

2 Why the 2008 Ready-to-Drink alcohol product tax increase has failed

Introduction

The April 2008 RTD tax increase has failed in every respect:

- it has failed to reduce total alcohol consumption in Australia;
- it has resulted in complete offsetting of consumption to other beverages;
- it has failed to reduce levels of harmful drinking;
- it has failed to reduce alcohol-related hospital admissions; and
- it has gained only 40 per cent of the estimated revenue originally forecast.

The Government was clear in its intention in introducing the 70 per cent tax increase on RTDs – it wanted to reduce a perceived rise in harmful drinking by young people.

However, in its haste, the Government failed to thoroughly consider the effects of the tax and it did not examine the available evidence on:

- the lack of an identifiable effect of RTDs (or ‘alcopops’) on harmful drinking;
- the ineffectiveness of taxation measures in isolation on specific beverages; and
- current trends in harmful drinking by young people. (These trends were already following a declining long-term trend that could be sustained through more targeted and specific health policy interventions.)

(Un)popular reaction by the Australian public

The Australian public quickly saw through the Government’s RTD tax increase when they knew that drinkers would just move to other, less expensive beverages. There was, in fact, complete offsetting into other alcohol beverages.

The public expressed their views on the tax measure through public opinion surveys, the media and on-line mechanisms.

What evidence has emerged since the tax increase?

In the time that has elapsed since the tax increase, concrete evidence shows that the RTD tax increase has not been effective in reducing harmful drinking. This evidence ranges from surveys and academic research, through to evidence that alcohol-related hospital presentations did not decline in the period after the tax increase.

Probably the most damning evidence of the failure of the RTD tax is the failure of leading health advocates and researchers who supported the tax increase to be able to point to a single piece of evidence that the tax increase has achieved a significant reduction in harmful alcohol consumption amongst young people (see below).

The Ready-to-Drink alcohol product tax increase has failed economically and failed to deliver the promised revenue

In economic and monetary terms, the RTD tax has also failed. The latest estimates show that the measure is likely to raise less than 40 per cent of the original four-year estimate of increased tax revenue.

The Treasury failed to accurately forecast the tax’s revenue collections due to inherent flaws in the Government’s assumptions regarding the likely impact of the tax increase.

The RTD tax provides a valuable case study to all of those who wish to contribute to the alcohol tax debate in 2011 regarding what constitutes a sensible and sound approach to alcohol taxation policy for Australia.

2.1 Ready-to-Drink alcohol product facts and their taxation

The Government’s stated purpose for increasing the tax on RTDs was to reduce the harm from excessive drinking by young people. The Government stated that ‘binge drinking’ is a *“community-wide problem and requires a comprehensive, community-wide response”* (Commonwealth House of Representatives Hansard [Nicola Roxon] 2008).

How to measure the success or failure of the RTD tax increase

To measure the success or otherwise of the RTD tax increase requires assessment of the question: has there has been a decrease in harmful drinking by young people since the tax increase (27 April 2008)?

It is useful to examine some facts regarding RTDs and to review their taxation treatment in Australia. This background will aid understanding as to why the Government’s RTD tax increase was always going to be an inappropriate and ineffectual measure to curb harmful drinking by young people.

History and growth of Ready-to-Drink alcohol products

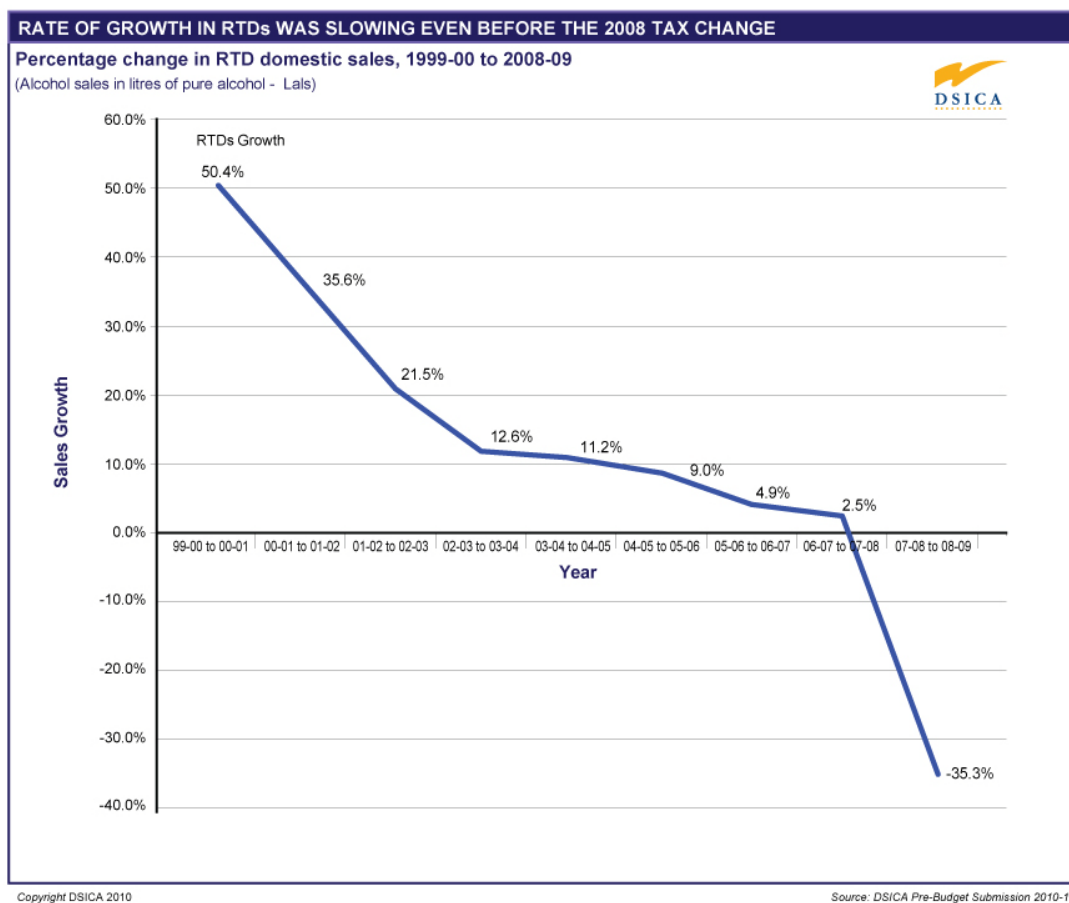
Prior to the April 2008 tax increase, sales of RTDs had grown significantly (from a very low base) since their introduction into the Australian market in the mid-1980s.

