily drinking patterns of people in Australia aged 14 years or older remained largely unchanged, at around 8 per cent. However, in 2010, there was a statistically significant decrease (since 2007) in the proportion of people drinking daily.<sup>18</sup>*

This reinforces DSICA’s view that there has not been a dramatic change in overall alcohol consumption patterns in the last ten to 15 years that would justify the term ‘binge drinking epidemic’.

## 2.1.1 The majority of Australians drink responsibly

Alcohol is widely enjoyed throughout Australian society and is broadly accepted as a way of relaxing and socialising. It is important to note that the majority of Australians drink in a responsible manner without harm to themselves or others. Indeed, the Preventative Health Taskforce acknowledged the role of alcohol in Australian society and the fact that the majority of Australians drink responsibly:

<sup>17</sup> Note that final per capita consumption levels for 2010-11 may change following release of updated ABS data series *Australian Demographic Statistics* (Cat. No. 3101.0) in December 2012.

<sup>18</sup> Australian Institute of Health and Welfare, *2010 National Drug Strategy Household Survey Report* (Australian Institute of Health and Welfare, 2011), 46.

*The majority of Australians who regularly drink, do so in moderation. Around three quarters (72.6 per cent) of Australians drink below levels for long-term risk of harm.<sup>19</sup>*

In 2010, over 58 per cent of the Australian population (aged 12 years and older) drank alcohol at low-risk levels,<sup>20</sup> while approximately 21 per cent were recorded as ‘abstainers’ (i.e. those who had not consumed alcohol in the previous 12 months). Therefore, if low-risk drinkers are combined with abstainers, almost 80 per cent of the population consume alcohol in a way that does not put them at risk of harm from alcohol-related disease or injury over their lifetime.<sup>21</sup>

## 2.1.2 Australia’s comparative alcohol consumption

Despite some common perceptions of Australia being a nation of heavy drinkers compared with other countries, adult per capita consumption of alcohol in comparable developed countries is higher than in Australia. A comparison between the OECD countries for which per capita consumption data is available (see Figure 2-2) reveals that Australia ranks only equal eighth (along with Denmark and Switzerland) out of a total of 22 countries.<sup>22</sup>

Figure 2-2: Australia’s comparative alcohol consumption (2009)

AUSTRALIA DOES NOT HAVE A HIGH LEVEL OF PER CAPITA ALCOHOL CONSUMPTION COMPARED WITH OTHER OECD COUNTRIES					
Ranking	Country	LPAs per capita	Ranking	Country	LPAs per capita
1	Austria	12.2	13	Netherlands	9.4
2	Czech Republic	12.1	14	New Zealand	9.3
3	Estonia	12.0	15	Slovak Republic	9.0
4	Slovenia	11.5	16	Korea	8.9
5	Ireland	11.3	17	Chile	8.6
6 (equal ranking)	Poland United Kingdom	10.2	18	Canada	8.2
8 (equal ranking)	Australia Denmark Switzerland	10.1	19 (equal ranking)	Japan Sweden	7.4
11	Finland	10.0	21	Norway	6.7
12	Germany	9.7	22	Turkey	1.5

Statistics taken from the 2009 *Non-Medical Determinants of Health: Alcohol Consumption* dataserries. Note that statistics relating to alcohol consumption collected by the OECD and DSICA differ, however only OECD statistics have been used in this comparison to ensure consistency across all countries.

Copyright DSICA 2012

Source: OECD

A further comparison with nine selected OECD countries in the *International Comparison of Australia’s Taxes* report further supports this conclusion.<sup>23</sup> DSICA’s analysis reveals that within these ten OECD countries (referred to as the ‘OECD-10’), Australia has the second lowest per capita consumption of alcohol beverages.

The World Health Organization ranks Australia as 44<sup>th</sup> out of 188 countries in terms of per capita alcohol consumption.<sup>24</sup> *DSICA cautions readers about such large international comparisons due to cultural and religious factors in some other countries.* Accordingly, DSICA

<sup>19</sup> Preventative Health Taskforce, *Australia: The Healthiest Country by 2020, National Preventative Health Strategy – The Roadmap for Action* (Australian Government, 2009) 23.

<sup>20</sup> I.e. low-risk levels of alcohol-related harm over a lifetime.

<sup>21</sup> Australian Institute of Health and Welfare, above n 18, 53.

<sup>22</sup> Organisation for Economic Co-Operation and Development, *Non-Medical Determinants of Health: Alcohol Consumption* (Organisation for Economic Co-Operation and Development, 2009).

<sup>23</sup> Ibid.; Richard Warburton and Peter Hendy, *International Comparison of Australia’s Taxes* (Australian Government, 2006) 268.

<sup>24</sup> World Health Organization, *Global Status Report on Alcohol and Health 2011* (World Health Organisation, 2011) 273-7.

believes it is appropriate to compare Australia’s consumption only against similar Western countries – as in the OECD comparisons above.

### Key point

Alcohol consumption in Australia is in long-term decline, and is now more than 20 per cent below its 30-year high reached in 1974-75. The majority of Australians drink responsibly, with international evidence demonstrating that Australia ranks only equal eighth out of a total of 22 developed countries for which per capita alcohol consumption is available. There is no evidence to suggest that trends in Australian alcohol consumption patterns, on a per capita basis, warrant the introduction of a minimum price.

## 2.1.3 Impact of the 2008 Ready-to-Drink product tax increase

One of the key propositions central to the Issues Paper is the proposition that the research undertaken by The University of Sheffield School of Health and Related Research (the University of Sheffield research) in relation to minimum pricing in Scotland suggests that:

*...hazardous and harmful drinkers are more responsive to changes in price than moderate drinkers. One reason that is proposed is that harmful drinkers may be more likely to switch between products than moderate drinkers.<sup>25</sup>*

The Issues Paper then gives the response to the RTD ‘alcopops’ tax case as an example of ‘switching behaviour observed in Australia’.<sup>26</sup>

DSICA rejects categorically the appropriateness of the Skov et. al. quote used in isolation in the Issues Paper to highlight this point.<sup>27</sup>

This point merits a detailed discussion, which follows below.

Despite a stable trend in alcohol consumption and acknowledgement that the majority of Australians consume alcohol in a responsible manner, the Australian Government raised the excise duty payable on RTDs from \$39.36 per LPA (the excise duty rate broadly applying to full-strength packaged beer products) to \$66.67 per LPA (the excise duty rate applying to full-strength bottled spirits products) on 27 April 2008 – an increase of 70 per cent. This policy measure was presented as a means of reducing the harm to young people arising from excessive drinking. Indeed, the Government stated that ‘binge drinking’ is a ‘community-wide problem and requires a comprehensive, community-wide response’.<sup>28</sup>

It should be noted that the pre-April 2008 tax differential between RTDs and spirits was neither an anomaly nor an unintended feature of the alcohol tax system. This differential resulted from a deliberate policy decision, implemented in July 2000, to tax RTDs at a similar rate as packaged beer. The policy rationale was that beer and RTDs are of similar strengths, are marketed to consumers in similar ways, and are substitutes, competing for the same consumer demographic.

The Government’s decision was implemented on 27 April 2008, despite the fact that there was no reliable evidence demonstrating that RTDs were disproportionately linked with risky and

<sup>25</sup> Australian National Preventative Health Agency, above n 1, [28].

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> The Hon Nicola Roxon MP and Senator the Hon Jan McLucas, ‘National Binge Drinking Strategy’ (Media Release, 17 November 2008), 1.

high-risk drinking behaviours. Further, in the time that has elapsed since the tax increase, evidence demonstrates that the RTD tax increase has not been effective in reducing harmful drinking levels.

*No evidence that Ready-to-Drink products are disproportionately linked with risky and high-risk drinking behaviours*

There is no reliable evidence that RTDs are disproportionately associated with, or have caused a rise in, risky and high-risk drinking by young people.

In justifying the RTD tax increase, the Government stated that it was responding to purported evidence that RTDs were responsible for causing a dramatic rise in ‘binge’ (or risky/high-risk) drinking amongst young people. Contrary to this, neither the Henry Review nor findings from the *National Drug Strategy Household Surveys* (NDSHS) indicate that there is any reliable evidence demonstrating that this is the case.

*The Henry Review finds no evidence*

The Henry Review concluded that there was currently no credible evidence demonstrating that RTDs are disproportionately linked with risky or high-risk drinking behaviours.<sup>29</sup>

*The National Drug Strategy Household Survey provides no evidence*

Australia’s most reliable longitudinal survey series in relation to alcohol consumption patterns is the NDSHS. This is the ‘gold standard’ for analysis purposes. The NDSHS results demonstrate that there is no relationship between risky and high-risk drinking patterns and RTD consumption levels.

Evidence from the NDSHS confirms that there is no link between the growth in RTD consumption and an increase in risky and high-risk drinking patterns. Indeed, the evidence demonstrates that, prior to 2008, there had been a reduction in the proportion of 14-19 year olds (both male and female) drinking at levels of long-term harm. While risky and high-risk drinking levels amongst 14-19 year olds are still unacceptably high, DSICA notes that the decline in these behaviours is a welcome trend, and analysis of this data in the period following the RTD tax change indicates that this trend has generally continued.<sup>30</sup> The most notable trends are outlined in Figure 2-3.

---

<sup>29</sup> Henry et. al., above n 5, 435.

<sup>30</sup> Note, however, that there has been a slight increase in the proportion of 14-19 year old males drinking at high-risk levels of harm in the long-term between 2007 and 2010, and a slight increase in the proportion of 14-19 year old females drinking at levels which present a risk of harm in the short-term on a monthly basis between 2007 and 2010. The proportion of 14-19 year old males drinking at risk of short-term harm on a weekly basis has fluctuated throughout 2001 to 2010.

Figure 2-3: Risk of long-term harm from alcohol consumption (risky and high-risk drinking behaviours, males and females 14-19 years, 2001-2010)

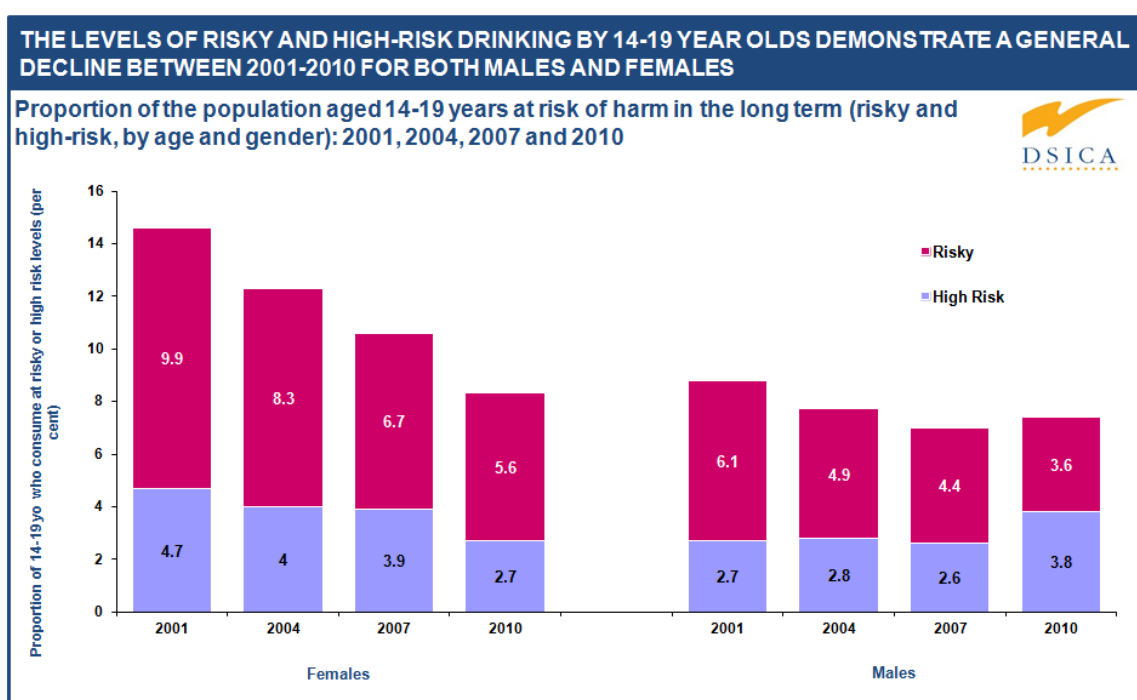
### Risk of harm in the long-term

Females (14-19 years)	Proportion who consume alcohol at risky and high-risk levels fell from 14.6 per cent in 2001 to 8.3 per cent in 2010	Reduction of <b>43</b> per cent between 2001 and 2010
Males (14-19 years)	Proportion who consume alcohol at risky and high-risk levels fell from 8.8 per cent in 2001 to 7.4 per cent in 2010	Reduction of <b>16</b> per cent between 2001 and 2010

Sources: Australian Institute of Health and Welfare, 2010 National Drug Strategy Household Survey Report, 2011; Australian Institute of Health and Welfare, 2007 National Drug Strategy Household Survey: First Results, 2008; Australian Institute of Health and Welfare, 2004 National Drug Strategy Household Survey: First Results, 2005; Australian Institute of Health and Welfare, 2001 National Drug Strategy Household Survey: First Results, 2002.

These findings, and the relevant trends, are illustrated in Figure 2-4.

Figure 2-4: Long-term levels of risky and high-risk drinking by 14-19 year olds (males and females, 2001-2010)



Copyright DSICA 2012

Sources: 2001, 2004 2007 and 2010 National Drug Strategy Household Survey: First Results

There has been a slight increase in the number of 14-19 year old males drinking at high-risk levels between 2007 and 2010. However, the 2010 NDSHS indicates that spirits and RTDs are not the preferred beverages of this demographic group. In fact, 34.4 per cent of this demographic group indicate that full-strength beer is their preferred beverage.<sup>31</sup>

Evidence also demonstrates that prior to 2008, there had been a continued reduction in the proportion of 14-19 year olds (both male and female) consuming alcohol on a weekly or monthly basis which presents a risk of short-term harm. This trend has continued following the RTD tax change. The most notable trends are outlined in Figure 2-5.

<sup>31</sup> Australian Institute of Health and Welfare, above n 18, 77.

Figure 2-5: Risk of short-term harm from alcohol consumption (weekly and monthly, males and females 14-19 years, 2001-2010)

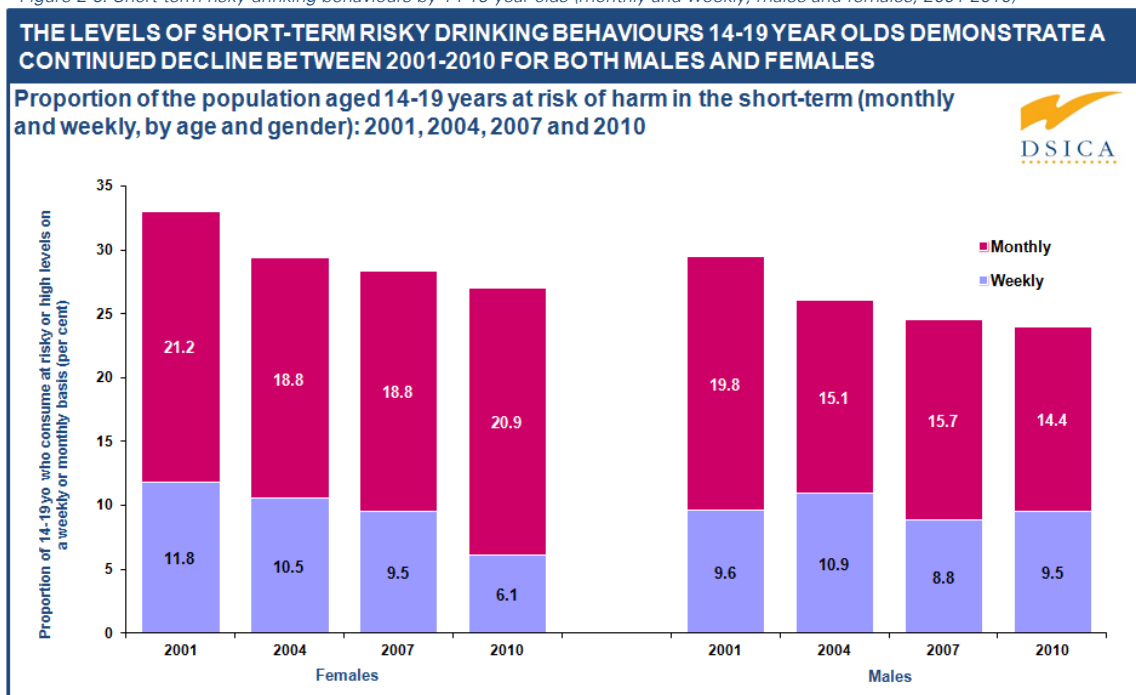
### Risk of harm in the short-term

Females (14-19 years)	Proportion who consume alcohol at levels presenting a risk of short-term harm on a weekly or monthly basis fell from a combined total of 33.0 per cent in 2001 to 27.0 per cent in 2010.	Reduction of <b>18</b> per cent between 2001 and 2010
Males (14-19 years)	Proportion who consume alcohol at levels presenting a risk of short-term harm on a weekly or monthly basis fell from a combined total of 29.4 per cent in 2001 to 23.9 per cent in 2010.	Reduction of <b>19</b> per cent between 2001 and 2010

Sources: Australian Institute of Health and Welfare, 2010 National Drug Strategy Household Survey Report, 2011; Australian Institute of Health and Welfare, 2007 National Drug Strategy Household Survey: First Results, 2008; Australian Institute of Health and Welfare, 2004 National Drug Strategy Household Survey: First Results, 2005; Australian Institute of Health and Welfare, 2001 National Drug Strategy Household Survey: First Results, 2002.

These findings, and the relevant trends, are illustrated in Figure 2-6.

Figure 2-6: Short-term risky drinking behaviours by 14-19 year olds (monthly and weekly, males and females, 2001-2010)



Copyright DSICA 2012

Sources: 2001, 2004 2007 and 2010 National Drug Strategy Household Survey: First Results

DSICA notes that the NDSHS findings indicate that the decline in risky and high-risk drinking behaviours was evident *prior* to the introduction of the tax increase on RTDs, and does not appear to have arisen as a result of this tax change. It is therefore presumptuous to argue that this welcome trend has arisen as a direct result of the RTD tax change.

### *The Ready-to-Drink product tax increase has failed to reduce total alcohol consumption*

The best available evidence confirms that the 2008 RTD tax increase failed to reduce overall alcohol consumption in Australia.

The Issues Paper quotes an article by Skov et. al, citing an isolated quote:

*In the first full year that the RTD alcohol beverages tax (the ‘alcopops’ tax) was in effect 2008-09, there was a 30 per cent decrease in sales of RTDs. This was followed by a further decline in 2009-10. Over the same period there was an increase in the sales of other spirits; however, this increase accounted for less than half of the decrease in RTD sales.<sup>32</sup>*

DSICA notes that in the Skov et. al. article, this quote is followed by a significant additional observation:

*The net effect was a 1.5 per cent reduction in all alcohol apparently consumed in 2008-09 and a further reduction in the following year.<sup>33</sup>*

Australian Bureau of Statistics data released in January 2011 confirms that there was a 30 per cent reduction in the total number of LPAs of RTDs consumed between 2007-08 and 2008-09, and that there was an increase in total consumption of spirits products. However, the Issues Paper quote outlined above ignores the fact that there were also increases in the total consumption of beer, wine and traditional cider products, which offset the dramatic decrease of total RTD consumption seen in the 2008-09 financial year.<sup>34</sup>

DSICA contends that there is no evidence in the Issues Paper that the consumers who switched from RTDs to other products were ‘hazardous and harmful drinkers’. It is equally likely that the consumers that switched from consuming RTDs were low-risk drinkers, and the Issues Paper provides no evidence identifying the consumers who switched from drinking RTDs with any particular level of risk behaviour.