Important intrinsic and contextual factors about RTDs explain that growth:

- **Substitution between alcohol products:** Although there was significant growth in the RTD market (from a very low base) from the mid 1980s through to 2008, this growth was not accompanied by any sustained increase in total adult per capita alcohol consumption. Long-term analysis of trends in alcohol consumption in Australia indicate that the increase in consumption in RTDs has been offset by falls in consumption of beer and full-strength bottled spirits. This is demonstrated earlier in this submission in *Graphic 1.9*. As we have also noted, with adult per capita consumption levels falling (in the long-term since the mid 1980s) and relatively stable in the last decade, the growth in consumption of RTDs has been at the expense of falls in per capita consumption of beer and spirits - not through an increase in overall consumption.
- **Convenience and safety:** Growth in RTD sales can be explained partly through the fact that it is simpler and more convenient for a consumer to purchase, serve and consume a pre-mixed spirit beverage in a can/bottle than it is to purchase and mix a ‘free-pour’ beverage. An added advantage of consuming an RTD in a sealed container is less susceptibility to drink spiking, as opposed to an open, self-mixed drink.
- **Market and product innovation:** As with other consumer goods, ongoing market and product innovation often generates new market segments. Producers in Australia have responded to consumer demand for new and different products which have often (although not in all cases) consolidated and built market share. DSICA does not believe that the ‘newness’ or ‘novelty’ of a product should be a cause to condemn it in the community, providing it is marketed responsibly.

- **‘Intrinsic demand’:** Continuing high demand for RTDs was sustained throughout the period up to April 2008 even though RTDs were relatively highly taxed (and hence highly priced) on a ‘per standard drink’ basis. Even before the April 2008 tax increase, full-strength RTDs were more highly taxed on a per standard drink basis than all other drinks except full-strength bottled spirits (and brandy). At a retail pricing level, it was often observed that a four pack of RTDs would sell for around the same price as a six pack of full-strength beer. Accordingly, the intrinsic popularity of RTDs persisted even though they were the most expensive option – both in nominal terms and relative terms – in regard to alcohol content compared to other types of alcohol products. This ‘intrinsic’ popularity demonstrates that consumers exhibited a preference for RTDs notwithstanding their relative cost and tax burden.
- **Tapering growth:** Prior to the April 2008 tax change, RTD market growth had already slowed significantly from the highs experienced in the early 2000s. From a growth rate of 50.4 per cent in 2001, consumption (in lals) had continued to slow dramatically, down to a rate under 10 per cent in the mid 2000s. In the last full financial year before the RTD tax change (2006-07), annual growth had slowed to less than 5 per cent. This falling rate of growth is demonstrated below. This type of growth performance is often seen as new products reach their natural ‘saturation’ or maximum market share point.

Graphic 2.1: Rate of growth in RTDs was slowing even before the 2008 tax change



A brief history of Ready-to-Drink alcohol product taxation in Australia

The introduction of RTDs into the Australian market forced policy makers to confront the question of how RTDs should be taxed. The product was a wholly new product – it was not beer, it was not wine and it was not a full-strength bottled spirit, and existing product descriptions and classifications did not immediately apply.

From the time of their introduction in the mid 1980s, RTDs have had a fluctuating taxation history.

Pre 1 July 2000 – a period of massive product and market distortion

In the period before the *NTS* which commenced on 1 July 2000, RTDs were taxed in line with full-strength bottled spirits – the most highly taxed beverage.

With RTDs growing in popularity, but with a high incidence of taxation, some producers sought to minimise the tax burden on RTDs by manipulating manufacturing techniques. For example, the alcohol base for an RTD was manipulated into a wine or beer base, which was subject to a much lower level of tax. This generated market inefficiencies as producers diverted production into more lowly taxed beverages, even though their alcohol content was identical to more highly taxed spirit-based RTDs.

SubZero was an example of a beer-based RTD that received favourable tax treatment at the time.

July 2000 to April 2008 – a period of equitable tax treatment for Ready-to-Drink alcohol products

Recognising the significant market distortions, the then-Government sought to streamline the taxation of RTDs with the introduction of the *NTS* and decided to tax RTDs in a similar way to beer. From 1 July 2000, RTDs were taxed at the same headline excise rate as full-strength packaged beer, but without access to the 1.15 per cent abv excise-free threshold.

This decision to introduce approximate tax equivalence with beer was a response by policy makers to the recognised problems that a lack of tax neutrality had caused.

(It is important to note that the *NTS* decision did not extend to full tax equivalent treatment, as RTDs did not get access to the 1.15 per cent abv excise-free threshold applicable to beer. Further, RTDs did not get access to differential taxation rates for packaged versus draught product, or lower rates for lower alcohol content products as is applicable to beer).

Taxing RTDs similarly to beer was a sensible and logical decision because:

- the products are of similar alcohol content (approximately 5 per cent abv);
- the products are sold and consumed in similar ways (cans and bottles); and
- the products are close substitutes, as they are marketed primarily to males 24 years and above. The changes in consumption trends since the RTD tax increase have confirmed this.

With the introduction of the *NTS*, the production and market distorting practices mentioned above stopped and spirit drinkers were able to obtain a more equitable tax treatment for a product that was in many ways similar to beer.

Post 27 April 2008 – return to a period of distortion and high-risk consumption practices

From 27 April 2008, the Rudd Government restored the discriminatory taxation of RTDs by increasing the rate back to the full-strength bottled spirits rate.

Within a very short period, consumers and the market responded by returning to some of the less desirable practices that existed prior to 1 July 2000:

- **Product substitution:** Many older RTD drinkers switched from RTDs to beer and full-strength bottled spirits.
- **Free-pouring of spirits:** There was real and anecdotal evidence that consumers were purchasing more full-strength bottled spirits which led to the potential for greater alcohol-related harm through excessive ‘self-pouring’ for mixed drinks, rather than the advantage of consuming known quantities of alcohol in an RTD.
- **Manufacturing distortions:** Some manufacturers commenced producing beer based RTDs – ‘malternatives’ – which were devised and marketed to resemble RTDs but in fact contained beer as the alcohol base. In turn, the Rudd Government was forced to respond by amending the excise law to tax beer and wine-based RTDs in line with spirit-based RTDs.
- **Administrative inefficiency:** As a result of the ‘malternative’ amendments, confusion and inefficiency over what is and is not beer or wine escalated significantly. The ATO now has to provide advice on what is acceptable as a beer. Brewers have to laboratory test their beers to ensure compliance, which is a major burden for micro-brewers who do not have the production scale to amortise the additional cost.

Summary

The last 25 years of RTD taxation demonstrates the merits of equitable taxation treatment between substitute products (such as RTDs and beer). Combined with evidence that demonstrates that RTDs are not disproportionately associated with high-risk drinking (see **Section 2.2**). The 70 per cent increase in the tax on RTDs was not justified on either health or tax policy/economic grounds.

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

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, either in Australia or overseas.

In justifying the RTD tax increase, the Government stated that it was responding to supposed evidence that RTDs were responsible for causing a dramatic rise in ‘binge’ (or risky/high-risk) drinking amongst young people. However, there is no reliable Australian or international evidence that this is the case. The facts have been examined by:

- the Henry Tax Review;
- the Australian Institute of Health and Welfare (AIHW);
- the National Drug Strategy Household Surveys;
- the United Kingdom Government (2010 and 2008);
- the New Zealand Government and New Zealand Law Commission;
- several German academic studies and the German Federal Health Ministry (2007);

- a German survey after the RTD tax increase; and
- a Swiss academic study.

Each of these is discussed below.

The Henry Tax review finds no evidence

The Henry Tax review concluded that there is currently in Australia no credible evidence that RTDs are disproportionately linked with risky or high-risk levels of drinking (Commonwealth of Australia 2010b, p435). This is the most recent and comprehensive review of this issue undertaken in Australia.

The Australian Institute of Health and Welfare finds no evidence

The AIHW is the Government's lead health research agency.

The AIHW concluded in 2008 that, given the stable prevalence of the levels of risky drinking and the lack of any clear trend regarding preferences for RTDs:

“...the increased availability of RTDs does not appear to have directly contributed to any increase in risky (and high-risk) alcohol consumption” (AIHW 2008c, p1).

This finding was published in a comprehensive submission to the *Senate Community Affairs Committee Inquiry into Ready-to-Drink Alcohol Beverages* in May-June 2008 (AIHW 2008c). The AIHW made a series of unambiguous statements that there is no evidence that RTDs are a direct cause of increasing patterns of risky alcohol consumption. The analysis was based on an assessment of the three most recent *NDSHS* releases – 2001, 2004 and 2007 (see below).

The National Drug Strategy Household Surveys provide no evidence

Australia's most reliable and credible national alcohol survey is the *NDSHS*.

Evidence from the *NDSHS* confirms that there is no link between the growth in RTD consumption and an increase in risky consumption.

Three important points can be made based on *NDSHS* survey evidence and further analysis undertaken by AIHW:

- there has been no increase in risky/high-risk drinking by young people in the period 2001 to 2007;
- there is no causal link between the growth in RTD consumption and risky drinking patterns; and
- RTDs are not the preferred beverage of young people who drink at risky and high-risk levels.

No increase in risky/high-risk drinking by young people

The best available evidence shows 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 short or long-term harm.

The most current *NDSHS* results available at the time related to the 2007 *NDSHS* (AIHW 2008a).¹ The Government sought to use the 2007 *NDSHS* to show increased at risk alcohol consumption