The ABS data series *Apparent Consumption of Alcohol, Australia*, records the levels of alcohol consumption by beverage category – beer, full-strength bottled spirits, RTDs and wine. However, the series does not include traditional cider consumption, the fastest-growing segment of the Australian alcohol market (and a direct competitor of RTDs). Factoring in industry data regarding sales in the ‘traditional’ cider market, *total* alcohol consumption had increased by 0.9 per cent between 2007-08 and 2008-09.<sup>35</sup> This demonstrates that while the RTD tax increase had altered consumption of RTDs, it had not reduced total alcohol consumption. Instead, consumers had switched to consuming full-strength bottled spirits, beer, wine and traditional cider in substitution for RTDs.

Figure 2-7 demonstrates that despite there being a significant reduction in the consumption of RTDs following the tax change (down by 30 per cent), this had been more than offset by total increases in full-strength bottled spirits, wine, beer and traditional cider consumption.

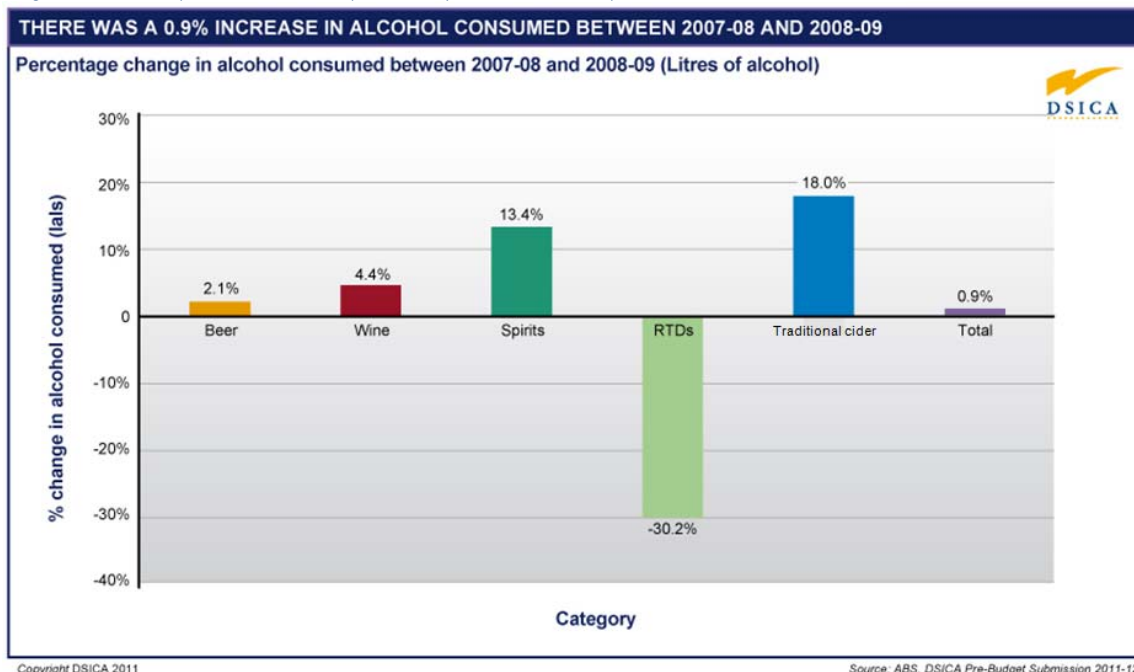
<sup>32</sup> Australian National Preventative Health Agency, above n 1, 13.

<sup>33</sup> Steven Skov et. al., ‘Is the “alcopops” tax working? Probably yes but there is a bigger picture’ (2011) 195(2) *Medical Journal of Australia* 84, 84.

<sup>34</sup> Australian Bureau of Statistics, *Apparent Consumption of Alcohol, Australia: Extended Time Series, 1944-1945 to 2008-09* (Cat. No. 4307.0.55.002) (Australian Bureau of Statistics, 2011).

<sup>35</sup> While *total* alcohol consumption increased between 2007-08 and 2008-09, alcohol consumption on a *per capita* basis declined due to faster population growth during this period.

Figure 2-7: Consumption of beer, wine spirits, Ready-to-Drink and cider products (2007-08 and 2008-09)

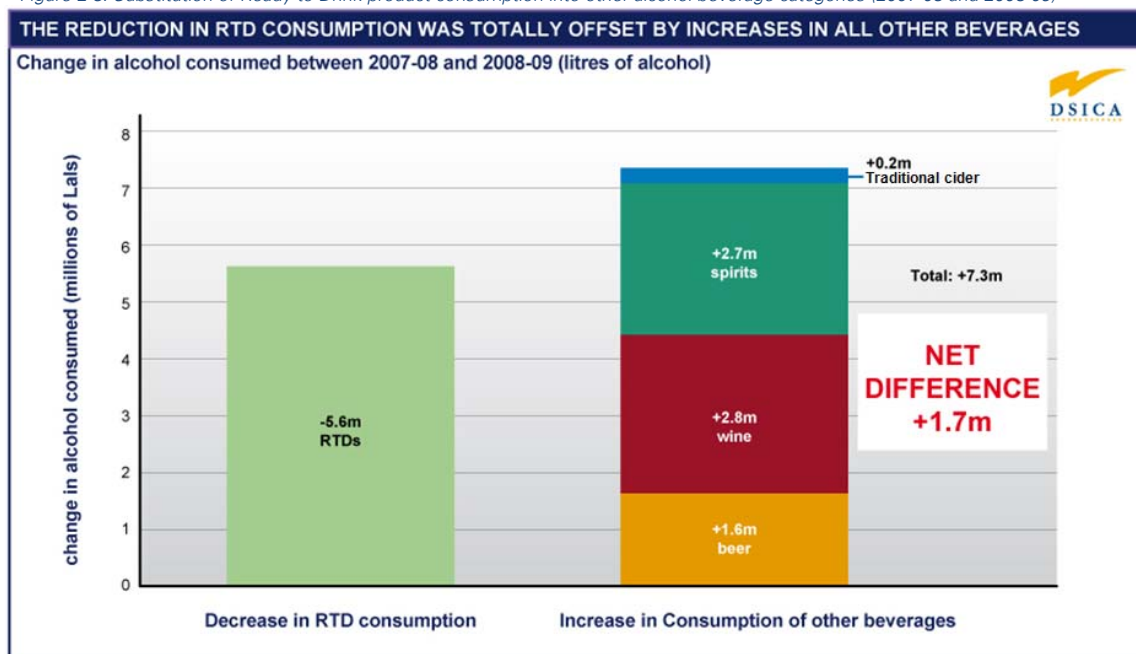


In summary, ABS and industry market data confirms that total:

- **alcohol consumption increased by 0.9 per cent** (or 1.7 million LPAs) in 2008-09 compared to 2007-08;
- **RTD** consumption fell by 5.6 million LPAs (down by **30.2 per cent**);
- **full-strength bottled spirits** consumption increased by 2.7 million LPAs (up by **13.4 per cent**);
- **beer** consumption increased by 1.6 million LPAs (up by **2.1 per cent**);
- **wine** consumption increased by 2.7 million LPAs (up by **4.4 per cent**); and
- **traditional cider** consumption increased by an estimated 210,000 LPAs (up by **18.0 per cent**).

Figure 2-8 provides a diagrammatic representation of how the decrease in total RTD consumption was offset by the total increase in consumption of all other alcohol beverage categories.

Figure 2-8: Substitution of Ready-to-Drink product consumption into other alcohol beverage categories (2007-08 and 2008-09)



Notwithstanding this, analysis of per capita alcohol consumption in 2007-08 and 2008-09 demonstrates that while *total* alcohol consumption increased between 2007-08 and 2008-09, there was a very minor reduction in alcohol consumption on a *per capita* basis due to population growth during this period. Indeed, per capita alcohol consumption declined from 10.62 LPAs in 2007-08 to 10.47 LPAs in 2008-09, a decrease of a mere 1.15 per cent. This minor reduction continued in 2009-10, with per capita alcohol consumption decreasing by an even smaller percentage to 10.37 LPAs.

The available evidence thus questions the efficacy of taxation initiatives which target single beverage categories as a means of reducing harmful alcohol consumption. To this end, DSICA notes that while the RTD tax increase *prima facie* appears to have been successful in reducing consumption of RTDs, the overall increase in total alcohol consumption due to switching/substitution into other alcohol beverage categories mitigates the purported benefits of the tax change.

### *The Ready-to-Drink product tax increase has failed to reduce levels of alcohol-related harm*

As stated above, DSICA contends that there is no evidence that the consumers who switched from RTDs to other products were ‘hazardous and harmful drinkers’.

Similarly, there is no evidence that the 2008 RTD tax increase was effective in reducing, for example, alcohol-related hospitalisations.

A recent longitudinal study of alcohol-related hospitalisations and Emergency Department presentations by the University of Queensland/Griffith Health Institute has concluded that alcohol-related hospitalisations and presentations have not declined since the RTD tax increase. This study confirms that the RTD tax increase has not been effective in reducing the incidence of alcohol-related harm, using this measure.

The University of Queensland and Griffith Health Institute at Griffith University collaborated with a range of Queensland-based institutions and the Gold Coast Hospital to study alcohol-related presentations at the Gold Coast Hospital between 2005 and 2010. The study found that the proportion of alcohol-related Emergency Department presentations for 15 to 29 year olds on the Gold Coast did not significantly fall after the introduction of the RTD tax increase when compared with alcohol-related presentations in an older age group, or with non-alcohol-related presentations in the same age group.<sup>36</sup> These findings prompted the authors to propose the following hypotheses on the effectiveness of the RTD tax increase:

- price influences average consumption of all drinks, but not risky consumption on a single occasion;<sup>37</sup> and
- raising the price of just one type of drink may not reduce alcohol-related harms. This has prompted the authors to note that, if true, this may raise questions about generalising from the effects of *overall* increases in alcohol tax to initiatives that target one type of drink.<sup>38</sup>

The findings of this study not only demonstrate that the RTD tax increase has not resulted in a reduction of alcohol-related harms, but also that more targeted interventions (rather than fiscal changes alone) are required to reduce the incidence of risky and high-risk drinking behaviours.

#### **Key point**

The 2008 RTD tax increase has failed to achieve its desired health and social policy objectives, instead resulting in switching/substitution into other alcohol beverage categories, leading to a net overall increase in alcohol consumption between 2007-08 and 2008-09. There is no evidence that the consumers who switched from drinking RTDs were predominantly from at-risk groups. This case demonstrates the importance of developing workable, evidence-based alcohol health policies, and the need to undertake ongoing and intensive scrutiny in this area.

## **2.2 Trends in risky and high-risk drinking behaviours**

The Issues Paper provides a helpful comparison of the proportion of the various age groups, by gender, which are drinking at risky levels in the short- and the long-term, comparing 2010 NDSHS results with 2007.

DSICA considers that a detailed comparison of the results across the four most recent NDSHS surveys, from 2001 to 2010, is particularly relevant in identifying the key trends in risky consumption patterns.

This analysis shows that levels of risky and high-risk drinking amongst young people, and several adult age group cohorts have, in fact, generally been trending downwards over the last decade, on both a short-term and a long-term basis. Any perception of an increasing ‘epidemic’ of high-risk drinking amongst young people, or all adult age groups, is not supported by the best available evidence. The case for the introduction of a minimum price to reverse increasing levels of alcohol-related harm amongst young people, and all other age groups, cannot be made.

<sup>36</sup> Steve Kisely et. al., ‘Effect of the increase in ‘alcopops’ tax on alcohol-related harms in young people: a controlled interrupted time series’ (2011) 195(11/12) *Medical Journal of Australia* 690, 692.

<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

The 2010 NDSHS contains the most recently published evidence relating to alcohol consumption and trends. The 2010 NDSHS includes findings related to alcohol consumption broken down by age group and gender. Findings of the 2010 NDSHS can be analysed with reference to 12 demographic groups – 14-19, 20-29, 30-39, 40-49, 50-59 and 60 years old and over for both males and females.

Evidence from the 2010 NDSHS indicates that the trends in risky and high-risk drinking behaviours are not uniform across the 12 demographic groups.

In relation to the proportion who are abstainers,<sup>39</sup> the evidence from the 2010 NDSHS indicates that in ten out of the 12 demographic groups the trend from 2001 to 2010 has been upwards (or stable).<sup>40</sup> That is, increasing numbers of Australians are abstaining from consuming alcohol (that is, they are not ‘current drinkers’ for the purposes of the surveys). It is only the oldest age groups that have falling proportions of abstainers.

These findings and trends are illustrated in Figure 2-9.

Figure 2-9: Level of abstainers 2001, 2004, 2007 and 2010 – males and females aged 14 years and older (percentages of the total age group)<sup>41</sup>

	2001	2004	2007	2010	Change from 2001 to 2010	Percentage change from 2001 to 2010	Trend
<b>Males</b>							
14-19	27.2	30.4	29.2	35.4	8.2	30%	↑
20-29	8.4	7.8	11.1	13.9	5.5	65%	↑
30-39	9.8	8.9	10.9	13.5	3.7	38%	↑
40-49	11.4	8.6	10.8	12.5	1.1	10%	↑
50-59	12.5	10.5	9.9	12.8	0.3	2%	-
60+	20.1	17.3	17.3	17.6	-2.5	-12%	↓
<b>Females</b>							
14-19	25.3	27.6	28.7	35.4	10.1	40%	↑
20-29	11.3	13.4	14.8	15.6	4.3	38%	↑
30-39	16.0	13.0	13.5	17.9	1.9	12%	↑
40-49	16.4	13.8	13.9	16.0	-0.4	-2%	-
50-59	21.9	19.5	18.1	20.2	-1.7	-8%	↓
60+	33.0	31.6	31.1	31.7	-1.4	-4%	-

Sources: Australian Institute of Health and Welfare, 2010 National Drug Strategy Household Survey Report, 2011; Australian Institute of Health and Welfare, 2007 National Drug Strategy Household Survey: First Results, 2008; Australian Institute of Health and Welfare, 2004 National Drug Strategy Household Survey: First Results, 2005; Australian Institute of Health and Welfare, 2001 National Drug Strategy Household Survey: First Results, 2002.

In relation to the proportion who consume alcohol at risky or high-risk levels for long-term harm, the evidence from the 2010 NDSHS indicates that in six out of the 12 demographic groups, the trend from 2001 to 2010 has been downwards (or stable). That is, the proportion of the age group who are drinking at risk has been falling (or is stable).

<sup>39</sup> An ‘abstainer’ is someone who has not consumed alcohol in the previous 12 months.

<sup>40</sup> Where the percentage change from 2001 to 2010 is less than five percent, DSICA has determined that there is no noticeable trend and that the level of alcohol consumption is ‘stable’.

<sup>41</sup> Note that an ‘abstainer’ is defined as a person who has not consumed alcohol in the previous 12 months.

These findings and trends, for risk of long-term harm, are illustrated in Figure 2-10.

Figure 2-10: Risk of long-term harm from alcohol consumption (risky and high-risk drinking behaviours) – males and females aged 14 years and older (percentages of the total age group)<sup>42</sup>

	2001	2004	2007	2010	Change from 2001 to 2010	Percentage change from 2001 to 2010	Trend
<b>Males</b>							
<b>14-19</b>	8.8	7.7	7.0	7.4	-1.4	-16%	↓
<b>20-29</b>	14.5	14.4	15.5	12.3	-2.2	-15%	↓
<b>30-39</b>	8.9	10.3	9.9	10.6	1.7	19%	↑
<b>40-49</b>	9.6	9.3	9.5	11.5	1.9	20%	↑
<b>50-59</b>	11.6	10.7	11.2	11.4	-0.2	-2%	-
<b>60+</b>	8.0	7.9	7.4	7.4	-0.6	-8%	↓
<b>Females</b>							
<b>14-19</b>	14.6	12.3	10.6	8.3	-6.3	-43%	↓
<b>20-29</b>	14.9	15.1	16.4	15.1	0.2	1%	-
<b>30-39</b>	8.7	9.8	10.7	10.0	1.3	15%	↑
<b>40-49</b>	9.7	10.3	11.9	11.1	1.4	14%	↑
<b>50-59</b>	7.4	7.4	9.6	10.5	3.1	42%	↑
<b>60+</b>	4.4	5.2	5.5	5.3	0.8	19%	↑

Sources: Australian Institute of Health and Welfare, 2010 National Drug Strategy Household Survey Report, 2011; Australian Institute of Health and Welfare, 2007 National Drug Strategy Household Survey: First Results, 2008; Australian Institute of Health and Welfare, 2004 National Drug Strategy Household Survey: First Results, 2005; Australian Institute of Health and Welfare, 2001 National Drug Strategy Household Survey: First Results, 2002.

In relation to the proportion who consume alcohol at levels presenting a risk for short-term harm on a weekly or monthly basis combined, the evidence from the 2010 NDSHS indicates that in six out of the 12 demographic groups the trend from 2001 to 2010 has been downwards (or stable).

These findings and trends, for short-term harm, are illustrated in Figure 2-11.

<sup>42</sup> Note that the 2001 National Health and Medical Research Council guidelines define risky long-term consumption as 5-6 standard drinks per day (29-42 standard drinks per week) for males, and 3-4 standard drinks per day (15-28 standard drinks per week) for females. High-risk long-term consumption is defined as 7 or more standard drinks per day (43 or more standard drinks per week) for males, and 5 or more standard drinks per day (29 or more standard drinks per week) for females.

Figure 2-11: Risk of short-term harm from alcohol consumption (weekly and monthly) – males and females aged 14 years and older (percentages of the total age group)<sup>43</sup>

	2001	2004	2007	2010	Change from 2001 to 2010	Percentage change from 2001 to 2010	Trend
<b>Males</b>							
<b>14-19</b>	29.4	26.0	24.5	23.9	-5.5	-19%	↓
<b>20-29</b>	42.4	44.0	43.8	39.5	-2.9	-7%	↓
<b>30-39</b>	28.2	29.2	27.5	28.1	-0.1	0%	-
<b>40-49</b>	20.6	22.5	23.2	23.4	2.8	14%	↑
<b>50-59</b>	16.7	17.7	17.7	19.0	2.3	14%	↑
<b>60+</b>	7.6	8.1	8.5	8.0	0.4	5%	-
<b>Females</b>							
<b>14-19</b>	33.0	29.3	28.3	27.0	-6.0	-18%	↓
<b>20-29</b>	36.1	36.9	35.3	34.5	-1.6	-4%	-
<b>30-39</b>	17.6	19.6	20.1	20.9	3.3	19%	↑
<b>40-49</b>	13.9	16.0	16.5	16.8	2.9	21%	↑
<b>50-59</b>	7.6	7.8	9.2	11.1	3.5	46%	↑
<b>60+</b>	2.6	3.1	3.6	3.4	0.8	29%	↑

Sources: Australian Institute of Health and Welfare, 2010 National Drug Strategy Household Survey Report, 2011; Australian Institute of Health and Welfare, 2007 National Drug Strategy Household Survey: First Results, 2008; Australian Institute of Health and Welfare, 2004 National Drug Strategy Household Survey: First Results, 2005; Australian Institute of Health and Welfare, 2001 National Drug Strategy Household Survey: First Results, 2002.

The AIHW has further stated that over the survey years of 2001 to 2007:

*The proportion of Australians aged 14 years and over that are abstainers has remained fairly constant.<sup>44</sup>*

*Approximately ten per cent of Australians are consuming alcohol at levels that are ‘risky or high-risk’ for long-term harm.<sup>45</sup>*

*The proportion of the Australian population aged 14 years and over that drink alcohol at a ‘high-risk’ level for short-term harm was about 10 per cent.<sup>46</sup>*

*There were small, but statistically non-significant, increases in short-term risk alcohol consumption for most age groups.<sup>47</sup>*

DSICA notes that the findings of the 2010 NDSHS indicate that there is no population-wide increase in the levels of risky and high-risk drinking behaviours. DSICA believes, therefore, that the case for the introduction of a minimum price to reverse perceived increasing levels of alcohol-related harm cannot be made.