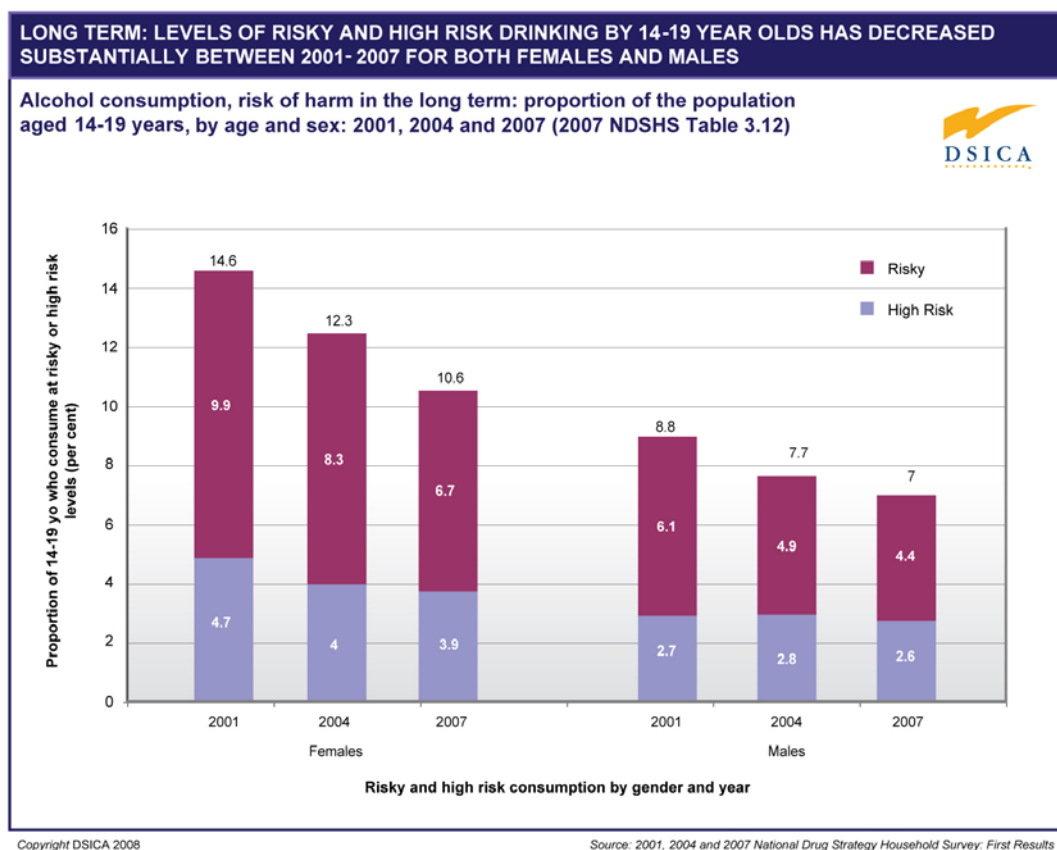
¹ First Results of the 2007 *NDSHS* were released on the 27 April 2008 – the same day as the announcement of the RTD tax change.

by young people, particularly amongst young women. However, closer examination of the results illustrates that there has been a reduction in the proportion of drinkers aged 14-19, both male and female, drinking at levels of short or long-term harm.

The results of the 2007 *NDSHS* (AIHW 2008a) show that for long-term harm:

- the proportion of males (14-19 years) who consume alcohol at risky and high-risk levels in the long-term, has fallen from 8.8 per cent in 2001, to 7 per cent in 2007, a **reduction of 20 per cent**; and
- the proportion of females (14-19 years) who consume alcohol at risky and high-risk levels in the long-term, has fallen from 14.6 per cent in 2001, to 10.6 per cent in 2007, a **reduction of 27 per cent** (see below).

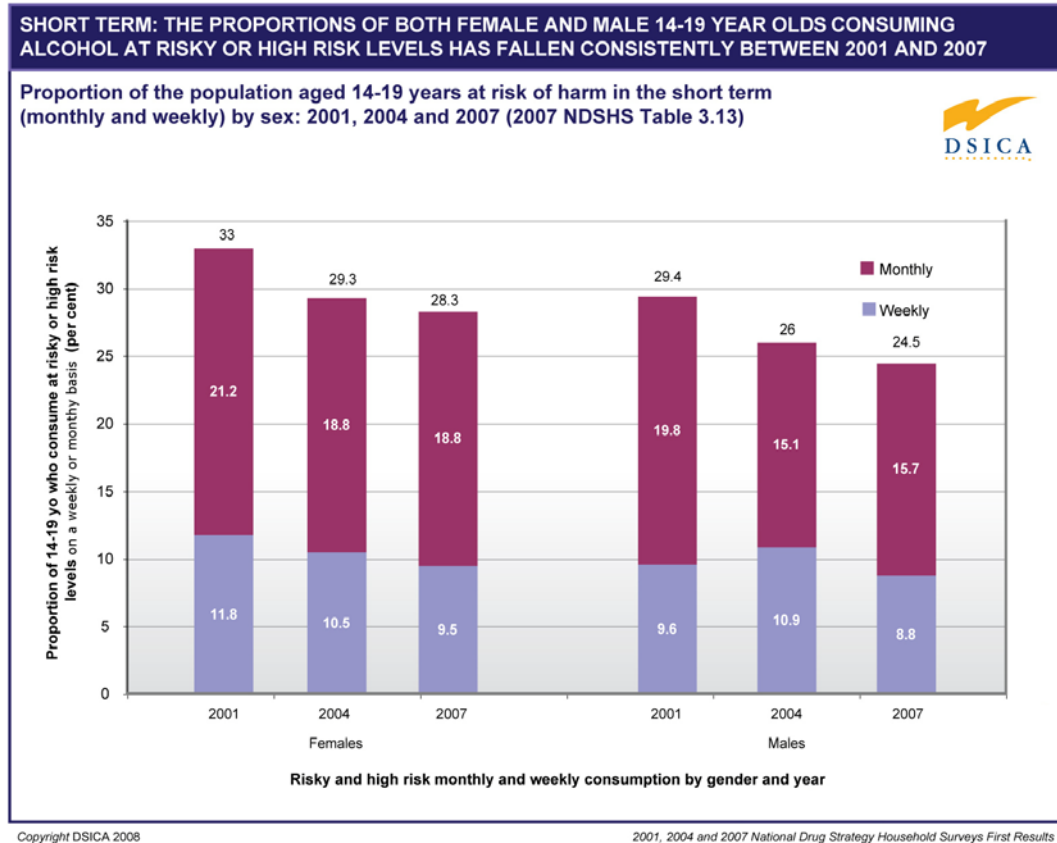
Graphic 2.2: Long-term levels of risky and high-risk drinking by 14-19 year olds (males and females, 2001-07)



The 2007 *NDSHS* (AIHW 2008a) results for short-term harm show that:

- the proportion of males (14-19 years) who are at risk of harm in the short-term from consuming alcohol, has fallen from 29.4 per cent in 2001, to 24.5 per cent in 2007, a **reduction of 17 per cent**; and
- the proportion of females (14-19 years) who are at risk of harm in the short-term from consuming alcohol, has fallen from 33 per cent in 2001 to 28.3 per cent in 2007, a **reduction of 14 per cent** (see below).

Graphic 2.3: Short-term levels of risky and high-risk drinking by 14-19 year olds (males and females, 2001-07)



DSICA considers that, while the current rates of risky and high-risk alcohol consumption by the 14-19 age group are unacceptably high, the results of the 2007 NDSHS (AIHW 2010a), showing that the proportion of persons drinking at this level is declining, is a welcome trend.

No causal link between growth in Ready-to-Drink alcohol product sales and risky drinking

The AIHW made additional findings (AIHW 2008b) which further support DSICA's claim that the most reliable evidence shows that trends in alcohol consumption patterns amongst young people were showing positive changes, prior to the 2008 RTD tax increase. Other key findings of the AIHW in relation to drinking patterns included:

- there has been virtually no change in the patterns of risky drinking over the period 2001-2007 across all age and gender groups (AIHW 2008b, p1);
- for some age groups, notably girls aged 16-17 years, there appears to have been a decrease in the proportion drinking at risky or high-risk levels in the short-term over the period 2001-2007 (AIHW 2008b, p8);
- in all age groups analysed from 12 to 19 years, there has been no increase in the proportion of young people drinking at risky or high-risk levels in the short-term over the period 2001-2007. Proportions have either decreased or remained static during the period (AIHW 2008b, Table 6, p8);

- there is no clear trend in preference for RTDs among young males (under 18) in the period 2001 to 2007 (AIHW 2008b, p4); and
- there is no clear trend in preference for RTDs among young women (under 18) in the period 2001 to 2007 (AIHW 2008b, p5).

Ready-to-Drink alcohol products not the preferred beverage of high-risk drinkers

The *NDSHS* collects and publishes data on which alcohol beverages are most often consumed by those persons who consume alcohol at risky and high-risk levels. Results are broken down by gender and age categories.

The *NDSHS* 2007 (AIHW 2008b) confirms that RTDs are not the beverage preferred by young (14-19 year old) people drinking at risky and high-risk levels.

The *NDSHS Detailed Findings* (AIHW 2008b) note that:

- full-strength beer is the preferred beverage for all male age groupings (including 14-19 year olds and 20-29 year olds);
- bottled spirits/liqueurs are preferred by 14-29 year old females; and
- wine is the preferred beverage of females 30 years and older drinking at risky or high-risk levels (AIHW 2008c, p34).

Accordingly, the most reliable Australian survey evidence indicates that RTDs are not the cause of risky and high-risk drinking, including amongst young people. In fact, RTDs are not the beverage of choice for any age/gender grouping drinking at risky or high-risk levels in the long-term.

The Australian Government's most comprehensive alcohol survey effectively confirms that RTDs have not been, in the seven years leading up to the RTD tax increase, the product of choice of young people drinking at risky and high-risk levels.

It is also instructive to note:

- RTDs did not feature as the beverage of choice for any age/gender category consuming alcohol at risky/high-risk levels;
- the alcohol beverage categories preferred have not changed between the 2004 and 2007 surveys; and
- for 14-19 year olds, the preferred beverages have remained unchanged for the 2001, 2004 and 2007 surveys.

United Kingdom Government finds no evidence

A contemporary UK review of alcohol taxation has concluded that RTDs are not disproportionately responsible for alcohol-related harms.

In November 2010, the UK Government released its *Review of alcohol taxation* (HM Treasury 2010). This review was part of the Coalition Agreement following formation of the new government in the UK in April 2010. The Review conducted extensive consultations and took approximately 70 submissions.

After considering a range of submissions on RTD measures, the Review concluded:

“The current available evidence about consumption patterns does not strongly support the belief that RTDs are disproportionately responsible for alcohol-related harms” (HM Treasury 2010, p16).

Accordingly, the Review did not recommend any new tax measures in relation to RTDs.

In May 2008, the UK Labor Government refused to legislate proposals that would have permitted tax increases on particular beverages.

The following point was made by the Exchequer Secretary to the Treasury:

“Some hon members have argued that tax changes could be targeted at particular alcoholic drinks, but it has been our experience that increases in the price of a specific drink in isolation are not effective in reducing overall harmful alcohol consumption. Problem drinkers simply move on to other products” (UK Parliament 2008, column 212).

New Zealand Government and New Zealand Law Commission finds no evidence

A recent and very comprehensive New Zealand Law Commission report concluded that there was strong evidence why it is not feasible to ban or directly target RTDs with specific regulation.

The New Zealand Law Commission report *Alcohol in our Lives: Curbing the Harm* (New Zealand Law Commission 2009) included a specific chapter on regulating alcohol products.

The Commission rejected submissions which recommended that RTDs be banned or controlled to a greater extent than currently occurs.

The Commission concluded that there are strong arguments why it is not feasible to directly target RTDs. Primarily, the Commission noted the well established reaction of substitution into alternative products, many of which are likely to cause more harm.

The Commission also noted that:

“The success of an attempt to reduce consumption of RTDs in Australia in April 2008 by significantly increasing the excise duty on them has yet to be proved on the evidence” (New Zealand Law Commission, p406).

The New Zealand Ministerial Committee on Drug Policy (MCDP) was provided advice in 2008 (which it accepted) that *“there is no evidence internationally in support of targeted taxes on RTDs leading to a reduction in alcohol-related harm” (NZMCDP 2008, p4).*

During 2008, the MCDP considered the issue of whether a targeted tax on RTDs would lead to a reduction in alcohol-related harm. The advice it took and the conclusion it reached is consistent with other international evidence.

German academic studies find no evidence

Two recent German studies both concluded that there is no evidence in the countries examined of a link between RTD consumption and harmful drinking (Metzner and Kraus, 2007; and Krauss, Metzner and Piontek 2010).