<sup>43</sup> Note that the 2001 National Health and Medical Research Council guidelines define risky short-term consumption as 7-10 standard drinks on any day for males, and 5-6 standard drinks on any day for females. High-risk short-term consumption is defined as 11 or more standard drinks on any day for males and 7 or more standard drinks on any day for females.

<sup>44</sup> Australian Institute of Health and Welfare, *Drinking patterns in Australia, 2001-2007* (Australian Institute of Health and Welfare, 2010) 7.

<sup>45</sup> Ibid.

<sup>46</sup> Ibid, 8.

<sup>47</sup> Ibid, 9.

## 2.3 Beverage preferences and choices

DSICA understands that ANPHA is looking at the ‘evidence around the harms associated with cheap alcohol and associated consumption patterns’.<sup>48</sup>

The 2010 NDSHS includes findings relating to beverage preferences broken down by age group and gender, but does not include results relating to beverage preferences of those engaged in risky and high-risk drinking behaviours. As such, it is difficult to ascertain whether there is any correlation between certain beverage types and risky and high-risk drinking behaviours and it is also difficult to make informed, evidence-based policy decisions. Nevertheless, available evidence regarding beverage preference by all current drinkers in the relevant age group is outlined in Figure 2-12.

Figure 2-12: Main type of alcohol usually consumed, recent drinkers aged 14 years and older, by age and sex, 2010

Age group (years)	Males	Females	Persons
12-17	Pre-mixed spirits (38.2%)	Pre-mixed spirits (62.1%)	Pre-mixed spirits (50.3%)
18-19	Regular strength beer (43.7%)	Pre-mixed spirits (46.9%)	Pre-mixed spirits (36.2%)
20-29	Regular strength beer (44.5%)	Bottled spirits/liqueurs (25.3%)	Regular strength beer (27.4%)
30-39	Regular strength beer (41.3%)	Bottled wine (50.7%)	Bottled wine (33.4%)
40-49	Regular strength beer (34.2%)	Bottled wine (50.7%)	Bottled wine (37.6%)
50-59	Regular strength beer (31.2%)	Bottled wine (54.8%)	Bottled wine (41.4%)
60+	Bottled wine (26.9%)	Bottled wine (59.2%)	Bottled wine (39.7%)
<b>Total (12+)</b>	<b>Regular strength beer (33.9%)</b>	<b>Bottled wine (47.2%)</b>	<b>Bottled wine (32.4%)</b>
14-19	Regular strength beer (34.4%)	Pre-mixed spirits (55.5%)	Pre-mixed spirits (43.8%)
14+	<b>Regular strength beer (33.9%)</b>	<b>Bottled wine (47.3%)</b>	<b>Bottled wine (32.5%)</b>
18+	<b>Regular strength beer (34.4%)</b>	<b>Bottled wine (48.9%)</b>	<b>Bottled wine (33.5%)</b>

*Taken from Australian Institute of Health and Welfare, 2010 National Drug Strategy Household Survey Report, 2011, 77 (Table 4.22). Note that the above analyses are performed on the basis of recent drinkers (i.e. defined as a person who has consumed at least a full serve of alcohol in the previous 12 months).*

At the highest, non-risk specific level, it is noted that:

- RTDs are the preferred beverage for those aged 12-17 years, and for females aged 18-19 years;
- spirits are the preferred beverage for females 20–29 years;
- regular strength beer is the most commonly consumed beverage by males aged 12 years and older (except those over 60 years); and
- bottled wine is the most commonly consumed beverage by females aged 30 years and older.

<sup>48</sup> Australian National Preventative Health Agency, above n 1, [1].

Further analysis undertaken in the 2010 NDSHS indicates that bottled wine (65 per cent) is the most commonly consumed type of alcohol by recent drinkers aged 14 years and older, followed by spirits and liqueurs (57.3 per cent) and regular strength beer (45.8 per cent).<sup>49</sup>

It is pertinent to note that earlier iterations of the NDSHS provided detailed findings relating to beverage preferences according to consumption/risk patterns. For example, the 2007 NDSHS detailed findings noted that:

- regular strength beer was the preferred beverage of males of all ages drinking at levels of risk of harm in the long-term; and
- bottled spirits and liqueurs were the preferred beverage of females aged 14-29 years drinking at levels of risk or harm in the long-term, while bottled wine was the preferred beverage of females aged 30 years and older drinking at levels of risk of harm in the long-term.<sup>50</sup>

Earlier work undertaken by DSICA and Professor Ian McAllister of the Australian National University involved analysis of published and unpublished data from the 2001 and 2004 NDSHS findings. This work culminated in the publication of *The Indicators of Alcohol Consumption Amongst Young People*, which demonstrated that:

- full-strength beer was the preferred beverage of young males drinking at high-risk levels; and
- RTDs were not the preferred beverage of young people drinking at risky levels.<sup>51</sup>

In the absence of similar information in the 2010 NDSHS, it is clear that additional research is required in order to better understand if there is a correlation between certain beverage types and risky alcohol consumption behaviours.

DSICA believes that any public interest case for the introduction of a minimum price cannot be made in the absence of comprehensive published data on the relationships, if any, between particular beverage types, and at-risk behaviours. To proceed without this evidence could result in price increases of products not preferred by at-risk drinkers.

### Key point

Publicly-available research contains information regarding beverage preferences broken down by age group and gender, but does not include results relating to beverage preferences of those engaged in risky and high-risk drinking behaviours. This lack of information currently precludes the development of assumptions relating to the relationship between certain beverage types and risky and high-risk drinking behaviours. No public interest case for the introduction of a minimum price can be made in the absence of this data.

<sup>49</sup> Australian Institute of Health and Welfare, above n 18, 76.

<sup>50</sup> Australian Institute of Health and Welfare, *2007 National Drug Strategy Household Survey: Detailed Findings* (Australian Institute of Health and Welfare, 2008) 34. Note that the base of drinkers referred to in this analysis is recent drinkers.

<sup>51</sup> Distilled Spirits Industry Council of Australia, *Indicators of Alcohol Consumption Amongst Young People – Third Release* (Distilled Spirits Industry Council of Australia, 2006).



### 3 Circumstances surrounding the minimum (floor) price debate

DSICA appreciates that the Issues Paper aims, amongst other things, to look ‘at the evidence around harms associated with cheap alcohol and associated consumption patterns and the different mechanisms available to affect this consumption’.<sup>52</sup>

DSICA notes that a number of factors have contributed to the recent minimum price debate, including:

- inequalities in the current alcohol taxes in Australia, creating undesirable outcomes such as the low non-GST tax per standard drink burden borne by cask wine products;
- concerns regarding discounting and promotional retail activities which may encourage or promote excessive or abusive alcohol consumption; and
- the high incidence of risky alcohol consumption behaviours in Indigenous communities.

Each of these issues is discussed further below.

In addition to these circumstances relating to Australian alcohol consumption patterns, DSICA acknowledges that international interest in minimum pricing as a complementary policy to traditional taxation measures for reducing alcohol consumption has grown significantly in recent years. The Ukraine, Russia, Uzbekistan and the Republic of Moldova have recently introduced minimum prices, while Scotland recently passed legislation giving effect to a minimum price on all alcohol beverages. Moreover, debate concerning the proposed introduction of a minimum price in England and Wales continues. These international developments have inevitably influenced the Australian minimum pricing debate and are discussed in greater detail in Section 4.

#### 3.1 Non-GST tax per standard drink

The Issues Paper provides a helpful overview of the current alcohol taxation system in Australia (in Attachment A). DSICA makes the following additional observations about Australia’s system.

Australia applies either an ad valorem (tax on the basis of the value of the product) or volumetric (tax on the basis of the volume of alcohol in the beverage) tax to alcohol products, depending on beverage type as follows:

- beer, spirits, RTDs and flavoured cider products are subject to excise duty on a volumetric LPA basis; while
- wine, wine products and traditional cider are subject to the ad valorem WET at 29 per cent of the product’s wholesale sales value.

These complexities in the Australian alcohol taxation system lead to undesirable outcomes, such as the:

- distortion of consumption decisions as the tax payable on certain products (i.e. those subject to WET) is not based on alcohol content, but on price. The regime allows some product to enjoy a cheaper retail price due to favourable taxation structures (e.g. cask wine);

<sup>52</sup> Australian National Preventative Health Agency, above n 1, [2].

- availability of rebates and tax-free thresholds for certain products (e.g. wine and beer), but not others (e.g. spirits), which unduly influences manufacturing and production choices; and
- failure to appropriately identify and target social costs arising from risky and high-risk alcohol consumption behaviours as the rate of taxation is not based on evidence of the net marginal spillover cost of alcohol consumption, as recommended by the Henry Review.

The inconsistency in tax treatment of different beverages becomes particularly apparent when the non-GST tax per standard drink borne by different products is observed, as shown in Figure 3-1.

Figure 3-1: Non-GST tax per standard drink (as at 1 August 2012)<sup>53</sup>

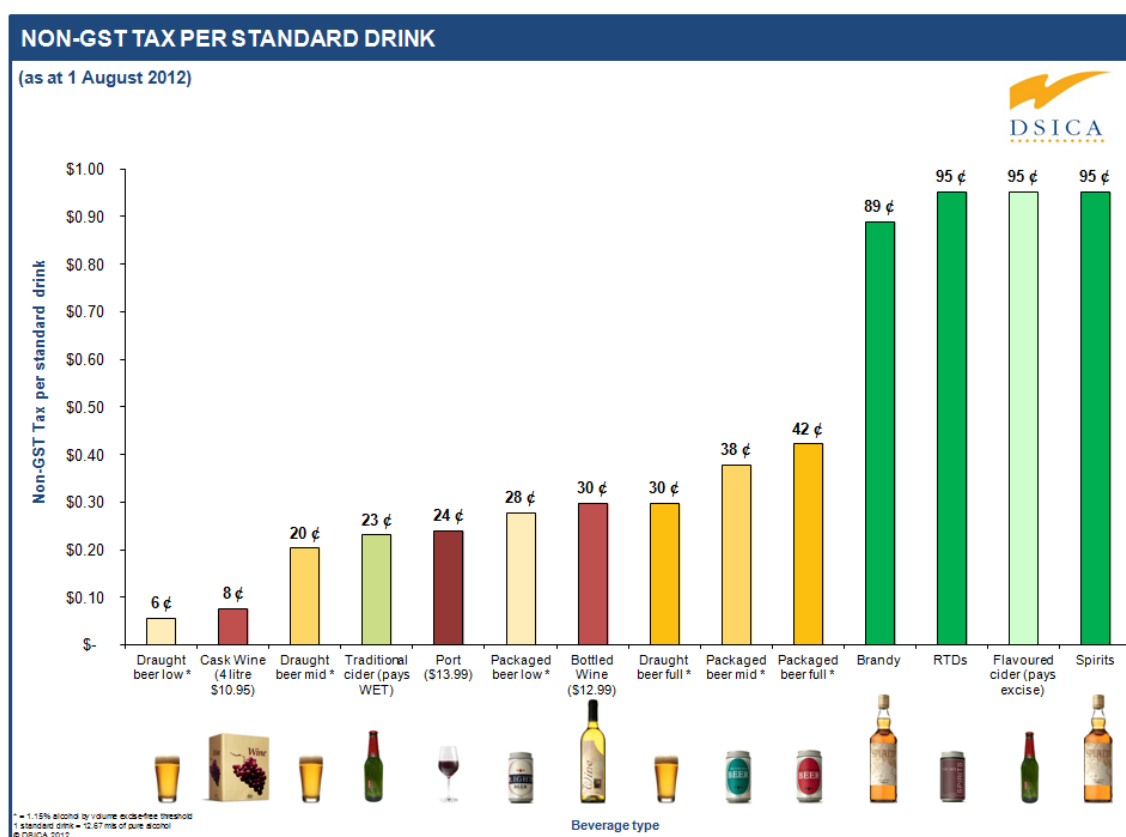


Figure 3-1 demonstrates that:

- cask wine (typically with an alcohol by volume [abv] of 11 to 13 per cent) pays only 8 cents per standard drink;
- full-strength RTDs (which are less than half the abv of most cask wines) pay 95 cents per standard drink (almost 12 times that paid by cask wine);
- full-strength packaged beer (at about the same abv as full-strength RTDs) only pays 42 cents per standard drink, less than half that paid by RTDs of equivalent alcohol content; and
- traditional cider only pays 23 cents per standard drink, less than a quarter of that paid by flavoured cider.

<sup>53</sup> Note that prices referred to in this figure relate to retail sales prices, as sourced from [www.danmurphys.com.au](http://www.danmurphys.com.au) in August 2012.

DSICA acknowledges that the current alcohol taxation regime fails to achieve optimal health and social policy outcomes and reform is urgently needed. However, the introduction of a minimum price will not overcome or adequately address the existing inequalities outlined above. While it may raise the retail price of certain beverage categories (depending on the minimum price level selected), it:

- will not appropriately address the spillover cost of risky and high-risk alcohol consumption; and
- will not create an environment in which responsible consumption decisions can be made on the basis of a product’s alcohol content, rather than price.

DSICA notes that a rationalised volumetric alcohol taxation regime would address these policy shortcomings and create an effective minimum price for all alcohol beverages. DSICA’s proposal for reform of the Australian alcohol taxation system to a wholly volumetric regime to better achieve economic, health and social policy outcomes is outlined in Section 7.2.2 and Appendix B.

### Key point

The existing Australian alcohol taxation regime is incoherent, riddled with anomalies and fails to achieve desirable economic, health and social policy outcomes. A minimum price is not an appropriate response to removing these anomalies.

## 3.2 Discounting and promotional retail activities

DSICA understands that there is increasing concern regarding price discounting and promotional activities undertaken by alcohol retailers, both off-premise (e.g. at bottle shops) and in on-premise venues.

In relation to off-premise promotional activities, DSICA notes that the Issues Paper states that:

*Increases in taxation are usually passed on by on-trade premises but can be absorbed by off-trade retailers, resulting in increasing price differences between alcohol purchased at the pub and alcohol purchased at the bottle shop.<sup>54</sup>*

DSICA is unaware of the basis for this statement. DSICA believes that increases in taxation result in increased into-store costs for off-trade retailers, and that generally, these cannot be absorbed, over the medium or long-term, by that retailer. DSICA notes that:

- in a freely operating and competitive market, off-trade retailers cannot sustain selling products below cost over the medium and long-term. Tax increases will effectively become part of the into-store cost of the retailer;
- it should not be the role of price-fixing regulations to seek to control competition between off-trade retailers. This is the kind of competition that will ultimately benefit consumers; and
- DSICA considers that a wine tax reform proposal of the kind that it is recommending (see Section 7.2.2) will in fact provide an effective minimum price (i.e. into-store cost) in relation

<sup>54</sup> Australian National Preventative Health Agency, above n 1, [60].

to cask wine, cleanskin wine and traditional cider, which have been identified in the Issues Paper as the low-priced products of concern.<sup>55</sup>

These views are further supported by increasing levels of state and territory liquor licensing regulation, which, in some states, prohibit liquor discounting activities (e.g. ‘two for one deals’) and other associated promotional activities. It is noted that the Northern Territory government has limited the sale of cask and fortified wine to one two-litre cask or one bottle of fortified wine per person per day between 6:00-9:00PM in Alice Springs, and similar restrictions operate in Tennant Creek, Katherine and Mataranka.<sup>56</sup>

In relation to on-premise promotional activities, DSICA understands that there is increasing concern regarding price discounting and promotional activities undertaken by alcohol retailers, especially in on-premise venues. DSICA appreciates these concerns and notes that:

- Existing approaches to regulation of alcohol sales and promotional activities are highly fragmented and disparate. Individual codes of practice have been developed at each state/territory level in Australia, with some codes being mandatory and enforceable (e.g. those in the Australian Capital Territory, New South Wales, South Australia and Victoria), and others being voluntary (e.g. Western Australia and Queensland).<sup>57</sup> DSICA generally supports the harmonisation of liquor control regulations in a manner which is collaborative and incorporates input from industry, communities and all levels of government.
- DSICA does not support or condone activities that allow or encourage abuse or irresponsible consumption. DSICA members adhere to the Council’s *Statement of Responsible Practices for Alcohol Advertising and Marketing* which notes that drinking games, games of chance such as ‘toss the boss’ or time limited ‘happy hour’ deals that reward or encourage excessive or abusive consumption are not supported, while on-premise promotions that use competitions or games of chance should not use alcohol products as a prize available for consumption on that occasion.<sup>58</sup>

DSICA notes that despite the introduction of bans or restrictions on happy-hour style promotions and activities which facilitate ‘two for one’ deals in a number of international jurisdictions such as Ireland, some states in the United States of America and certain Canadian provinces, there is little empirical research that has examined their impact on consumption behaviours.<sup>59</sup> Further, the limited evidence available suggests that these measures are unlikely to decrease alcohol consumption, and their effectiveness depends on the availability of alternative forms of cheap alcohol products.<sup>60</sup>

The introduction of a minimum price is unlikely to overcome or address these concerns. While a minimum price will affect the low price at which some alcohol beverages are made available for sale, other retail practices are regulated at the state and territory level and remain outside the scope of a minimum price initiative. DSICA would welcome the opportunity to collaborate with other industry stakeholders, the community and all levels of government to review off- and on-premise retail practices which facilitate or encourage risky or high-risk alcohol consumption decisions.

<sup>55</sup> Australian National Preventative Health Agency, above n 1, [54].

<sup>56</sup> Northern Territory Department of Justice, *Buying alcohol in the Northern Territory* (13 April 2012) Northern Territory Alcohol Reform <<http://www.justice.nt.gov.au/alcoholreformnt/buying-alcohol-territory/index.html>>.

<sup>57</sup> Natacha Carragher and Jenny Chalmers, *What are the options? Pricing and taxation policy reforms to redress excessive alcohol consumption and related harms in Australia* (NSW Bureau of Crime Statistics and Research, 2011) 44.

<sup>58</sup> DSICA, *Statement of Responsible Practices for Alcohol Advertising and Marketing* (Distilled Spirits Industry Council of Australia, 2010) [6.1].

<sup>59</sup> Carragher and Chalmers, above n 57, 41.

<sup>60</sup> Thomas Babor et. al., *Alcohol – No Ordinary Commodity: Research and Public Policy* (Oxford University Press, 2<sup>nd</sup> ed, 2010) 243.

### 3.3 Alcohol consumption patterns in Indigenous communities

DSICA acknowledges that both Indigenous and non-Indigenous people in Australia use alcohol widely. However, the incidence of risky and high-risk drinking behaviours amongst the Indigenous population is significantly higher than that observed in non-Indigenous communities, and is purported to be the result of economic marginalisation, discrimination, cultural dispossession and cultural assimilation difficulties, family conflict and/or violence and family history of alcohol misuse.<sup>61</sup> In addition, media reports have drawn a purported correlation between these risky and high-risk drinking behaviours and the availability of cheap wine products (especially cask and cleanskin wine) in Indigenous communities.<sup>62</sup>

The most recent data outlined in Figure 3-2 demonstrates that although Indigenous Australians are 1.4 times as likely as non-Indigenous Australians to abstain from drinking alcohol, they are approximately 1.5 times as likely to drink alcohol at risky levels for both single occasion and lifetime harm.

Figure 3-2: Lifetime and single occasion risks from alcohol consumption, population aged 14 years or older, 2010

	Abstainer/ ex-drinker	Lifetime risk		Single occasion risk		
		Low-risk	Risky	Low-risk	At least yearly	At least weekly
<b>Indigenous</b>	24.5%	44.5%	31.0%	23.4%	27.4%	24.6%
<b>Non-Indigenous</b>	19.0%	61.1%	19.9%	41.2%	24.1%	15.7%

Source: Australian Institute of Health and Welfare, 2010 National Drug Strategy Household Survey Report, 2011 (Table 4.7)

DSICA is supportive of targeted initiatives which seek to improve the health of Indigenous Australians. In this regard, DSICA notes that there is an overwhelming need for improved access to health services for Indigenous people who are drinking at harmful levels and other local, targeted community initiatives such as:

- restricting the physical availability of products;
- reducing the number, density and/or opening hours of licensed premises in areas with high levels of alcohol-related harm;
- strengthening enforcement of the Responsible Service of Alcohol requirements; and
- establishing local groups of senior Indigenous men and women to promote greater individual and family responsibility in relation to alcohol.

Any such suggested restrictions should be applied on a localised basis with community support, and should be subject to a robust evidence base highlighting the need for intervention.

DSICA understands that major retailers have implemented voluntary sales restrictions and minimum pricing measures in certain Indigenous communities,<sup>63</sup> while the Northern Territory Government has implemented a number of reforms regulating alcohol availability under its *Enough is Enough* campaign, including the ‘Banned Drinker Register’, restrictions on sales of

<sup>61</sup> Australian Institute of Health and Welfare, *Substance use among Aboriginal and Torres Strait Islander people* (Australian Institute of Health and Welfare, 2011) 11.

<sup>62</sup> Sue Dunlevy and Milanda Rout, ‘Alcohol floor “a hit on elderly and poor”’, *The Australian* (Sydney), 9 June 2011.

<sup>63</sup> Coles has stated that bottled wine will not be sold for less than \$8.00 and no two-litre casks will be sold, creating an effective minimum floor price of \$1.14 per standard drink. Woolworths does not sell two-litre casks. See Peter Martin, ‘Alice Springs council protests against cheap alcohol ban in Woolworths and Coles’, *The Sydney Morning Herald* (Sydney), 29 June 2011.

cask and fortified wines in certain areas and the development of Alcohol Management Plans in regional centres.<sup>64</sup> DSICA is supportive of integrated approaches to alcohol harm minimisation strategies which incorporate federal, state and local government, industry and community collaboration and consider all possible interventions in significant detail. DSICA notes that sales regulation initiatives alone are unlikely to be effective in addressing the underlying causes of alcohol-related harm amongst this population group, rendering minimum pricing an inappropriate policy intervention in this context.

#### **Key point**

An integrated, targeted approach is required to address issues of risky and high-risk alcohol consumption behaviours in Indigenous communities. The introduction of a minimum price alone is unlikely to overcome current concerns relating to alcohol consumption by this population group.

---

<sup>64</sup> Northern Territory Department of Justice, above n 56.

## 4 Minimum pricing research and experience internationally

### 4.1 Introduction

The Issues Paper provides a helpful high-level summary of minimum pricing experience and proposals in several international jurisdictions.

DSICA acknowledges that interest in minimum pricing as a complementary policy to traditional taxation measures for reducing alcohol consumption has grown significantly in recent years. In particular:

- the Ukraine introduced minimum pricing in 2008, and Russia, Uzbekistan and the Republic of Moldova followed in 2010;
- Scotland recently enacted the *Alcohol (Minimum Pricing) (Scotland) Act 2012* (UK), which facilitates the introduction of a minimum price (although the price level is yet to be confirmed); and
- the United Kingdom is currently investigating opportunities for the introduction of a minimum price.

Despite this, available evidence supporting the effectiveness of minimum pricing is limited to econometric modelling and academic studies, and a single study of SRP, a similar (though not identical) model to minimum pricing in operation in Canada.

DSICA contends that these international experiences do not provide an empirical evidence base which supports minimum pricing, and should be viewed with a high degree of caution. In summary, there is no compelling international precedent that is relevant to Australia.

The evidence in relation to the experience of several of these jurisdictions is discussed below.

### 4.2 Canada

Supporters of a minimum price refer to the Canadian experience with the application of SRP to support their policy advocacy position. However, it appears that little or no consideration is given to the substantial differences applying to the historical and current approach to alcohol regulation in Canada, which render the Canadian experience largely redundant in the context of contemporary Australian policy development.

Following the 1917 election in Canada, the federal government introduced national prohibition to take effect from 1 April 1918. Whilst most Canadian provinces repealed their prohibition laws in the mid and late 1920s, in the majority of provinces prohibition was replaced with strict Liquor Licensing Control Boards which oversee the control, distribution and sale of alcohol in their respective jurisdictions. As such, the Canadian approach to alcohol regulation is markedly different to that observed in Australia.

Available evidence regarding the effectiveness of SRP is limited to a single evaluation undertaken by Stockwell et. al., and focuses on the impact of SRP measures on alcohol consumption levels. Stockwell et. al. suggest that the SRP model is effective in reducing overall alcohol consumption, however, the study does not investigate the impact of SRP on:

- hazardous drinkers and their consumption behaviours;

- alcohol-related harms, including hospitalisations and deaths;
- low-income groups; and
- the alcohol industry.

These research shortcomings in relation to alcohol-related harms have been noted by Mr Michel Perron, CEO of the Canadian Centre on Substance Abuse, who, in the course of a Scottish Parliamentary Committee proceeding commented:

*There is no direct evidence anywhere in the world that minimum pricing policies are effective for reducing harmful drinking at the population level.<sup>65</sup>*

These omissions limit the level of reliance which may be placed on the Stockwell findings, particularly as they relate to impacts on overall alcohol consumption, rather than the impact of SRP on harmful consumption levels – one of ANPHA’s key policy objectives and research areas.

DSICA also notes that the Canadian approach to alcohol regulation differs considerably from Australia. To rely heavily on Canadian policy to inform Australia’s alcohol policy settings is inappropriate, as it relates to a policy and regulatory context which is markedly different to that seen in Australia. In particular:

- in Canada, minimum prices differ between and within different types of alcohol beverages and there is not a price per unit of alcohol;
- increases in minimum prices are not simultaneous, which may potentially allow substitution behaviour and ‘trading down’;
- in Canada, alcohol is sold in liquor stores and not in supermarkets, which may limit the broader impact on the alcohol industry’s response;
- all alcohol distribution is state controlled in Canada;
- some provinces in Canada prohibit products perceived to be especially harmful (e.g. Alberta has banned beer products over 11 per cent abv);
- in Canada, some end-of-line below-SRP selling is permitted; and
- the revenue from SRP in Canada goes to the provincial government.<sup>66</sup>

These social and regulatory policy distinctions have been noted by the Scottish Parliament Information Centre in the context of the Scottish minimum pricing debate, which indicated:

*While this (the Canadian experience) may provide an initial indication of how floor prices affect consumption, the extent to which it is generalisable to the Scottish model is likely to be debated. This is because the system in British Columbia has a number of characteristics not featured in the Scottish model and the research does not address specific questions frequently raised in the minimum pricing debate.<sup>67</sup>*

<sup>65</sup> Health and Sport Committee, above n 3, [2999].

<sup>66</sup> Health and Sport Committee, Scottish Parliament, 2<sup>nd</sup> Report, 2012 (Session 4): Stage 1 Report on the Alcohol (Minimum Pricing) (Scotland) Bill (2012) [24].

<sup>67</sup> Scottish Parliament Information Centre (SPICe), SPICe Briefing: Alcohol (Minimum Pricing) (Scotland) Bill, No 12/01 of 2012, 5 January 2012, 10.

DSICA contends that the absence of any empirical research showing the impact of minimum pricing on harmful drinking patterns, and the significant difference in the regulatory environments between Australia and Canada further reinforce DSICA’s view that the model and research findings relating to it are not appropriate or relevant for Australia.

### Key point

There is limited evidence demonstrating the impact of SRP on total alcohol consumption, and no evidence relating to the impact of SRP on alcohol-related harms. Given this lack of empirical evidence, and the significant differences between the Canadian and Australian alcohol policy contexts, the Canadian experience is not an appropriate example upon which to base Australian policy development.

## 4.3 Scotland

Scotland recently passed legislation which introduces a minimum price on all alcohol beverages, although the minimum price level is yet to be formally confirmed. Available information confirms that there is no robust evidence base supporting the introduction of a minimum price as a measure which will reduce alcohol consumption and alcohol-related harms. DSICA contends that the Scottish proposal provides no evidence of the purported effectiveness of minimum pricing and does not constitute an appropriate case study upon which to model Australian policy development.

The introduction of a minimum price for all alcohol products has been a key policy issue for the Scottish National Party (SNP) since early 2008. Following the parliamentary elections in 2011 in which the SNP attained a parliamentary majority, the Alcohol (Minimum Pricing) (Scotland) Bill 2011 (UK) (the Bill) was introduced to the Scottish Parliament on 31 October 2011 by Nicola Sturgeon MSP, Cabinet Secretary for Health, Wellbeing and Cities Strategy. Following considerable debate, committee inquiry proceedings and commissioned economic modelling, the Bill was passed on 24 May 2012 and received Royal Assent on 29 June 2012.

The *Alcohol (Minimum Pricing) (Scotland) Act 2012* (the Act) creates a framework which sets the minimum price, below which alcohol cannot be sold. The total minimum price will be set according to the strength of the alcohol, the volume of the alcohol and the minimum price per unit.<sup>68</sup> The Act does not specify the minimum price for alcohol products; Scottish Ministers are to specify the preferred minimum price per unit by Order.<sup>69</sup> On 14 May 2012 the Cabinet Secretary announced that a minimum price of 50 pence per unit (approximately AUD0.74) was to be preferred.<sup>70</sup> It is proposed that the minimum price per unit would remain at 50 pence for at least two years following implementation in order to allow the market to react and settle. After this time it is proposed that a policy review would be carried out on a regular basis (i.e. biennially) in order to ensure the minimum price remains proportionate.<sup>71</sup>

There have been a number of issues in relation to both the purported effects of minimum pricing and the evidence relied upon by the Scottish Government in support of it. The Issues Paper summarises the key findings of the modelling undertaken by the University of Sheffield in relation to options for alcohol price regulation in Scotland.<sup>72</sup> However, the Issues Paper does

<sup>68</sup> *Licensing (Scotland) Act 2005* (UK) s 6A(3).

<sup>69</sup> Scottish Parliament Information Centre (SPICe), *SPICe Briefing – Alcohol (Minimum Pricing) (Scotland) Bill: Stage 3*, No 12/34 of 2012, 17 May 2012, 3.

<sup>70</sup> Scottish Government, ‘Minimum Price for Alcohol’ (Media Release, 14 May 2012), 1.

<sup>71</sup> Letter from Nicola Sturgeon to Duncan McNeil, 14 May 2012.

<sup>72</sup> Australian National Preventative Health Agency, above n 1, [50]-[52].

not adequately cover the criticisms of the University of Sheffield research, and does not provide enough detail regarding the arguments of the opponents of minimum pricing, which include, for example:

- **The economic modelling undertaken by the University of Sheffield which has been heavily relied upon by the Scottish Government has been subject to considerable debate and scrutiny regarding the assumptions used, price elasticities selected and interpretation of results.** In particular:
  - *The contention that moderate drinkers will be largely unaffected by minimum pricing is contested.* The Scottish Government has noted that one of the attractions of the policy is that it targets problematic drinkers because they are more likely to choose cheaper drinks. Modelling undertaken by the University of Sheffield indicated that a 45 pence minimum price would increase a moderate drinker’s annual alcohol expenditure by £6 and a harmful drinker’s by £98.<sup>73</sup> However, moderate drinkers are also likely to be unfairly impacted. The Centre for Economics and Business Research noted that ‘whilst minimum pricing would have the effect of targeting heavier drinkers due to their preference for cheaper, stronger alcohol products, it is likely to have a similar proportionate effect on moderate and harmful drinkers in terms of consumption levels’.<sup>74</sup>
  - *The effectiveness of the policy in terms of targeting heavy or harmful drinkers is questionable.* The economic modelling undertaken appears to conflict with the literature review contained in the University of Sheffield research.<sup>75</sup> In particular, the modelling suggests that hazardous and harmful drinkers were more sensitive to minimum pricing than moderate drinkers, however the systematic literature review acknowledged that the majority of evidence available suggests that heavier drinkers are less responsive to price increases.<sup>76</sup>
  - *The modelling undertaken did not investigate the effects of minimum pricing on different income groups due to inadequate elasticity data.* However, research undertaken by the Institute of Fiscal Studies suggests that minimum pricing would be a regressive policy which is likely to have a larger effect on low income households. In particular, without behavioural changes, the cost of a minimum price of 45 pence per unit would represent 2.0 per cent of a low income household’s total food budget, but only 1.3 per cent of the total food budget for a wealthy household.<sup>77</sup>
- **The introduction of a minimum price is likely to negatively impact the Scottish alcohol industry** which contributes approximately £3 billion annually in Gross Value Added to the Scottish economy.<sup>78</sup> The whisky industry directly employs 10,300 employees and supports nearly 35,000 jobs in the wider United Kingdom,<sup>79</sup> making it a key contributor to the British economy. Modelling undertaken by the University of Sheffield did not consider the potential effects of minimum pricing on the alcohol industry, yet the Scottish Government has suggested that the alcohol industry will benefit from the policy because a

<sup>73</sup> University of Sheffield, *Model-Based Appraisal of Alcohol Minimum Pricing and Off-Licensed Trade Discount Bans in Scotland Using the Sheffield Alcohol Policy Model (v2): Second Update Based on Newly-Available Data* (University of Sheffield, 2<sup>nd</sup> ed, 2012) 48.

<sup>74</sup> Centre for Economics and Business Research, *Minimum Alcohol Pricing: A targeted measure? Report to the Scottish Parliamentary Health and Sport Committee (Final Report)* (Centre for Economics and Business Research, 2010) 20.

<sup>75</sup> See University of Sheffield, *Independent Review of the Effects of Alcohol Pricing and Promotion – Part A: Systematic Reviews* (University of Sheffield, 2008).

<sup>76</sup> Ibid.

<sup>77</sup> Andrew Leicester, *IFS Briefing Note BN124: Alcohol pricing and taxation policies* (Institute for Fiscal Studies, 2011) 3.

<sup>78</sup> Scotch Whisky Association, *Facts and Figures as at 31 May 2012* (31 May 2012), Scotch Whisky Association <<http://www.scotch-whisky.org.uk/what-we-do/facts-figures/>>.

<sup>79</sup> Ibid.

drop in consumption will be offset by an increase in price.<sup>80</sup> However, the windfall from a minimum price will accrue to retailers, not producers. Furthermore, companies which specialise in value brands and supermarket own label products, which are expected to be most heavily impacted by minimum pricing, represent 26 per cent of Scotch Whisky sales in Scotland. These companies have noted that minimum pricing is likely to result in a significant loss of business, leading to job losses and distillery closures.<sup>81</sup>

- **The introduction of a minimum price is likely to fuel cross-border and illicit trade, thereby undermining its effectiveness.** In particular, Scottish consumers can easily order discounted alcohol via online retailers and, provided it is despatched from England, it will comply with the Act. Moreover, while any potential increase in illicit trade will largely depend on the price differential between similar (i.e. competing) products, international experiences of alcohol price rises demonstrate the correlation between the increased production and consumption of illicit alcohol, as well as the consumption of alcohol not intended for human consumption.<sup>82</sup> The potential impact(s) of these activities were not modelled or considered by the University of Sheffield.
- **There is considerable concern that the minimum pricing measure may be inconsistent with Scotland’s obligations under the *Treaty on the Functioning of the European Union* Art 46 and 36, and under the European Union’s obligations to the World Trade Organization (WTO) and under various Free Trade Agreements.** The United Kingdom Government, as the European Union member state, notified the Scottish Government’s minimum price proposal to the European Commission in June 2012.<sup>83</sup> A standstill is now in force until at least 26 September 2012 while the European Commission and the European Union member states review the legislation.

Having considered these factors, DSICA acknowledges that the Scottish experience highlights the difficulties not only in providing a robust evidence base which demonstrates the effectiveness of minimum pricing, but also in overcoming affiliated trade and economic-related unintended consequences which are likely to arise as a result of the measure. Given that a minimum price has not (at the time of writing) been effectively implemented in Scotland, DSICA contends that the Scottish experience cannot be relied on by policymakers at this point in time as a case study upon which to base the introduction of a minimum price in Australia.

### Key point

Evidence relied upon by the Scottish Government in its attempt to demonstrate the effectiveness of a minimum price is flawed and does not account for the range of trade, economic and legal issues which have arisen in the context of the minimum pricing debate. The Scottish example does not provide a reliable case study upon which to base development of a minimum price in Australia.

<sup>80</sup> Scottish Government, *Framework for Action: Changing Scotland’s Relationship with Alcohol – Business and Regulatory Impact Assessment of Minimum Price per Unit of Alcohol as contained in Alcohol (Minimum Pricing) (Scotland) Bill* (Scottish Government, 2011) 50.

<sup>81</sup> The Edrington Group, *Alcohol (Minimum Pricing) (Scotland) Bill: Response to the Health and Sport Committee’s call for Written Evidence* (The Edrington Group, 2011) 4.

<sup>82</sup> Tim Stockwell, Jiali Leng and Jodi Sturge, *Alcohol Pricing and Public Health in Canada: Issues and Opportunities* (Centre for Addictions Research of BC, 2006) 4.

<sup>83</sup> Refer to *Technical Standards Directive 98/34/EC* (TRIS notification 2012/394/UK).

## 4.4 England and Wales

The United Kingdom is currently investigating opportunities to introduce a minimum unit price (MUP) throughout England and Wales. However, a lack of government consensus on the benefits of such a measure, and a conflicting evidence base on the effectiveness of minimum unit pricing in addressing concerns relating to risky and high-risk drinking behaviours, have presented significant difficulties in both designing and implementing a MUP. DSICA contends that the United Kingdom example reinforces the difficulties minimum pricing presents for government, policymakers and industry and highlights the lack of robust evidence supporting the purported impact on harmful alcohol consumption patterns a MUP may have.

In 2010 the United Kingdom Coalition Government released its statement *The Coalition: Our Programme for Government*, which made a number of commitments in relation to alcohol pricing as follows:

- banning the sale of alcohol below cost price;
- reviewing alcohol pricing and taxation to ensure it addresses ‘binge drinking’ without unfairly penalising responsible drinkers, pubs and important local industries; and
- the Home Office and HM Treasury were tasked to review the impact of policies designed to raise the price of alcohol, with the Home Office focusing on price factors and HM Treasury on taxation aspects.<sup>84</sup>

Later, in November 2010, HM Treasury released the *Review of alcohol taxation* which found that there is strong evidence that ‘consumers respond to changes in the price of alcohol and an increase in price will lead to lower average consumption’.<sup>85</sup> However, while low prices play a role in encouraging excess consumption, ‘drawing out the links between price and alcohol-related harm is not as straightforward’.<sup>86</sup> Following this, in January 2011, the British Home Office released its report summarising the international research evidence on the likely impacts of increasing alcohol price. This report concluded that:

- the international evidence base suggests that policies designed to increase the price of alcohol may be effective in reducing the harms caused by alcohol. However, there is a significant variation in the size of the relationship across the studies analysed;
- alcohol price is only one factor that may affect levels of alcohol consumption, with individual, cultural, situational and social factors also influential; and
- it is not possible to determine which alcohol pricing policies may be the most effective.<sup>87</sup>

DSICA contends that these reviews demonstrate that there is no conclusive evidence indicating that an increase in alcohol prices (particularly through the use of a statutory minimum price) will lead to a reduction in alcohol-related harms.