Box 2.1: 2007 Literature Study

A literature review study conducted in 2007 (Metzner and Krauss 2007) revealed that there was “scarce evidence of a relationship between the consumption of alcopops” and negative alcohol-related consequences (Metzner and Kraus 2007, p234).

The authors concluded that the literature provides no evidence to support arguments pressing for special treatment for RTDs. Rather, they did conclude that there is a clear relationship between total quantity of alcohol consumed and negative consequences. Accordingly, preventative measures should target total alcohol consumption, **not isolated beverages** (Metzner and Krauss 2007, p234).

Box 2.2: 2010 German Student Alcohol Consumption Survey Review

An analysis of a 2003 European student alcohol consumption survey in Germany looked to examine if there was a relationship between RTD consumption and negative alcohol effects (Kraus, Metzner and Piontek 2010).

The authors found that *“an alcopop-specific effect on problematic drinking behaviour and negative consequences could not be identified”*. Accordingly, the authors concluded that *“concerted preventative actions tackling alcohol as a whole are needed in order to gain substantial effects on alcohol use and alcohol-related problems in adolescents”* (Krauss, Metzner and Piontek 2010, p5).

These studies are consistent with the Australian evidence of no supportable link between RTD consumption alone and harmful drinking by young people.

German study confirms Ready-to-Drink alcohol product tax increase ineffective in reducing consumption by young people

A study in Germany which followed an increase in the taxation of RTDs found that an increase in the tax on RTDs had no effectiveness in reducing alcohol consumption and that the tax caused substitution to other beverages (e.g. beer and spirits) that are more associated with riskier consumption (Muller et al. 2010).

This study lends international support to the proposition that a tax on a singular beverage will not have the desired health impact of reducing harmful consumption. The following is a brief summary of the background, data and results of the study:

- **Background:** The German Government increased the tax on RTDs in July 2004 with the effect of almost doubling the retail price of RTDs.
- **Data:** The study considered 2003 (pre tax increase) and 2007 (post tax increase) studies of alcohol consumption by German students.
- **Results:** The study found that while consumption of RTDs declined after the tax increase, consumption of spirits increased. These changes did not result in a significant reduction in total alcohol consumption. The study noted that a preference for spirits is associated with riskier drinking patterns and more alcohol-related problems.

In observing that the health benefits of the tax increase were offset by beverage substitution, it was found that effective alcohol policies should focus on reduction of total alcohol consumption instead of regulating singular beverages (Muller et al. 2010, p1212).

Swiss study finds no evidence

An academic research report examining drinking patterns and behaviours of Swiss students published in the journal *Addiction* in 2006 (Wicki et al. 2006) concluded that alcopops in Switzerland do not seem to be linked to specific riskier drinking patterns or consequences per se (Wicki et al. 2006, p522).

The study used data from a large national survey (over 5000 participants) of 13 to 16 year old Swiss students and, consistent with other studies, found that alcopops are no more associated with problematic drinking than other alcohol beverages (Wicki et al. 2006, pp529-530).

Also of interest, the authors reported that as part of their literature search for the study, they could not find any evidence that a preference for alcopops at younger ages can be equated with earlier onset drinking or drunkenness (Wicki et al. 2006, p523).

In a public health policy context, the authors of the study concluded that:

“...preventive approaches to reduce alcohol consumption in general might be more fruitful than imposing special taxes on alcopops” (Wicki et al. 2006, p531).

Conclusion

Both Australian and international evidence confirms that there is no evidence of a specific link between RTD consumption and harmful drinking by young people.

The Rudd Government in 2008, in making its decision to increase the tax on RTDs, either ignored the available evidence or negligently failed to consider the implications of its decision, which many believe was implemented in haste.

2.3 The Ready-to-Drink alcohol product tax increase failed to reduce overall alcohol consumption

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

The Government and industry data sources that confirm this finding include:

- the Australian Bureau of Statistics;
- the *Victorian secondary school students' use of licit and illicit substances in 2008*;
- AC Nielsen Liquor Services; and
- Roy Morgan Research.

Australian Bureau of Statistics data shows increase in overall consumption

ABS data released in January 2011 has confirmed that the dramatic decrease in consumption of RTDs in the 2008-09 financial year, after the RTD tax increase, has been more than offset by the increase in consumption of spirits, beer, and wine (ABS 2011).

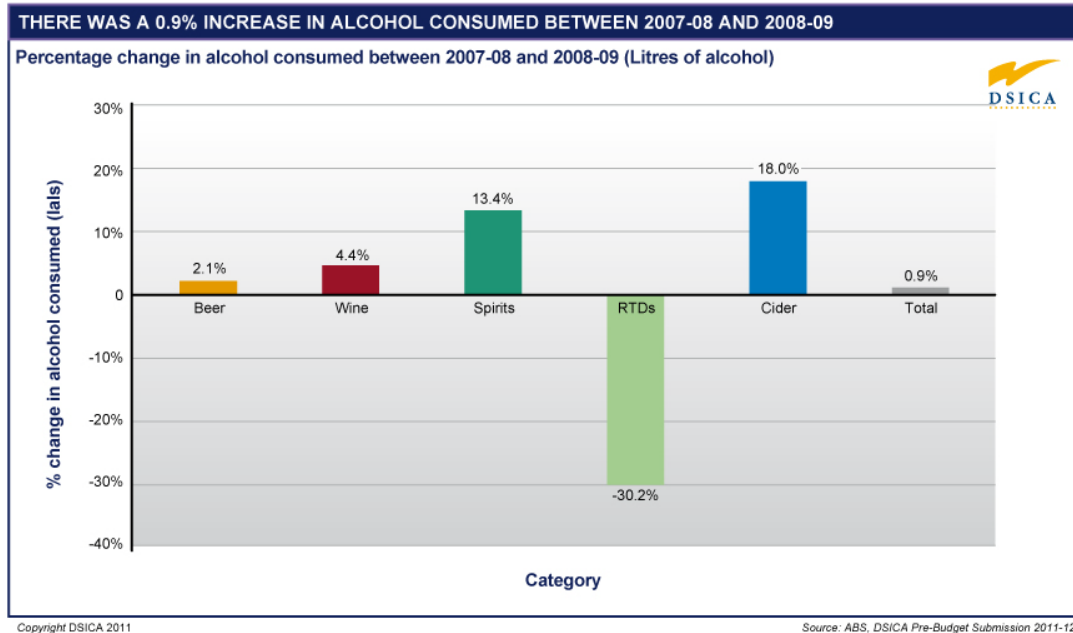
Factoring in industry estimates for growth in cider sales, the change in total alcohol consumption has increased by almost 0.9 per cent. This data confirms other widely held views that an isolated tax change for one beverage may alter the consumption of that beverage, but will not necessarily reduce overall consumption.

The ABS data series records the level of apparent consumption of alcohol by product categories of beer, wine, full-strength bottled spirits and RTDs. Note that the series does **not** include cider consumption. DSICA makes an adjustment in the analysis below to take into account cider consumption – the strongest growth area of the alcohol market since the RTD tax increase.

The most recent ABS release for 2008-09 (ABS 2011) confirms statistically what has been observed anecdotally in the market and by private surveys (see below). That is, consumers moved to consuming full-strength bottled spirits, beer, wine and cider in substitution for RTDs in the period following the tax change.

The ABS data shows that despite there being a large reduction in consumption of RTDs (down by 30.2 per cent), this has been more than offset by increases in full-strength bottled spirits, wine, and beer consumption.

Graphic 2.4: There was a 0.9 per cent increase in alcohol consumed between 2007-08 and 2008-09



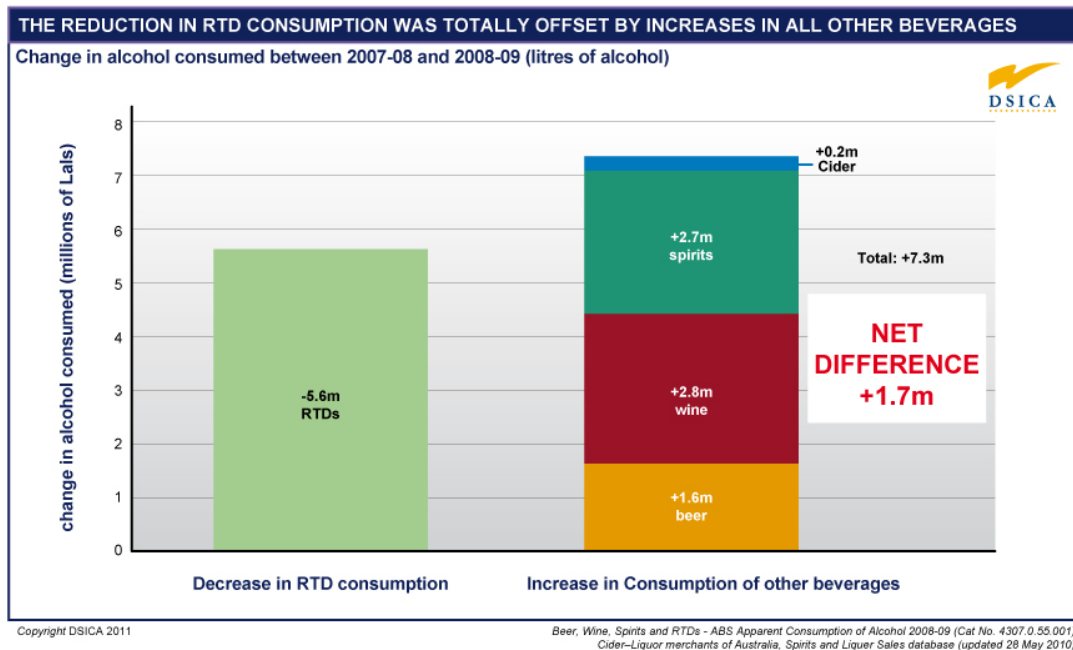
In summary, the latest ABS release, combined with industry cider figures, confirms the following:

- **total alcohol consumption increased by 0.9 per cent** (or 1.7m lals) in 2008-09 compared to 2007-08;
- **RTD consumption fell by 5.6m lals (down by 30.2 per cent);**
- **full-strength bottled spirits** consumption rose by 2.7m lals (up by 13.4 per cent);
- **beer** consumption rose by 1.6m lals (up by 2.1 per cent);
- **wine** consumption rose by 2.7m lals (up by 4.4 per cent); and
- **cider** consumption (based on LMAA sales statistics) rose by an estimated 213,000 lals (up by 18.0 per cent).

A diagrammatic representation of how the decrease in RTD consumption was totally offset by the increase in consumption of all other beverage categories is shown below.

Furthermore, there is no evidence of any significant reduction in total alcohol consumption, or in RTD consumption, by the under 24 year old age group, which included the target group of the tax increase (see commentary from Roy Morgan Research surveys below).

Graphic 2.5: The reduction in RTD consumption was totally offset by increases in all other alcohol beverages



Victorian schools data confirms Ready-to-Drink alcohol product tax change ineffective at changing preference for Ready-to-Drink alcohol products by young people

There is clear survey evidence from the period following the RTD tax increase that secondary school students did NOT change their choice of beverage away from RTDs. This is the key finding from a major survey of *Victorian secondary school students' use of licit and illicit substances in 2008* report (White and Smith 2009b). This report confirms that, despite the RTD tax increase, secondary school age young people in Victoria maintained their exact preferences for different products.

The *Victorian secondary school students' use of licit and illicit substances in 2008* (White and Smith 2009b) (the Victorian survey) presents the Victorian results of the *Australian secondary school students' use of tobacco, alcohol and over-the-counter and illicit substances in 2008* survey (ASSAD) (White and Smith 2009a). This is the only national survey series of young people which has been released since the RTD tax increase and which spans the start date of the tax increase. The 2008 survey was conducted in June to December 2008 – well after the tax increase had affected RTD prices.