Despite these research findings, media reports indicate that the United Kingdom’s Prime Minister David Cameron has instructed officials to develop a scheme to stop the sale of alcohol below 40 to 50 pence per unit. This proposal has been met with concern by the United Kingdom’s Department of Business, Innovation and Skills, which noted that a MUP:

<sup>84</sup> HM Government, *The Coalition: Our Programme for Government* (HM Government, 2010) 13.

<sup>85</sup> HM Treasury, *Review of alcohol taxation* (HM Treasury, 2010) 7.

<sup>86</sup> Ibid.

<sup>87</sup> UK Home Office, *The likely impacts of increasing alcohol price: a summary review of the evidence base* (UK Home Office, 2011) 5.

- is ‘very likely to be deemed illegal under European Union competition and trade law’, with the Attorney-General indicating that ‘whilst MUP may not necessarily be illegal it carries a significant degree of legal risk’;<sup>88</sup>
- may create difficulties for major retailers in complying with other Government requirements relating to voluntary agreements on food, waste and apprenticeships;<sup>89</sup> and
- may create new costs or burdens on alcohol retailers (especially smaller shops). Consideration must be had as to whether these costs would be reasonable and proportionate to the benefits.<sup>90</sup>

The United Kingdom’s Department of Business, Innovation and Skills also indicated that a MUP is unlikely to achieve its desired policy outcomes, noting:

*The two groups the Government most wants to drink less are perhaps the least likely to change consumption levels ... people determined to drink to excess will in all likelihood either simply carry the price increase or will slightly adjust the ratio of pre-loaded consumption (off sales purchase) and more expensive drinks bought in pubs and clubs. Problem drinkers – by dint of their alcohol dependency – will most likely continue to consume at their usual level, often forgoing other spending choices to do so, up to the point where they simply do not have the money to spend at all.<sup>91</sup>*

Given the current lack of government agreement on the benefits of MUP and government-led research which demonstrates that there is conclusive evidence confirming the effectiveness of MUP in changing alcohol consumption patterns, DSICA contends that the United Kingdom experience is to be acknowledged by policy makers as a notable example of the difficulties associated with implementation of a minimum price.

#### Key point

The United Kingdom experience demonstrates the difficulties in identifying robust evidence bases upon which to develop policy arguments in support of minimum pricing, and the lack of government consensus in relation to the justification for a minimum price.

## 4.5 Conclusion

A review of available information relating to minimum pricing and other similar interventions throughout the world has not revealed any conclusive evidence demonstrating the effectiveness of minimum pricing in reducing risky and high-risk consumption behaviours and alcohol-related harms. Indeed, a majority of the information available (or commissioned) relates to the potential application of minimum pricing in certain jurisdictions, rather than empirical evidence relating to the actual demonstrated impact of minimum pricing.

In light of this, DSICA contends that available international experience relating to the effectiveness of minimum pricing is limited, and does not provide a robust evidence base on which to pursue Australian policy development opportunities.

<sup>88</sup> Letter from the Rt Hon David Willetts MP to the Rt Hon Nick Clegg MP, 19 March 2012.

<sup>89</sup> Ibid.

<sup>90</sup> Ibid.

<sup>91</sup> Ibid.



## 5 Summary of key issues

DSICA agrees with the Issues Paper summary of key issues, and believes that a minimum price in Australia will:

- adversely affect sensible, moderate drinkers;
- adversely affect low income individuals and households;
- have little impact on identified target groups, including young drinkers and heavy drinkers; and
- lead to windfall profits in the retail supply chain.

These key issues are discussed below.

### 5.1 A minimum price would adversely affect sensible, moderate drinkers

DSICA considers that a minimum price will adversely affect sensible, moderate drinkers. A minimum price is a broad-based measure which affects the entirety of the population, rather than targeting risky and high-risk drinkers who are the greatest contributors to alcohol-related harms.

The Issues Paper concedes that the lowest priced alcohol in Australia is cask wine and cider.<sup>92</sup> DSICA considers that this fact provides the rationale for addressing alcohol pricing issues in Australia with a phased tiered volumetric reform of WET, as set out in Section 7.2.2 and Appendix B.

A minimum price for alcohol is by definition a population-based measure and not a specific measure aimed at targeting the consumption levels of the small proportion of the population consuming alcohol at harmful levels. A minimum price is thus most likely to disproportionately affect the majority of consumers who are sensible and moderate drinkers. This has been acknowledged by the Centre for Economics and Business Research, which noted:

*It can be seen that if a minimum price of 40 pence plus promotions ban was implemented in Scotland, moderate drinkers are likely to spend an additional £15 million per year more on alcohol products. We also estimate that lost utility (lost enjoyment) from reducing average consumption by around four per cent for moderate drinkers would constitute an economic loss of around £45 million per annum for moderate drinkers.<sup>93</sup>*

On the issue of a proposed minimum price for alcohol in Scotland, Mr Andrew Leicester, Senior Research Economist at the Institute for Fiscal Studies (in Scotland) observed that:

*A minimum price at the suggested rate would have a large and direct effect on almost everyone who drinks off-licence alcohol. That is not to say that that is a bad thing, but the policy ought not to be sold as only affecting a small number of harmful and hazardous drinkers. It would have effects right up the distribution chain.<sup>94</sup>*

<sup>92</sup> Australian National Preventative Health Agency, above n 1, [54].

<sup>93</sup> Centre for Economics and Business Research, above n 74, 21.

<sup>94</sup> Health and Sport Committee, Scottish Parliament, *Stage 1 Report on the Alcohol (Minimum Pricing) (Scotland) Bill* (2012) [68].

DSICA further notes that an increase in the cost of the cheapest alcohol products due to the introduction of a minimum price may result in subsequent increases in the price of higher priced products, in order to maintain the price differential between lower-priced and premium products. Given that the overwhelming majority of those who enjoy premium products are moderate drinkers,<sup>95</sup> the increases in prices for premium products would unfairly affect moderate consumers. Considering these factors and the evidence available, it is apparent that a minimum price is a blunt population-wide instrument which would unfairly penalise the large majority of Australians who are moderate, sensible consumers.

#### **Key point**

A minimum price is a blunt tool which would unfairly penalise the majority of Australian consumers who consume alcohol in a responsible manner at levels of low-risk of harm, rather than directly targeting those determined to misuse alcohol.

## **5.2 A minimum price would adversely affect individuals/ households with low incomes**

DSICA considers that a minimum price is a regressive measure which will have a disproportionate impact on low-income individuals and households. This concern is raised on the basis of:

- an understanding of the beverage types preferred by low-income individuals and households; and
- economic modelling relating to the expected impacts on household expenditure, broken down by income.

DSICA understands that a comprehensive assessment of the potential impact of a minimum price on low-income individuals and households cannot be undertaken without knowledge and understanding of a proposed minimum price level, and relating this to household expenditure and consumption information. However, based on the available evidence, it is highly likely that even a low minimum price would disproportionately affect low-income individuals and households.

The disproportionate financial impact a minimum price would have on low-income individuals and households has been subject to significant review and scrutiny throughout the United Kingdom. Analyses of household expenditure and income data has revealed that a minimum price would have a proportionately greater impact on poorer households. For example, the Institute for Fiscal Studies stated, in reference to the proposed minimum price in Scotland:

*...a 45p per unit minimum price **would have a larger impact on poorer households** (and in particular poorer alcohol buyers). Assuming that the only effect of the policy is to raise the price of alcohol selling for less than 45p to this level, we estimate that households with incomes less than £10,000 who consume off-licence alcohol lose, on average 2.6 per cent of their total food budget (around 98p/week). Those with incomes in excess of £70,000 lose on*

<sup>95</sup> Carragher and Chalmers, above n 57, 36.

*average 1.4 per cent of their food budget (88p/week) (emphasis added).<sup>96</sup>*

This is supported by findings from the Centre for Economics and Business Research which stated that ‘minimum pricing hits lowest income groups hardest’ and:

*Our analysis shows that the bottom 30 per cent of income levels pay on average 40 pence per unit of alcohol or less, and would therefore be fundamentally affected by the introduction of minimum pricing at 40 pence per unit.<sup>97</sup>*

The report further stated:

*For the lowest income decile, average price paid per unit of alcohol would increase by at least 52 per cent. For the next lowest income decile, average price paid per unit of alcohol would increase by at least 30 per cent, based upon current average expenditure rates.*

*This has significant implications for disposable income of the lowest income groups.<sup>98</sup>*

These findings have implications for broader household expenditure and budgeting. In particular, research has noted that there is some concern that, if faced with increases in alcohol prices, low-income individuals or households may continue to spend money on alcohol, rather than themselves or their families,<sup>99</sup> jeopardising their health and welfare.

Indeed, these concerns have been observed by the Scottish Parliament Health and Sport Committee, which stated:

*The Committee notes the concern from some quarters that people on lower incomes, including moderate drinkers in that socio-economic bracket, could be financially hardest hit by minimum pricing. The Committee also notes the view expressed by many witnesses that people at the lower end of the socio-economic spectrum carry the greatest burden of harm from alcohol and could therefore benefit most.<sup>100</sup>*

Given that the overwhelming bulk of available evidence suggests that a minimum price will unfairly and disproportionately affect low-income individuals and households, DSICA considers that the unintended social consequences which may arise for this population group as a result of a minimum pricing intervention must be carefully considered and balanced against any purported benefits.

<sup>96</sup> Leicester, above n 77, 37-38.

<sup>97</sup> Centre for Economics and Business Research, above n 74, 6.

<sup>98</sup> Ibid., 27.

<sup>99</sup> Jonathan Chick, ‘What Price for an Extra-ordinary Commodity?’ (2010) 45(5) *Alcohol and Alcoholism* 401, 401.

<sup>100</sup> Health and Sport Committee, above n 66, [83].

### Key point

Available research and economic modelling indicates that a minimum price will disproportionately affect low-income individuals and consumers. This may result in the unintended policy consequence of continued purchasing on alcohol at the same level, possibly at the expense of other household necessities, jeopardising the health and welfare of this population group.

## 5.3 A minimum price would have little effect on heavy drinkers and young drinkers

DSICA considers that a minimum price will have little effect on heavy drinkers and young drinkers. There are very few studies relating to the possible impact on the levels of alcohol consumption by young drinkers as a result of the introduction of a minimum price. The results of these studies are themselves varied and inconsistent, while available research suggests that heavy drinkers are the least responsive to price changes.

As noted in Section 2.2, current data limitations prevent the drawing of conclusions relating to risky and high-risk drinking behaviours and particular beverage types. While some international evidence suggests that young drinkers select cheaper alcohol beverages due to income limitations,<sup>101</sup> and heavy drinkers select cheaper alcohol beverages due to cost concerns (especially via trading-down),<sup>102</sup> there is currently insufficient data available which could be used to support these propositions in the Australian context.

The University of Sheffield research implies greater responsiveness to price changes amongst heavier drinkers than moderate drinkers.<sup>103</sup> However, a 2010 report to the Scottish Parliament Health and Sport Committee by the Centre for Economics and Business Research on the proposed minimum price for alcohol, questions the underlying assumptions used by the University of Sheffield to reach their conclusion, and notes that:

*A range of academic evidence suggests that heavier drinkers are less responsive to changes in price in terms of their overall alcohol consumption levels.<sup>104</sup>*

Indeed, two major academic studies support the proposition that heavier drinkers are significantly less responsive to price changes than moderate drinkers. In particular:

- Wagenaar and others’ meta-analysis examined 10 studies looking at the effects of price on heavy alcohol use and found a mean price elasticity of -0.28 for heavy drinkers, compared to -0.51 for all drinkers;<sup>105</sup> and
- studies in the United States have found the top 10 per cent of drinkers consumed 51 per cent of all alcohol and these heavier drinkers had a price elasticity of -0.49, two-fifths of the responsiveness found for moderate drinkers (who comprised 50 per cent of all drinkers, and had a price elasticity of -1.19). Further, the heaviest drinkers (i.e. top five per cent)

<sup>101</sup> University of Sheffield, *Independent Review of the Effects of Alcohol Pricing and Promotion – Part A: Systematic Reviews* (University of Sheffield, 2008) 36-37.

<sup>102</sup> Health and Sport Committee, above n 66, [62].

<sup>103</sup> University of Sheffield, above n 101, 38.

<sup>104</sup> Centre for Economics and Business Research, above n 74, 16.

<sup>105</sup> Alexander Wagenaar, Matthew Salois and Kelli Komro, ‘Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies’ (2008) 104 179, 183 and 187.

showed virtually no response to price change, with an elasticity not significantly different from zero.<sup>106</sup>

Findings from research undertaken by the Centre for Economics and Business Research which considered the impact of different minimum prices on consumption levels by heavy drinkers note that:

*... we would expect minimum pricing at 50 pence per unit to reduce harmful drinkers' consumption by around 4.1 units, and a 40 pence per unit would only reduce harmful drinkers' consumption levels by around 1.7 units per week – less than one pint of weak beer. On the other hand, moderate drinkers would face an average price increase of 7.3 per cent.<sup>107</sup>*

These findings, coupled with the fact that modelling undertaken by the University of Sheffield which assumed that hazardous and harmful drinkers are one third less responsive to price changes than moderate drinkers,<sup>108</sup> strongly suggest that price increases arising through the introduction of a minimum price are unlikely to be effective in addressing risky and high-risk drinking behaviours.

Further, while some available evidence suggests that young consumers are responsive to price changes,<sup>109</sup> this evidence is particularly limited and in dispute. The conflicting (and insufficient) evidence available in relation to this issue has been noted by the Scottish Parliament Health and Sport Committee, which commented:

*The Committee recognises that views differ on the impact that the Bill might have on the drinking behaviour of young people in general as well as on what might be viewed as the wider societal issue of binge drinking. The Committee acknowledges that the witnesses from the University of Sheffield found a 'slightly smaller' but 'still significant' impact on 18-24 year olds and that the modelling does not address binge drinking.<sup>110</sup>*

In summary, on the basis of available evidence, it cannot be concluded that price increases arising as a result of the introduction of a minimum price will result in a decline in risky and high-risk consumption patterns. Similarly, there is no evidence that a minimum price will address concerns relating to alcohol consumption by young people. DSICA acknowledges that these target groups are of greatest concern to policy makers, and any purported intervention must be based upon evidence that such an intervention will address the alcohol-related harms experienced by these groups.

### Key point

Available evidence indicates that heavy drinkers are the least responsive to price changes, and will therefore be largely unaffected by a minimum price, while there is very limited (and conflicting) evidence available to suggest that a minimum price will reduce alcohol consumption by young people.

<sup>106</sup> New Zealand Law Reform Commission, *Alcohol in our lives: Curbing the harm* (New Zealand Law Reform Commission, 2010) 278.

<sup>107</sup> Centre for Economics and Business Research, above n 74, 20.

<sup>108</sup> University of Sheffield, above n 73, 85.

<sup>109</sup> New Zealand Law Reform Commission, above n 106, 281.

<sup>110</sup> Health and Sport Committee, above n 66, [91].

## 5.4 The effects of minimum pricing on retailers and trade

DSICA believes that minimum pricing is a blunt, population-wide instrument which runs strongly counter to the pro-competition, pro-consumer ethos underpinning Australian trade, ultimately to the detriment of the consumer.

As a statutory minimum price is not a tax, the extra margin resulting from the imposition of a minimum price structure will be collected by retailers, wholesalers and manufacturers in the supply chain, not the government.<sup>111</sup> As such, the distribution of the additional margins will most likely occur as a direct result of the relative bargaining powers of the key players in the supply chain.

In light of the negotiating position and leverage that the two major retailers have in Australia, the additional margins derived through the imposition of a minimum price are likely to flow through to these retailers only, rather than other parties in the supply chain – particularly manufacturers and wholesalers. This provides an undesirable policy outcome where the major retailers may be able to negotiate prices and volumes in their favour and create a further opportunity to increase their margins at the expense of other stakeholders in the supply chain.

DSICA also notes that if the intention of introducing minimum pricing is to prevent retailers from pricing their products cheaply or below cost (to increase sales volumes), then increasing the margin pool available to those retailers may not be the most effective way of driving a different business model. These findings are supported by research undertaken in the United Kingdom, which provided:

*If these (minimum floor pricing) policies lead to increased profits, it would be difficult for producers to increase prices because (a) major retailers would know that the producer costs have not increased (and) (b) with few major retailers and large volumes sold through the retailers, retailers know that producers will agree to not increase their prices.<sup>112</sup>*

DSICA notes that this policy concern was considered by the Scottish Government but is yet to be fully resolved. The *Alcohol etc. (Scotland) Act 2010* (UK) introduced a power for local authorities to implement a ‘Social Responsibility Levy’ which could be a way for some of the additional revenue gained by retailers to be recouped. However, a recent Parliamentary Question response has indicated that ‘the levy will not be taken forward until the economic circumstances are right’.<sup>113</sup> Further, a proposed amendment to the *Alcohol (Minimum Pricing) (Scotland) Bill 2011* (UK) which sought to deal with the recovery of windfall profits accruing to retailers through minimum pricing was not agreed to.<sup>114</sup> These circumstances suggest that there is no easy solution to the expected increase in retailer revenue following the introduction of a minimum price.

Given these findings, DSICA notes that the introduction of a minimum price is likely to result in the perverse effect of reducing competition throughout the supply chain, ultimately to the detriment of consumers.

<sup>111</sup> Note, however, that there are likely to be minimal increases to GST revenue derived through the imposition of a minimum floor price, which will flow through to government.

<sup>112</sup> Priscilla Hunt, Lila Rabinovich and Ben Baumberg, *Preliminary assessment of economic impacts of alcohol pricing policy options in the UK* (RAND Corporation, 2011) 50.

<sup>113</sup> Scottish Government, *Question S4W-03484: Sandra White, Glasgow Kelvin, Scottish National Party* (14 November 2011) Motions, Questions and Answers <<http://www.scottish.parliament.uk/parliamentarybusiness/28877.aspx?SearchType=Advance&ReferenceNumbers=S4W-03484&ResultsPerPage=10>>.

<sup>114</sup> Scottish Parliament Information Centre (SPICe), above n 69, 10.

**Key point**

As a statutory minimum price is not a tax, the extra margin resulting from the imposition of a minimum price structure will be collected by retailers, wholesalers and manufacturers in the supply chain, not the government. Given the negotiating position and leverage that the two major retailers have in Australia, additional margins derived through the imposition of a minimum price are likely to flow through to retailers only. This creates an undesirable policy outcome and will operate to the detriment of Australian consumers.



## 6 Unintended consequences arising from the introduction of a minimum (floor) price

The Issues Paper specifically states that not all economic or industry issues are examined. The rationale for this omission is that ANPHA is charged with developing ‘the public interest case’ for minimum pricing. DSICA does not accept that effective evidence-based policy can be developed without appropriate consideration of significant economic and industry issues. While the minimum pricing debate is largely focused on the effects placed on alcohol consumption behaviours, household expenditure and retailers and trade, DSICA believes that the implications of minimum pricing are wide-reaching and involve consideration of a number of unintended consequences, including:

- potential responses from the alcohol industry which may mitigate, if not offset, the intended effects of a minimum price;
- additional costs accruing to producers, which negatively impact employee job security, domestic and international trade and research and development opportunities; and
- potential non-compliance with Australia’s international trade law and free trade agreement obligations.

### 6.1 Potential alcohol industry responses

While less frequently studied or commented upon than consumer responses, possible industry responses to minimum pricing are equally important. In particular, the range of industry responses possible may serve to mitigate (if not offset entirely) any purported benefits or desired outcomes from the introduction of a minimum price, thereby limiting its effectiveness as a means of reducing alcohol consumption.

While the speculated actions to be taken by industry following the introduction of a minimum price are likely to vary according to the minimum price set, alcohol market trends and the range and types of products affected, available evidence suggests the following possibilities:

- The alcohol industry (including retailers) may **lower the price of other alcohol beverages which are unaffected by a minimum price** to compensate for an expected decrease in consumption of alcohol beverages which increase in price as a result of the introduction of a minimum price.<sup>115</sup>
- There could be **market restructuring upwards** to preserve current pricing differentials (i.e. maintain the existing price gap between cheaper and more expensive products), thereby affecting all consumers.<sup>116</sup>
- The higher margin on low-cost alcohol **may give retailers an additional incentive to sell more rather than less of these products through non-price competition measures** such as:
  - **advertising**, where producers and retailers communicate the value of the product which can lead to more potential or current consumers buying more;
  - **product differentiation**, where producers try to separate their products through quality (similar to market restructuring identified above); and/or

<sup>115</sup> Scottish Parliament Information Centre (SPICe), above n 69, 17.

<sup>116</sup> Ibid.

- **increasing barriers to entry**, where producers have contracts with retailers for certain amounts of alcohol so they leave little shelf space and so make it unprofitable for other producers to enter the market.<sup>117</sup>
- Engage in **firm acquisition and/or mergers with other businesses**. While prior to the introduction of a minimum price there may have been strategic reasons or economic incentives for businesses to diversify their operations, following the introduction of a minimum price producers, wholesalers, distributors, retailers and other players in the supply chain may try to integrate vertically or horizontally. These strategies may be employed either to avoid potential losses or to keep prices and/or cost structures the same after the introduction of a minimum price.

In addition, it has been noted that retailers may lower the price of other goods in order to compete for continued ‘space’ in the shopper’s basket of goods. If other goods are reduced in price, there is concern that disposable income may increase, making alcohol more affordable for everyday consumers and thereby negating any effects of minimum pricing.<sup>118</sup> These concerns have been noted by RAND Corporation in a study of European Union alcohol affordability, which noted that 84 per cent of the increase in alcohol affordability was driven by increases in income, and only 16 per cent was driven by changes in alcohol prices.<sup>119</sup>

Given these considerations, DSICA believes that any investigation into the potential application of minimum pricing in Australia must involve consideration of both the demand and supply responses to such an intervention, in order to appropriately assess whether a minimum price would be an effective measure in reducing alcohol consumption, or whether market responses may mitigate or offset anticipated benefits.

#### **Key point**

The potential market response(s) which may arise from the introduction of a minimum price must be appropriately considered in order to assess whether anticipated benefits (i.e. a reduction in alcohol consumption) may be mitigated or offset by resultant alcohol industry action(s).

## **6.2 Additional costs to business**

The costs arising to retail business following the introduction of a minimum price are expected to be minimal.<sup>120</sup> However, DSICA remains concerned about potential increases in production costs accruing to producers and lost opportunities for wholesalers and distributors to enter the Australian alcohol market, which may arise as a result of minimum pricing.

DSICA notes that the introduction of a minimum price may create a barrier to entry into the Australian alcohol beverage market. Goods seeking to enter the market, and which would currently be sold (even if only initially) at a price below the proposed minimum price to encourage supermarket listing and consumer trial, may be denied the opportunity to do so. This would reduce the availability and range of alcohol beverages in the Australian market, limiting consumer choice.

<sup>117</sup> UK Home Office, above n 87, 19; Leicester, above n 77, 22.

<sup>118</sup> Scottish Parliament Information Centre (SPICe), above n 69, 17.

<sup>119</sup> Hunt, Rabinovich and Baumberg, above n 112, 28.

<sup>120</sup> Example costs include the alteration of product display prices (although this frequently occurs following pricing changes due to taxation measures, cost base restructuring and sale promotions) and storage (especially in situations where a product is not to be sold below a certain price which prevents it moving off the shelf). See UK Home Office, above n 87, 19.

DSICA further considers that price increases arising from the introduction of a minimum price may also lead to producers reducing the amount of alcohol they produce, especially if a reduction in demand results. An immediate, direct consequence of this is that producers have higher average production costs (i.e. the fixed production costs will be spread over fewer products, therefore the average cost per product increases). While it is possible that these higher average production costs will be met with higher revenues so producers maintain profit levels, given the respective bargaining power of the major Australian retailers (discussed in Section 5.4 previously) it is likely that producers will have to endure lower prices or adjust their processes and operations in order to maintain or increase profit levels.<sup>121</sup>

In order to recoup profits, firms need to reduce marginal costs. There are three overarching inputs into producing alcohol, and therefore three possibilities to reduce the average operating costs available to producers:

- reduce the number of hours that employees work or reduce wages;
- reduce capital payments (e.g. remortgage, reduce research and development spending, reduce marketing and advertising budget, etc.); or
- adjust the use of land (e.g. shift agricultural product as inputs for alcohol to produce other products).<sup>122</sup>

Research suggests that if a high minimum price is selected (such that products retail exactly on the minimum price level), minimal product differentiation will result and there will be socially inefficient investment into higher quality products.<sup>123</sup>

These potential costs which may be incurred by business are contrary to the pro-consumer, research and development ethos which drives Australian business investment and promotes domestic and international trade opportunities.<sup>124</sup> The introduction of a minimum price may curtail the continued growth of the Australian alcohol industry at the national and global level, negatively impacting both Australian businesses and employees. DSICA contends that the impact of these unintended consequences on Australian businesses must be considered in greater detail before the case for a minimum price can be established, otherwise such a measure may impose an undue economic detriment on businesses and employees alike.

### Key point

While the costs incurred upon retailers as a result of minimum pricing are expected to be minimal, costs to producers are likely to be significant and there may be broader adverse impacts on employee job security, research and development initiatives and domestic and international trade opportunities.

<sup>121</sup> Hunt, Rabinovich and Baumberg, above n 112, 59.

<sup>122</sup> Ibid., 60.

<sup>123</sup> Ibid.

<sup>124</sup> Department of Foreign Affairs and Trade, *Gillard Government Trade Policy Statement: Trading our way to more jobs and prosperity* (Department of Foreign Affairs and Trade, 2011) 4-5.

## 6.3 Minimum (floor) pricing may not be compliant with Australia’s international trade obligations

### 6.3.1 Implications under the General Agreement on Tariffs and Trade 1994

As a WTO member, Australia is a party to the *General Agreement on Tariffs and Trade 1994* (GATT 1994) which aims to reduce tariffs and other trade barriers on a reciprocal and mutually advantageous basis for WTO signatories. Significantly, the GATT 1994 Art III:4 relevantly provides:

*The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like product of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use.*<sup>125</sup>

It is possible that a minimum price measure will be in violation of Australia’s obligations under the GATT 1994 Art III:4 on the grounds that it extends less favourable treatment to imported products than to competing domestic products. Depending on the minimum price selected, the measure may effectively prohibit some (possibly many) imported products from being sold at their current prices, requiring either substantial increases in price or substantial changes to the products’ alcohol content (if possible) in order for the products to enter the Australian market. Imported products will not be able to take advantage of lower cost bases to compete effectively with like domestic products. As such, the minimum price measure will arguably result in imported like products being treated less favourably than like domestic products.

The GATT 1994 Art XX provides for exceptions to the application of Art III:4, such as where a measure is:

- necessary to protect public morals; or
- necessary to protect human, animal or plant life or health.<sup>126</sup>

However, these exceptions can only be invoked where the measure is *necessary* (i.e. has a direct impact on public morals or health protection) and is not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.<sup>127</sup>

To date, it does not appear that the Australian Government has established a clear need to introduce a minimum price to manage health concerns raised by risky or high-risk drinking behaviours or underage consumption. As noted in Section 2.1 earlier, the majority of Australians consume alcohol responsibly, there is no identifiable evidence which would justify the use of the term ‘binge drinking epidemic’ and risky and high-risk drinking behaviours are generally declining amongst many demographic groups.

DSICA also notes that the introduction of a minimum price is likely to be seized upon by some of Australia’s trading partners to erect barriers to Australian alcohol beverage exports, including on health grounds (e.g. in the Malaysia-Australia Free Trade Agreement), and is concerned that

<sup>125</sup> *General Agreement on Tariffs and Trade 1994* Art III:4.

<sup>126</sup> *General Agreement on Tariffs and Trade 1994* Art XX(a)-(b).

<sup>127</sup> *General Agreement on Tariffs and Trade 1994* Art XX.

any violations by Australia may be seized upon by existing trading partners to provide justification for existing or to introduce new discriminatory measures.

DSICA contends that even if increases to alcohol beverage prices were necessary for the protection of health in respect of risky or high-risk drinking behaviours, alternative measures are available which would achieve the overarching policy objectives of minimum pricing in a less trade-restrictive manner and which would be non-discriminatory, thereby ensuring WTO compliance. Most notably, reform to a wholly volumetric alcohol taxation regime would, in effect, set a minimum price for all beverages and provide a direct link between alcohol content and the tax payable, creating an environment in which consumers can make more informed consumption decisions.<sup>128</sup>

At a minimum, DSICA contends that any proposed minimum price measure must be rigorously assessed to ascertain whether it is both compatible and permissible in the context of the GATT 1994. However, given the possibility of potential violation of Australia’s obligations under the GATT 1994 and the availability of alternative measures which address alcohol-related harms more appropriately, DSICA contends that the introduction of a wholly volumetric taxation system is a more effective policy intervention than minimum pricing.

#### Key point

Minimum pricing may be in violation of Australia’s obligations under the GATT 1994. Less trade restrictive reform measures which are non-discriminatory and create a direct link between alcohol content and tax paid are available and will achieve the same policy objectives as minimum pricing.

### 6.3.2 Implications under Australia’s Free Trade Agreements

Australia is a party to a number of bilateral and regional free trade agreements. DSICA notes that the introduction of a minimum price may be in violation of Australia’s obligations under several of its free trade agreements, particularly in relation to matters concerning non-tariff measures and import and export restrictions.

In particular, a number of Australia’s free-trade agreements incorporate the principles of national treatment enshrined in the GATT 1994 Art III.<sup>129</sup> As discussed in Section 6.3.1 earlier, the introduction of a minimum price is likely to be in violation of the GATT 1994 Art III:4, and, consequently, Australia’s free trade agreement obligations with trading partners such as the United States, Chile, ASEAN and New Zealand.

Furthermore, a number of Australia’s free-trade agreements also incorporate requirements relating to the elimination of quantitative restrictions. For example, the *Australia-United States Free Trade Agreement*, the *Australia-Chile Free Trade Agreement* and the *Australia-ASEAN-New Zealand Free Trade Agreement* all incorporate the GATT 1994 Art XI into their respective agreements,<sup>130</sup> which relevantly provides:

***No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by***

<sup>128</sup> Further discussion of DSICA’s proposal for wine taxation reform to a wholly volumetric regime is available in Section 7.2.2.

<sup>129</sup> See, for example, *Australia-United States Free Trade Agreement* Art 2.2; *Australia-Chile Free Trade Agreement* Art 3.3; *Australia-ASEAN-New Zealand Free Trade Agreement* Art 4.

<sup>130</sup> *Australia-United States Free Trade Agreement* Art 2.9; *Australia-Chile Free Trade Agreement* Art 3.9; *Australia-ASEAN-New Zealand Free Trade Agreement* Art 7:1.

*any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party (emphasis added).<sup>131</sup>*

The introduction of a minimum price has the potential to be in violation of this provision, as it arguably has the effect of introducing a non-tax measure which has the potential to restrict the sale of imported alcohol beverages.

As with consideration arising under the GATT 1994 noted in Section 6.3.1 above, DSICA contends that any proposed minimum price measure must be rigorously assessed to ascertain whether it is both compatible and permissible in light of Australia’s free-trade agreement obligations, and also its potential impact on Australia’s key trading partners, especially those involved in exporting alcohol to Australia (e.g. bourbon exports from the United States accounted for 45 per cent of total whisky exports to Australia [by volume] in 2010-11).<sup>132</sup>

#### **Key point**

Minimum pricing measures may be in violation of Australia’s obligations under several of its free trade agreements. Detailed advice on any potential trade-related implications (legal, financial and political) must be obtained prior to the introduction of a minimum price.

### **6.3.3 Implications for products covered by a geographical indicator**

As a WTO member and a party to the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPS Agreement), Australia is required to observe, protect and uphold the correct application of geographical indicators applying to certain specified products.<sup>133</sup> In Australia, this requirement is enshrined in the *Australia New Zealand Food Standards Code* Standard 4.

DSICA acknowledges the value of geographical indicators in protecting brand reputation, production standards and ensuring consumer confidence in products they purchase. However, the introduction of a minimum price will have the unintended consequence of setting an absolute minimum price for the retail sale of products covered by a geographical indicator relating to alcohol content.

A number of spirits products are covered by geographical indicators which stipulate a product’s minimum alcohol content. For example, the *Scotch Whisky Regulations 2009* (UK) provide that all Scotch Whisky products must have a minimum alcohol strength of 40 per cent abv in order to be classified as ‘Scotch Whisky’.<sup>134</sup> Similarly, the *Official Mexican Standard for Tequila* provides that all tequila products must have a minimum alcohol strength of 35 per cent abv in order to be classified as ‘tequila’.<sup>135</sup>

The introduction of a minimum price for alcohol beverages produced according to alcohol content effectively fixes an absolute minimum price for the retail sale of specific products which are subject to geographical indicator requirements on the basis of alcohol content. At face value, this is not of significant concern. However, due consideration must be had as to the

<sup>131</sup> *General Agreement on Tariffs and Trade 1994* Art XI.

<sup>132</sup> Liquor Merchants Association of Australia (LMAA) Database, *Domestic Market: July 2010-June 2011* (Liquor Merchants Association of Australia, 2011) (industry figures converted to 100 per cent); DSICA estimates. Bulk spirits imported for manufacture of beverages not exceeding ten per cent abv are assumed to be imported at 80 per cent abv.

<sup>133</sup> *Agreement on Trade-Related Aspects of Intellectual Property Rights* Art 23.

<sup>134</sup> *Scotch Whisky Regulations 2009* (UK) s 3(1)(i).

<sup>135</sup> *Official Mexican Standard for Tequila NOM-006-SCFI-2005* s 6.

impact this may have on the existing and proposed price points of these products – particularly in situations where a minimum price level may significantly increase the retail sales price of selected alcohol products covered by geographical indicators.

**Key point**

A minimum price will set an absolute minimum price for the retail sale of products covered by a geographical indicator on the basis of alcohol content. Consideration of the pricing impacts of a minimum price on these products is required.



## 7 Alternatives to minimum (floor) pricing

### 7.1 Existing interventions are apparent across a wide variety of state and federal government departments

As noted in Section 1, DSICA’s vision for alcohol policy development is one which is holistic, evidence-based and incorporates consultation between governments at the Commonwealth, territory, state and local levels, the alcohol industry and other relevant stakeholders. This accords with the vision for taxation reform outlined in the Henry Review, which noted:

*To the extent possible, tax and transfer policy should also be consistent with the broader policy objectives of government.<sup>136</sup>*

Given this, DSICA contends that minimum pricing is not to be considered in isolation from other government policies and interventions which seek to regulate access to alcohol, reduce risky and high-risk drinking behaviours and reduce demand for alcohol products through pricing and taxation controls. Of the seven broad policy interventions and approaches identified by Babor et. al., Australia already demonstrates a high degree of both government and industry-led interventions which aim to control alcohol consumption and reduce alcohol-related harms through a variety of mechanisms, including demand reduction, supply control, environmental constraints, deterrence, punishment, social pressure, health information, reducing exposure to social modelling, treatment and early intervention.<sup>137</sup> A summary of selected interventions is provided in Figure 7-1.

Figure 7-1: Selected Australian federal, state and territory government and industry-led alcohol harm minimisation strategies

Policy approach <sup>138</sup>	Australian examples
Alcohol taxes and other price controls	Domestically produced beer, spirits and RTD products are subject to excise duty (excise-equivalent customs duty in the case of imported products), while wine is subject to WET. There has been an increase in excise duty paid by RTD beverages effective April 2008.  Some supermarkets (e.g. Coles) have implemented bans on price discounts and promotions on alcohol beverages, especially in the Northern Territory.
Regulate physical availability through restrictions on time, place and density of alcohol outlets	A minimum legal purchasing age of 18 years is in operation nationally.  Hours and days of sale restrictions are controlled through state and territory-based liquor licensing regimes.
Alter the drinking context	Responsible Service of Alcohol training is required for all persons involved in the service of alcohol and enables staff to identify inebriated patrons and better manage aggressive behaviours.  Some states (e.g. Queensland) implement late-night lockouts of licensed premises.
Drink-driving	Random breath testing is undertaken throughout Australia and there is strict enforcement of 0.05 Blood Alcohol Concentration (BAC) limit. A zero

<sup>136</sup> Ken Henry et. al., *Australia’s Future Tax System: Report to the Treasurer (Part 1 – Overview)* (Australian Government, 2009) 17.

<sup>137</sup> Babor et. al., above n 60, 106-7.

<sup>138</sup> Taken from Babor et. al, above n 60, 107.

Policy approach <sup>138</sup>	Australian examples
countermeasures	tolerance policy is in operation for younger drivers.
Education and persuasion: provide information to adults and young people especially through mass media and school-based alcohol education programs	<p>The National Health and Medical Research Council <i>Australian Guidelines to Reduce Health Risks from Drinking Alcohol</i> are widely publicised.</p> <p>Alcohol education programs in schools are frequently implemented, such as the School Health and Harm Reduction Project (SHAHRP) in Western Australia and the Gatehouse Project in Victoria.</p> <p>The industry-led <i>DrinkWise Australia</i> initiative undertakes significant media campaigns such as <i>Kids &amp; Alcohol Don't Mix</i>, <i>Kids Absorb Your Drinking</i> and education regarding alcohol consumption and pregnancy.</p>
Regulate alcohol advertising and other marketing	The Alcohol Beverages Advertising Code (ABAC) provides a quasi-regulatory system for alcohol advertising, with guidelines for advertising negotiated with government, consumer complaints handled independently and costs borne by industry. The ABAC Code provides restrictions on the nature and content of television, internet and print media advertising.
Conduct screening and brief intervention in health care settings; increase availability of treatment programs	<p>Self-help and mutual help programs such as 12-Step Facilitation Therapy (through Alcoholics Anonymous) are widely available.</p> <p>Sobering-up centres have been established throughout Australia, particularly in Indigenous communities.</p>

As noted in Section 2 earlier, a majority of Australians are responsible alcohol consumers and the incidence of risky and high-risk drinking behaviours is in decline for many demographic groups. These factors strongly suggest that current government and industry-led interventions and initiatives are effective in, and continue to make progress towards, the minimisation of alcohol-related harms.

Building on these considerations, DSICA believes that the existence and indicative effectiveness of current policy interventions means that there is no demonstrable need to introduce a minimum price as an ancillary measure to reduce alcohol-related harms. In particular, there is no conclusive evidence demonstrating the effectiveness of minimum pricing in targeting risky and high-risk drinking behaviours, which are of greatest concern.

## Key point

There are a wide variety of government and industry-led supply reduction, demand reduction and harm reduction policies currently in operation. Given that a majority of Australians are responsible consumers, and trends in risky and high-risk drinking behaviours are in decline for many demographic groups, it would appear that existing measures are effective in reducing alcohol-related harm, removing the need for the introduction of a minimum price.

## 7.2 A minimum price may be achieved through alternative means which are demonstrated to be more effective: reform to a wholly volumetric alcohol taxation regime

The Issues Paper contains a high-level summary of the recommendations of the Henry Review in relation to recommended changes to alcohol taxation in Australia. The Issues Paper incorrectly states that a common rate of tax (as recommended by the Henry Review) would:

*...decrease the price of spirits and RTDs.<sup>139</sup>*

This is not the case, and DSICA has never sought such an outcome. The proposed Henry transition to a single volumetric tax rate for all alcohol contemplates:

- a freezing of excise duty rates on spirits and RTDs (not a reduction); and
- a long-term movement of the taxation rates of the other categories upwards until those rates converged (further technical details of this transitional trajectory are set out in DSICA’s 2012-13 Pre-budget submission).

Rather than implementing a minimum price, DSICA favours the introduction of a rationalised tax system based on a volumetric tax across all products, as recommended by the Henry Review. In effect, this would provide a minimum floor price on alcohol without adversely affecting sensible, moderate drinkers or low-income households and/or individuals, and would avoid concerns relating to Australia’s international trade obligations.

The introduction of a wholly volumetric taxation regime is consistent with recommendations made in the Henry Review (discussed in Section 7.2.2 below), and would assist in removing a number of the ongoing distortions within the Australian alcohol market which produce less than optimal health and economic outcomes.

DSICA has developed a proposal for reform of the ad valorem WET to a volumetric regime which is designed to operate as a *transition step* in achieving the long-term aim of a single volumetric excise duty rate applying to all alcohol beverages as recommended by the Henry Review. A brief overview of this reform proposal is outlined in Section 7.2.2 below, while a comprehensive explanation is available in Appendix B.

### 7.2.1 The Henry Review and calls for a wholly volumetric taxation regime

The Henry Review found that Australia urgently requires alcohol taxation reform. It confirmed that the current system is riddled with anomalies, causes many distortions and produces less than optimal social and economic outcomes. In dedicating an entire chapter (E5) to alcohol taxation, the Henry Review made two numbered recommendations regarding the arrangements for alcohol taxation in Australia but did **not** recommend the adoption of a minimum floor price.

The Henry Review has made a recommendation consistent with DSICA’s long-term vision of a single volumetric rate for all products:

*All alcoholic beverages should be taxed on a volumetric basis, which, over time, should converge to a single rate, with a low-alcohol*

<sup>139</sup> Australian National Preventative Health Agency, above n 1, [12].

*threshold introduced for all products. The rate of alcohol tax should be based on evidence of the net marginal spillover costs of alcohol.<sup>140</sup>*

DSICA strongly supports this recommendation, and the longer-term transition of alcohol tax to a single volumetric tax, for a number of reasons:

- cheap, low quality wine in Australia is afforded significant tax concessions relative to other forms of alcohol by the current ad valorem WET rate. The amount of tax paid per standard drink for cask wine is less than nine per cent of the tax paid on one standard drink of spirits;
- a volumetric taxation regime enables consumers to make more responsible consumption decisions, as the amount of tax paid relates directly to a product’s alcohol content. Conversely, the existing ad valorem WET arrangements encourage production and consumption of cheap products, irrespective of alcohol content or quality;
- changing taxation on wine from an ad valorem to a volumetric approach would alleviate the concerns regarding very low-value wine products being available to at-risk communities;
- premium wine in Australia is relatively highly taxed compared with other countries. Changing to a volumetric WET tax rate would assist in addressing this inequality;
- the ad valorem WET gives an incentive for producers to make cheap, low quality wines (such as cask wine), which are relatively lightly taxed in Australia compared with other countries; and
- wine is currently heavily subsidised by taxes collected on other alcohol beverages.

## 7.2.2 DSICA’s proposal for wine taxation reform

DSICA has developed a proposal on wine taxation reform, as a first transition step to achieving the long-term goal of a fully volumetric taxation regime for all alcohol beverages.

The objectives of the proposal are to:

- increase the tax (and price) of cask (and low-price cleanskin) wine; and
- preserve the existing legislative structure of the WET.

In removing the ad valorem WET rate and replacing it with a volumetric tax rate, which would apply to all wine and wine products, an effective minimum floor price would be created.<sup>141</sup>

DSICA’s revised wine taxation reform proposal comprises four steps, as outlined in Figure 7-2.

*Figure 7-2: DSICA’s four-step wine taxation reform proposal*

Step	Explanation
<b>Step 1</b> <i>Retain the WET</i>	Retain the WET as the legal structure for wine taxation, rather than moving wine tax into the excise system.
<b>Step 2</b> <i>Introduce taxation tiers</i>	Introduce several taxation tiers, based upon wholesale sales price points (or other criteria to be developed), equivalent to the economy, semi-premium and premium wine categories.

<sup>140</sup> Henry et. al, above n 5, 442.

<sup>141</sup> Ibid., 439.

Step	Explanation
<b>Step 3</b> <i>Set a volumetric rate for each taxation tier</i>	Introduce different taxation rates within those tiers, including a volumetric rate for the economy tier.
<b>Step 4</b> <i>Apply accelerated indexation to the lowest (economy) tier</i>	Introduce an accelerated indexation factor for the volumetric rate in the economy tier (which would allow convergence to a common rate with the semi-premium tier over a phase-in period).

It is noteworthy that volumetric wine taxation reform in Australia now has wide support from major players in the wine industry, including Premium Wine Brands (Pernod Ricard) and Treasury Wine Estates, along with the Brewers Association of Australia and New Zealand and peak health lobby groups including the Foundation for Alcohol Rehabilitation and Education (FARE).<sup>142</sup>

The Issues Paper notes that the Deputy Prime Minister and Treasurer has stated that ‘the Government has committed not to change alcohol tax in the middle of a wine glut and where there is an industry restructure underway’.<sup>143</sup>

However, the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) has recently projected that wine stocks will fall to the desired levels of balance through 2012-13 and 2013-14.<sup>144</sup> This is consistent with public statements by Mr David Dearie, Chief Executive Officer of Treasury Wine Estates, one of Australia’s largest wine producers, who was reported in 2011 as commenting that:

*The Australian wine sector is 12 to 24 months away from supply and demand being in balance.*<sup>145</sup>

*The wine market is in balance globally but the local market is in oversupply, and could remain so for up to two years.*<sup>146</sup>

The ABARES projections require some technical explanation, as follows.

ABARES notes that ‘because wine sales are typically made from stocks, the ratio of stocks-to-forward sales can be used to gauge changing market conditions’.<sup>147</sup>

There are a number of opinions on what the desired level of the stocks-to-forward sales ratio should be in Australia, including by:

- ABARES, which has stated that the ‘preferred stock holding is between 1.5 and 1.6 years of sales for red wines and 1.2 and 1.3 years of sales for white wines’;<sup>148</sup> and

<sup>142</sup> See Premium Wine Brands (Pernod Ricard), *Premium Wine Brands’ Submission to the Federal Government Tax Forum* (Premium Wine Brands, 2011); Treasury Wine Estates, *Submission prepared by Treasury Wine Estates Ltd for the Federal Government Tax Forum* (Treasury Wine Estates, 2011); Brewers Association of Australia and New Zealand, *Tax Forum Submission: For the Environmental and Social Taxes Session* (Brewers Association of Australia and New Zealand, 2011); Alcohol Education and Rehabilitation Foundation, ‘AER Foundation calls for urgent reform on the Wine Equalisation Tax, 6 September 2011).

<sup>143</sup> Australian Government, *Tax Forum Discussion Paper – Tax Reform: Next Steps for Australia* (Australian Government, 2011) 30.

<sup>144</sup> Caroline Gunning-Trant and Walter Shafron, ‘Australian wine grape production projections to 2013-14’ (Research Paper No 12.3, Department of Agriculture, Fisheries and Forestry [Australian Bureau of Agricultural and Resource Economics and Sciences], 2012).

<sup>145</sup> Blair Speedy, ‘Dollar drags on Treasury earnings’, *The Australian* (Sydney), 23 August 2011, 21.

<sup>146</sup> Julie-anne Sprague, ‘Asia to get a bigger taste of Grange’, *The Australian Financial Review* (Sydney), 23 August 2011, 1.

<sup>147</sup> Ibid, 18.

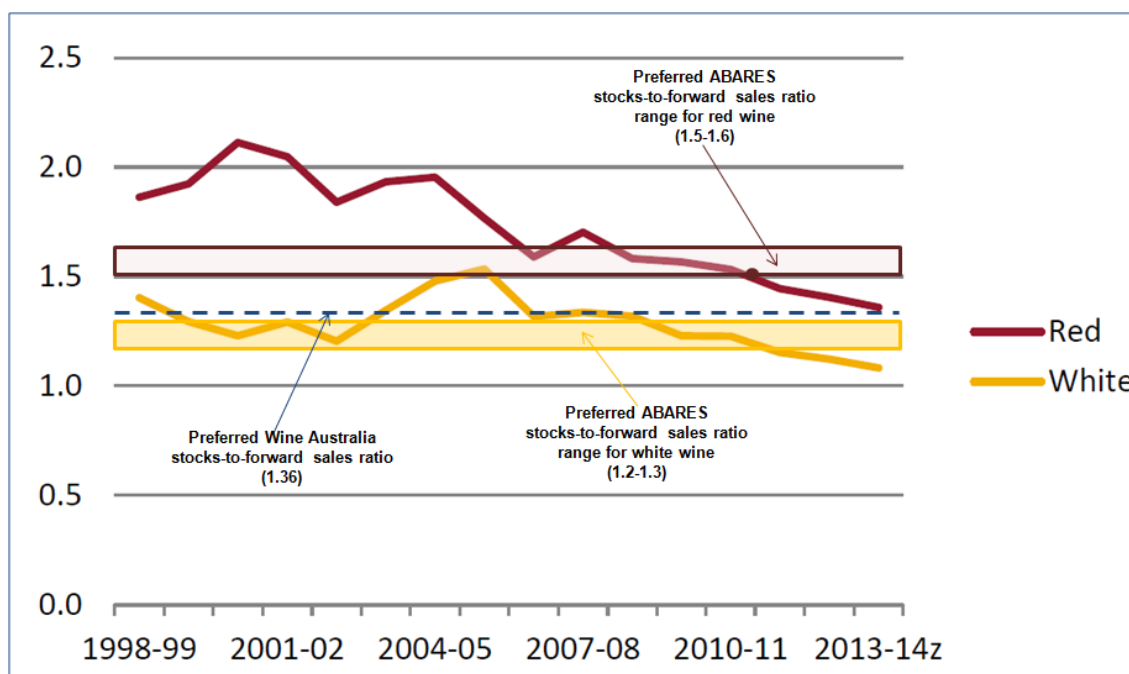
<sup>148</sup> Terry Sheales et. al, ‘Australian Wine Industry – Challenges for the Future’ (Research Paper 06.16, Department of Agriculture, Fisheries and Forestry [Australian Bureau of Agricultural and Resource Economics and Sciences], 2006) 30.

- Wine Australia, which has stated that the ideal stocks-to-forward sales ratio for all table wine is 1.36.<sup>149</sup>

According to ABARES, in 2010-11 the stocks-to-forward sales ratio for red table wine ‘fell slightly to 1.53’ and the ratio for white table wine ‘remained largely unchanged at 1.23’.<sup>150</sup> Both these ratios are now at the desired level of stocks-to-forward sales previously stated by both ABARES and Wine Australia. In addition, ABARES forecasts that over the projection period to 2013-14, the stocks-to-forward sales ratio for both red and white table wine will decline further and that by 2013-14 the ratios for red and white table wine are projected to be 1.36 and 1.08, respectively.<sup>151</sup>

ABARES’ findings are illustrated in Figure 7-3.

Figure 7-3: Wine stocks-to-forward sales ratios 1998-99 to 2013-14



Adapted from Caroline Gunning-Trant and Walter Shafron, ‘Australian wine grape production projections to 2013-14’ (Research Paper No 12.3, Department of Agriculture, Fisheries and Forestry [Australian Bureau of Agricultural and Resource Economics and Sciences], 2012, 19. Note that ‘z’ refers to projection figures.

Based on ABARES’ analysis, it is now uncontested that the level of wine stocks in Australia has reached the preferred level and therefore the wine glut is ending.

Given these considerations, DSICA is of the opinion that it is **now** time for the Government to consider reform to the alcohol taxation system. Reform of the alcohol taxation system (particularly the introduction of a volumetric WET tax for wine) would create an effective minimum price for all alcohol beverages. This would have the benefit of the Government deriving additional revenue from the volumetric WET tax collections, and it would remove the need to introduce a minimum price.

<sup>149</sup> Peter Bailey, *Australian Wine Industry – State of Play* (Wine Australia, 2011) 35.

<sup>150</sup> Gunning-Trant and Shafron, above n 144, 18.

<sup>151</sup> *Ibid.*, 19.

**Key point**

The introduction of a wholly volumetric alcohol taxation regime, initially through reform of the ad valorem WET, would create an effective minimum floor price for all alcohol beverages, therefore removing the need to introduce a statutory minimum floor price.



## 8 Conclusion

The foregoing analysis of Australian alcohol consumption patterns and circumstances surrounding the minimum price debate in Australia strongly suggests that the introduction of a minimum price is not an appropriate policy intervention. In particular:

- historical consumption data shows that Australian alcohol consumption is stable, and well below earlier peaks seen in the 1970s;
- the majority of Australians are responsible consumers, and Australian per capita alcohol consumption is not high by comparable international standards;
- policy interventions which are not based on robust evidence are unlikely to be effective – the 2008 RTD tax increase is a key example here, with consumption data demonstrating that the decline in RTD consumption was completely offset by switching/substitution into other beverage categories;
- the trends in risky and high-risk drinking behaviours over the last decade are not uniform across the population;
- while the current Australian alcohol taxation regime fails to achieve desired economic, health and social policy objectives, a minimum price will not redress these concerns effectively; and
- although the high levels of risky and high-risk drinking behaviours in Indigenous communities is of significant concern, a targeted and integrated approach is required to address the causal factors contributing to these consumption patterns – a minimum pricing intervention alone is insufficient, and unlikely to be effective.

There is a lack of evidence demonstrating the effectiveness of minimum pricing in achieving desired health and social policy outcomes.

There are unintended consequences which may arise following the introduction of such a measure. DSICA notes that:

- there is a lack of empirical evidence demonstrating the effectiveness of minimum pricing internationally. The Canadian SRP model has recently been evaluated, however the findings from this research are to be used with caution due to the significant differences between the Canadian alcohol regulation model and the Australian experience. Other comparable jurisdictions are yet to formally implement minimum pricing measures;
- available research demonstrates that a minimum price would fail to reduce consumption patterns of those who are determined to misuse alcohol, instead unfairly penalising sensible, moderate consumers and disproportionately affecting those with low incomes;
- windfall profits from a minimum price are likely to benefit retailers, rather than others in the supply chain. Increasing retailer profits from alcohol sales, while simultaneously attempting to reduce alcohol consumption appears, at the very least, incongruous;
- potential alcohol industry responses to a minimum pricing measure may mitigate, if not totally offset, any purported benefits; and
- a minimum price may be inconsistent with Australia's international trade obligations.

These factors considered, it is apparent that a minimum price would not provide an evidence-based, holistic approach to addressing risky and high-risk consumption behaviours, but would

instead be a blunt, population-wide instrument which unfairly penalises the majority of Australian drinkers who consume alcohol in a responsible manner.

In summary, there is no basis upon which a public interest case for the introduction of a minimum (floor) price on alcohol in Australia can be made.

## A References

*Agreement on Trade-Related Aspects of Intellectual Property Rights.*

Alcohol Education and Rehabilitation Foundation, ‘AER Foundation calls for urgent reform on the Wine Equalisation Tax’ (Media Release, 6 September 2011).

*Alcohol etc. (Scotland) Act 2010* (UK).

*Alcohol (Minimum Pricing) (Scotland) Act 2012* (UK).

*Alcohol (Minimum Pricing) (Scotland) Bill 2011* (UK).

*Australia-United States Free Trade Agreement.*

*Australia-Chile Free Trade Agreement.*

*Australia-ASEAN-New Zealand Free Trade Agreement.*

Australian Bureau of Statistics, *Apparent Consumption of Alcohol, Australia: Extended Time Series, 1944-1945 to 2008-09* (Cat. No. 4307.0.55.002) (Australian Bureau of Statistics, 2011).

Australian Government, *Tax Forum Discussion Paper – Tax Reform: Next Steps for Australia* (Australian Government, 2011).

Australian Institute of Health and Welfare, *2001 National Drug Strategy Household Survey: First Results* (Australian Institute of Health and Welfare, 2002).

Australian Institute of Health and Welfare, *2004 National Drug Strategy Household Survey: First Results* (Australian Institute of Health and Welfare, 2005).

Australian Institute of Health and Welfare, *2007 National Drug Strategy Household Survey: Detailed Findings* (Australian Institute of Health and Welfare, 2008).

Australian Institute of Health and Welfare, *2007 National Drug Strategy Household Survey: First Results* (Australian Institute of Health and Welfare, 2008).

Australian Institute of Health and Welfare, *2010 National Drug Strategy Household Survey Report* (Australian Institute of Health and Welfare, 2011).

Australian Institute of Health and Welfare, *Drinking patterns in Australia, 2001-2007* (Australian Institute of Health and Welfare, 2010).

Australian Institute of Health and Welfare, *Substance use among Aboriginal and Torres Strait Islander people* (Australian Institute of Health and Welfare, 2011).

Australian National Preventative Health Agency, *Exploring the Public Interest Case for a Minimum (Floor) Price for Alcohol: Issues Paper* (Australian Government, 2012).

Babor, Thomas et. al., *Alcohol – No Ordinary Commodity: Research and Public Policy* (Oxford University Press, 2<sup>nd</sup> ed, 2010).

Bailey, Peter, *Australian Wine Industry – State of Play* (Wine Australia, 2011).

Brewers Association of Australia and New Zealand, *Tax Forum Submission: For the Environmental and Social Taxes Session* (Brewers Association of Australia and New Zealand, 2011).

Brown, Colin, ‘AFTS Proposal – Alcohol Tax Reform’ (Costing Minute No CQAU 2009-225, The Treasury, 2009).

Carragher, Natacha and Chalmers, Jenny, *What are the options? Pricing and taxation policy reforms to redress excessive alcohol consumption and related harms in Australia* (NSW Bureau of Crime Statistics and Research, 2011).

Centre for Economics and Business Research, *Minimum Alcohol Pricing: A targeted measure? Report to the Scottish Parliamentary Health and Sport Committee (Final Report)* (Centre for Economics and Business Research, 2010).

Chick, Jonathan, ‘What Price for an Extra-ordinary Commodity?’ (2010) 45(5) *Alcohol and Alcoholism* 401.

Department of Foreign Affairs and Trade, *Gillard Government Trade Policy Statement: Trading our way to more jobs and prosperity* (Department of Foreign Affairs and Trade, 2011).

Distilled Spirits Industry Council of Australia, *Alcohol in Context* (Distilled Spirits Industry Council of Australia, 2011).

Distilled Spirits Industry Council of Australia, *Indicators of Alcohol Consumption Amongst Young People – Third Release* (Distilled Spirits Industry Council of Australia, 2006).

Distilled Spirits Industry Council of Australia, *Statement of Responsible Practices for Alcohol Advertising and Marketing* (Distilled Spirits Industry Council of Australia, 2010).

Dunlevy, Sue and Rout, Milanda, ‘Alcohol floor “a hit on elderly and poor”’, *The Australian* (Sydney), 9 June 2011.

Edrington Group, *Alcohol (Minimum Pricing) (Scotland) Bill: Response to the Health and Sport Committee’s call for Written Evidence* (The Edrington Group, 2011).

*General Agreement on Tariffs and Trade 1994.*

Gilligan, Conor, Kuntsche, Emmanuel and Gmel, Gerhard, ‘Adolescent Drinking Patterns Across Countries: Associations with Alcohol Policies’ (2012) 0(0) *Alcohol and Alcoholism* 1.

Gunning-Trant, Caroline and Shafron, Walter, ‘Australian wine grape production projections to 2013-14’ (Research Paper No 12.3, Department of Agriculture, Fisheries and Forestry [Australian Bureau of Agricultural and Resource Economics and Sciences] 2012).

Health and Sport Committee, Scottish Parliament, *2<sup>nd</sup> Report, 2012 (Session 4): Stage 1 Report on the Alcohol (Minimum Pricing) (Scotland) Bill* (2012).

Health and Sport Committee, Scottish Parliament, *Alcohol etc (Scotland) Bill: Stage One – Official Report* (2010).

Health and Sport Committee, Scottish Parliament, *Stage 1 Report on the Alcohol (Minimum Pricing) (Scotland) Bill* (2012).

Henry, Ken et. al., *Australia’s Future Tax System: Report to the Treasurer (Part One – Overview)* (Australian Government, 2009).

Henry, Ken et. al., *Australia’s future tax system: Report to the Treasurer (Part Two – Detailed Analysis)* (Australian Government, 2009).

HM Government, *The Coalition: Our Programme for Government* (HM Government, 2010).

HM Treasury, *Review of alcohol taxation* (HM Treasury, 2010).

Hunt, Priscilla, Rabinovich, Lila and Baumberg, Ben, *Preliminary assessment of economic impacts of alcohol pricing policy options in the UK* (RAND Corporation, 2011).

International Center for Alcohol Policies, *Guide to Creating Integrative Alcohol Policies*, (International Center for Alcohol Policies, 2008).

Kisely, Steve et. al., 'Effect of the increase in 'alcopops' tax on alcohol-related harms in young people: a controlled interrupted time series' (2011) 195(11/12) *Medical Journal of Australia* 690.

Leicester, Andrew, *IFS Briefing Note BN124: Alcohol pricing and taxation policies* (Institute for Fiscal Studies, 2011).

Letter from Nicola Sturgeon to Duncan McNeil, 14 May 2012.

Letter from the Rt Hon David Willetts MP to the Rt Hon Nick Clegg MP, 19 March 2012.

*Licensing (Scotland) Act 2005* (UK).

Liquor Merchants Association of Australia (LMAA) Database, *Domestic Market: July 2010-June 2011* (Liquor Merchants Association of Australia, 2011).

Martin, Peter, 'Alice Springs council protests against cheap alcohol ban in Woolworths and Coles', *The Sydney Morning Herald* (Sydney), 29 June 2011.

Martin, Peter, 'It's shaping up to be a great year for Grange', *The Sydney Morning Herald* (Sydney), 1 May 2010.

National Health and Medical Research Council, *Australian Alcohol Guidelines: Health Risks and Benefits* (Commonwealth of Australia, 2001).

National Health and Medical Research Council, *Australian Guidelines to Reduce Health Risks from Drinking Alcohol* (Commonwealth of Australia, 2009).

New Zealand Law Reform Commission, *Alcohol in our lives: Curbing the harm* (New Zealand Law Reform Commission, 2010).

Northern Territory Department of Justice, *Buying alcohol in the Northern Territory* (13 April 2012) Northern Territory Alcohol Reform <<http://www.justice.nt.gov.au/alcoholreformnt/buying-alcohol-territory/index.html>>.

*Official Mexican Standard for Tequila NOM-006-SCFI-2005*.

Organisation for Economic Co-Operation and Development, *Non-Medical Determinants of Health: Alcohol Consumption* (Organisation for Economic Co-Operation and Development, 2009).

Premium Wine Brands (Pernod Ricard), *Premium Wine Brands' Submission to the Federal Government Tax Forum* (Premium Wine Brands, 2011).

Preventative Health Taskforce, *Australia: The Healthiest Country by 2020, National Preventative Health Strategy – The Roadmap for Action* (Australian Government, 2009).

Pyne, The Hon Christopher MP, 'Teenage Drinking – Who's responsible?' (Speech Delivered at the National Press Club, Canberra, 1 December 2004).

Roxon, The Hon Nicola MP and McLucas, Senator the Hon Jan, 'National Binge Drinking Strategy' (Media Release, 17 November 2008).

Scotch Whisky Association, *Facts and Figures as at 31 May 2012* (31 May 2012), Scotch Whisky Association <<http://www.scotch-whisky.org.uk/what-we-do/facts-figures/>>.

*Scotch Whisky Regulations 2009* (UK).

Scottish Government, *Framework for Action: Changing Scotland's Relationship with Alcohol – Business and Regulatory Impact Assessment of Minimum Price per Unit of Alcohol as contained in Alcohol (Minimum Pricing) (Scotland) Bill* (Scottish Government, 2011).

Scottish Government, 'Minimum Price for Alcohol' (Media Release, 14 May 2012).

Scottish Government, *Question S4W-03484: Sandra White, Glasgow Kelvin, Scottish National Party* (14 November 2011) Motions, Questions and Answers <<http://www.scottish.parliament.uk/parliamentarybusiness/28877.aspx?SearchType=Advance&ReferenceNumbers=S4W-03484&ResultsPerPage=10>>.

Scottish Parliament Information Centre (SPICe), *SPICe Briefing: Alcohol (Minimum Pricing) (Scotland) Bill*, No 12/01 of 2012, 5 January 2012.

Scottish Parliament Information Centre (SPICe), *SPICe Briefing – Alcohol (Minimum Pricing) (Scotland) Bill: Stage 3*, No 12/34 of 2012, 17 May 2012.

Sheales, Terry et. al, 'Australian Wine Industry – Challenges for the Future' (Research Paper 06.16, Department of Agriculture, Fisheries and Forestry [Australian Bureau of Agricultural and Resource Economics and Sciences], 2006).

Skov, Steven et. al., 'Is the "alcopops" tax working? Probably yes but there is a bigger picture' (2011) 195(2) *Medical Journal of Australia* 84.

Speedy, Blair, 'Dollar drags on Treasury earnings', *The Australian* (Sydney), 23 August 2011, 21.

Sprague, Julie-anne, 'Asia to get a bigger taste of Grange', *The Australian Financial Review* (Sydney), 23 August 2011, 1.

Stockwell, Tim, Leng, Jiali and Sturge, Jodi *Alcohol Pricing and Public Health in Canada: Issues and Opportunities* (Centre for Addictions Research of BC, 2006).

*Technical Standards Directive 98/34/EC* (TRIS notification 2012/394/UK).

Treasury Wine Estates, *Submission prepared by Treasury Wine Estates Ltd for the Federal Government Tax Forum* (Treasury Wine Estates, 2011).

UK Home Office, *The likely impacts of increasing alcohol price: a summary review of the evidence base* (UK Home Office, 2011).

University of Sheffield, *Independent Review of the Effects of Alcohol Pricing and Promotion – Part A: Systematic Reviews* (University of Sheffield, 2008).

University of Sheffield, *Model-Based Appraisal of Alcohol Minimum Pricing and Off-Licensed Trade Discount Bans in Scotland Using the Sheffield Alcohol Policy Model (v2): Second Update Based on Newly-Available Data* (University of Sheffield, 2<sup>nd</sup> ed, 2012).

Wagenaar, Alexander, Salois, Matthew and Komro, Kelli, 'Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies' (2008) 104 *Addiction* 179.

Warburton, Richard and Hendy, Peter, *International Comparison of Australia's Taxes* (Australian Government, 2006).

World Health Organization, *Global Status Report on Alcohol and Health 2011* (World Health Organisation, 2011).

## B DSICA’s proposal for wine taxation reform

DSICA has developed a proposal for wine taxation reform which is designed to operate as a *transition step* in achieving the long-term aim of a single volumetric excise rate applying to all alcohol beverages. This proposal aims to facilitate an increase in the tax (and price) of cask (and low-price cleanskin bottled) wine, while preserving many of the existing features of the WET. This proposal comprises a four-step approach as follows:

- **retain the WET:** retain the WET as the legal structure for wine taxation, rather than moving wine tax into the excise system;
- **taxation tiers:** introduce several taxation tiers, based upon wholesale sales price points (or other criteria to be developed), equivalent to the economy, semi-premium and premium wine categories;
- **volumetric rate for economy wine:** introduce different taxation rates within those tiers, including a volumetric rate for the economy tier; and
- **accelerated indexation:** introduce an accelerated indexation factor for the volumetric rate in the economy tier which would allow convergence to a common rate with the semi-premium tier over a phase-in period.

Each of these steps is described in greater detail below.

### B.1 Step one – retain the existing Wine Equalisation Tax as the taxing system

The proposal would involve retention of the existing WET system legislative infrastructure (rather than moving wine taxation into the excise system). This would minimise administrative disruption for wine producers and also minimise any compliance changes otherwise required under the excise system. It is proposed that:

- administration of wine taxation should continue under the *A New Tax System (Wine Equalisation Tax) Act 1999* (Cth); and
- wine products should continue to be taxed at the last wholesale sales point, as is current practice under the WET.

The objectives of this approach are to ‘neutralise’ the traditional resistance that is expected from winemakers regarding a potential move into the excise system. In particular, it will remove the need for winemakers to obtain excise licences or to implement bonded warehouses. In addition, this would also allow the Wine Producer Rebate to be retained (if the Government were reluctant to abolish it), possibly in an amended form, to continue to support legitimate small winemakers.

DSICA notes that this approach to amend the *A New Tax System (Wine Equalisation Tax) Act 1999* (Cth) (rather than moving wine taxation into the excise system) is supported by Premium Wine Brands (Pernod Ricard).<sup>152</sup>

<sup>152</sup> Premium Wine Brands (Pernod Ricard), *Premium Wine Brands’ Submission to the Federal Government Tax Forum* (Premium Wine Brands, 2011) 4.

## B.2 Step two – introduce taxation tiers (possibly defined by wholesale sales price points)

The wine industry has traditionally opposed the concept of a single volumetric wine tax as a ‘flat earth’ approach that could not take account of the various categories within the wine market. DSICA’s proposal addresses this concern by introducing several taxing tiers (or taxing bands), which would be set for the commonly recognised categories of wine products. These taxing bands could be defined by wholesale sales price (or some other criteria to be developed).

This would allow three (or more) taxing bands with different (escalating) volumetric rates being set for each band. These bands could be based on the commonly recognised categories: economy (i.e. cask wine), semi-premium and premium wine products. An initial outline of the conceptual framework is outlined in Figure 8-1.

*Figure 8-1: Illustrative wholesale sales price bands and equivalent volumetric taxation rates*

Price band reference	Proposed wholesale sales price band	Volumetric rate reference
Band 1 or B <sub>1</sub>	Economy products	R <sub>1</sub>
Band 2 or B <sub>2</sub>	Semi-premium products	R <sub>2</sub>
Band 3 or B <sub>3</sub>	Premium products	R <sub>3</sub>

DSICA notes that Treasury Wine Estates supports a three-tiered volumetric wine taxation structure, however rather than defining the respective bands by wholesale sales price (as DSICA has proposed), it encourages the use of bands on the basis of alcohol content.<sup>153</sup> In its submission to the Tax Forum, Treasury Wine Estates notes that this approach is preferable as it would obviate the need for testing of each batch and the application of potentially multiple tax rates.<sup>154</sup> DSICA notes that the wholesale sales price banding approach it proposes may be refined and may refer to some other criteria to be developed, rather than wholesale sales price points. *DSICA would welcome the opportunity to work with the Government and wine industry representatives to identify the most appropriate criteria by which to define the proposed bands.*

## B.3 Step three – identify the volumetric taxation rate applicable to each band

This stage involves identification of the volumetric taxation rate for each of the three bands (B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub>). The rates would ideally be on a per litre of alcohol basis (i.e. not per litre, as is widely used in Europe).

For present purposes, these volumetric rates will be noted as R<sub>1</sub>, R<sub>2</sub> and R<sub>3</sub>. The rates for the bands could be selected/adjusted to achieve varying economic, social, industry or other objectives.

### B.3.1 Economy band (B<sub>1</sub>)

A volumetric rate would be introduced for the economy band. The setting of this rate (R<sub>1</sub>) would effectively set the minimum price of alcohol in Australia.

<sup>153</sup> Treasury Wine Estates, *Submission prepared by Treasury Wine Estates Ltd for the Federal Government Tax Forum* (Treasury Wine Estates 2011) 4.

<sup>154</sup> Ibid.

The volumetric rate for the economy band could be initially set at a level that resulted in no immediate change in cask wine prices. This is similar to Costing Option 1 developed by the Federal Treasury team supporting the Henry Review panel.<sup>155</sup> Under that Option, the commencing volumetric wine tax rate was \$7 per LPA and it required a 15-year transition period. This band would be subject to accelerated indexation (discussed in greater detail in Step Four below).

### B.3.2 Semi-premium band ( $B_2$ )

The products falling within price band  $B_2$  (i.e. semi-premium products) would be subject to a volumetric rate ( $R_2$ ) which would be subject to twice-yearly indexation in accordance with CPI movements (as is current practice with excisable alcohol products – beer, spirits and RTDs).

### B.3.3 Premium band ( $B_3$ )

The rate in the premium products band ( $B_3$ ) could be set to minimise price falls of expensive super-premium bottled wine. This could counter one oft-cited argument against a shift to a volumetric wine tax, which is that ‘*Grange* will fall in price under a volumetric wine tax’.<sup>156</sup>

Transition options for the tax rate in the premium band include:

- retain the existing ad valorem rate of 29 per cent (for a period); or
- select a proposed volumetric rate ( $R_3$ ) which would ensure no price change for a target premium bottle of wine of a selected retail price. The rate would then become subject to twice-yearly indexation in accordance with CPI.

## B.4 Step four – accelerate the indexation factor applied to the economy band

In order to increase the tax paid by products in the economy band ( $B_1$ ), an accelerated indexation factor would be applied to the volumetric rate selected for this band. This would allow for convergence to a common rate with the semi-premium tier over a phase-in period. The use of accelerated indexation draws on a key feature outlined by the Henry Review team in its Costing Minute, which used accelerated indexation to achieve convergence of volumetric rates at different starting positions.

As the most significant tax differential is seen in the economy (i.e. economy/cask wine products) market, the primary aim of this proposal is to increase, over time, the tax paid by this market segment. Hence, it is proposed that the indexation factor applied to rate  $R_1$  for this price band ( $B_1$ ) could be *accelerated* to have the effect of increasing the effective minimum floor price (for low-value wine) over time.

<sup>155</sup> Colin Brown, ‘AFTS Proposal – Alcohol Tax Reform’ (Costing Minute No CQAU 2009-225, The Treasury, 2009).

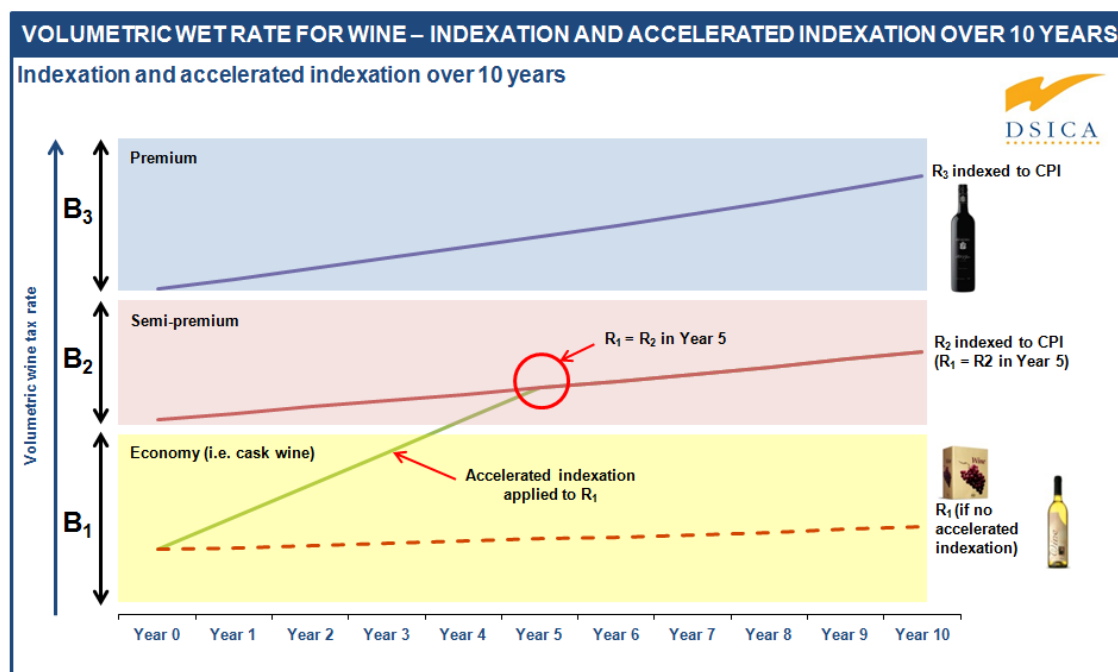
<sup>156</sup> Peter Martin, ‘It’s shaping up to be a great year for Grange’, *The Sydney Morning Herald* (Sydney), 1 May 2010.

## B.5 Concept overview

The operation of the concept and the four stages described is outlined in Figure 8-2. It is pertinent to note the following:

- in order to reduce the taxation distortions between cheaper wine products (i.e. those in  $B_1$ ), the indexation factor applied to the volumetric rate for these products ( $R_1$ ) could be accelerated. The acceleration factor could be defined by a known variable such as growth in Gross Domestic Product;<sup>157</sup>
- due to the accelerated indexation factor applying to  $R_1$ , it is inevitable that  $R_1$  will eventually converge with  $R_2$ . At this point of convergence, the accelerated indexation will cease to apply to  $R_1$ , and this rate will be subject to normal indexation on the basis of the Consumer Price Index;
- the acceleration of the  $R_1$  rate is demonstrated by the bold green line. To simplify the analysis, the graphic demonstrates rates  $R_1$  and  $R_2$  converging at year five. This timeframe could be changed to accommodate preferred transitional arrangements; and
- later convergence to a single volumetric wine rate could then be designed.

Figure 8-2: DSICA's proposal for transitioning to a volumetric wine taxation regime



<sup>157</sup> Note that at present, Gross Domestic Product is growing at a faster rate than the Consumer Price Index.

## **B.6 Advantages of this reform proposal**

DSICA's volumetric wine taxation reform proposal has a number of advantages, namely:

- maintenance of the WET structure, which minimises winemaker resistance in moving to an excise regime and avoids the introduction of complex administrative requirements (e.g. bonded warehouses) that may be difficult for small winemakers to implement;
- allows for retention of the Wine Producer Rebate (if desired), providing assistance for legitimate small wine producers;
- use of a transition period and accelerated indexation which allows for a gradual increase in the tax rate applying to products in the economy band and prevents any 'price shocks';
- use of multiple taxation tiers which account for the different segments of the wine market;
- use of a volumetric tax which helps facilitate health and social policy objectives, promoting responsible consumption decisions; and
- use of a volumetric tax (as opposed to an ad valorem regime), which removes existing incentives in the tax system for the production of low-value wine. This allows the Australian wine industry to focus on its stated strategy of enhancing and developing the premium wine market segment and will further assist in ending the 'wine glut'.



membership

BACARDI  
LION

 BROWN-FORMAN

DIAGEO

Moët Hennessy  
AUSTRALIA

SUNTORY  
SUNTORY [AUST] PTY LTD

Beam



RÉMY COINTREAU



WILLIAM GRANT & SONS  
Independent Family Distillers since 1887

“Free The Spirit”

**Distilled Spirits Industry Council of Australia Inc.**

1st Floor 117 Ferrars Street South Melbourne Victoria Australia 3205

Telephone +61 3 9696 4466 Fax +61 3 9696 6648

All Correspondence: PO Box 1098 South Melbourne Victoria Australia 3205

Website: [www.dsica.com.au](http://www.dsica.com.au) E-mail: [admin@dsica.com.au](mailto:admin@dsica.com.au)

ABN: 38754934673 Reg. No. A0025393P