The Victorian survey provides the following key insights:

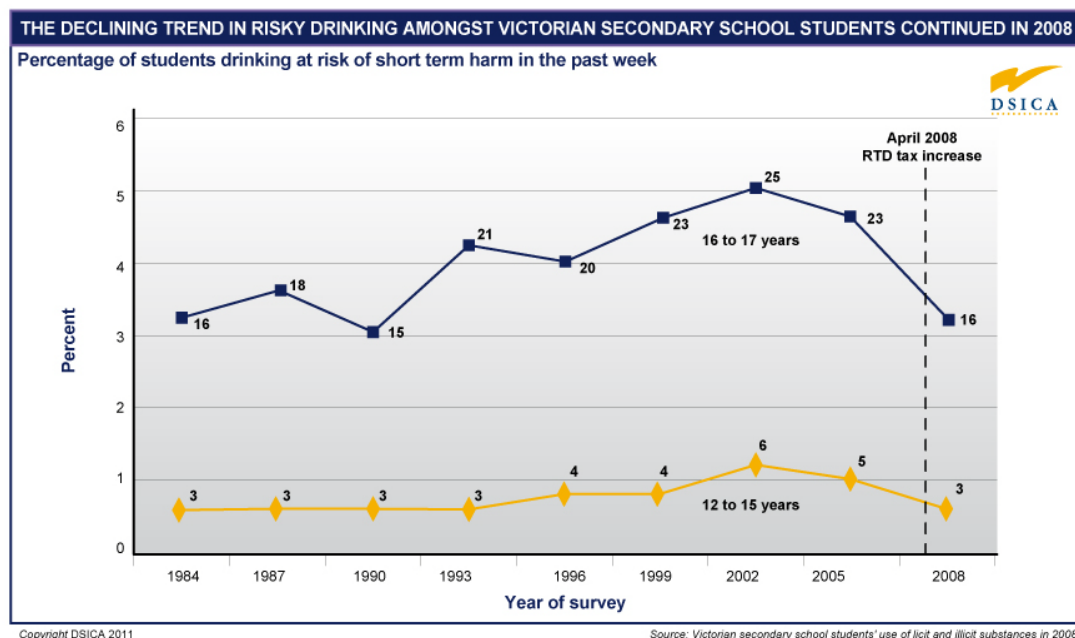
- the RTD tax increase had no impact on the number of current drinkers preferring RTDs;
- the RTD tax increase did not cause young people to change their drinking preference;
- the prevalence of current drinkers declined in the period 2005 to 2008, but this is a continuation of a trend that commenced in 2002; and
- the prevalence of students drinking at risk of short-term harm declined in the period 2005 to 2008, but again this continues a downward trend that commenced in 2002.

These conclusions led the report's authors to comment:

“This finding suggests that the tax increase had little impact on current drinkers' alcohol preferences...As parents were the primary source of alcohol among current drinkers, their ongoing preference for pre-mixed spirits may not be surprising, as it is likely that these beverages are affordable to most parents, even after the tax increase” (White and Smith 2009b, p61).

While some may seek to argue that the tax increase assisted reduce risky consumption, we contend that these reductions are continuation of a trend that has been at work since the early 2000s, as is evidenced by earlier surveys in the ASSSAD series and in the NDSHS surveys. See below.

Graphic 2.6: Continuation of the declining trend in risky drinking by Victorian secondary school students



Australian survey results

The national results for the ASSSAD were released during the preparation of this submission, on 18 January 2011. The report is titled *Australian secondary school students' use of tobacco, alcohol, and over-the-counter and illicit substances in 2008* (White and Smith 2009a).

DSICA has had only a limited opportunity to review the national results, but makes the following observations in the context of the failure of the RTD tax increase.

- Timing of state/territory surveys:** It is not clear from the report during what months in 2008 the individual state and territory surveys were conducted – the report only states that the surveys were conducted during the 2008 academic school year (White and Smith 2009a, p 9). Therefore, without further clarity on the timing of each survey, it is not possible to draw definitive conclusions regarding the impact of the RTD tax increase. We do know however that both the Victorian and Northern Territory 2008 surveys were conducted in the period after the tax increase.

- **Beverage preference:** There has been no change in the preferencing of RTDs by secondary school students between 2005 and 2008. There was actually an increase in the percentage of all age and gender groupings preferring pre-mixed drinks between 2005 and 2008, and a significant increase for 12-15 year old males was noted (White and Smith 2009a, p 50).
- **Risky drinking:** Risky drinking amongst all students aged 12 to 17 continued the downward trend that commenced in 2002. In fact, the results for 2008 were reported as ‘significantly different’ (i.e. there was a significant reduction) in 2008 compared to the results in 2005 and 2002 (White and Smith 2009a, p 49).

Nielsen findings that Ready-to-Drink alcohol product and total alcohol consumption return to growth

AC Nielsen Liquor Services (Nielsen), Australia’s leading independent market research organisation of alcohol sales, predicted in July 2009 that after the first year effects from the RTD tax increase subsided, alcohol consumption as a whole and for the RTD category in particular, would move into growth. This assessment concluded that the RTD tax increase would have no long-term effect on reducing overall alcohol consumption.

In July 2009, Nielsen prepared a major report for the liquor industry entitled *The impact of the RTD tax increase: 12 months on...* (Nielsen 2009). Note that this report was not commissioned by DSICA or the wider alcohol industry.

The report – using actual sales data from the 15-month period since the tax increase – showed a range of useful insights into the impact of the RTD tax increase across the entire alcohol market. While observations were noted in relation to price, sales and volume movements, the following conclusions are most relevant in terms of the failure of the tax increase as a deterrent to consumption:

- **Substitution:** While the tax increase reduced alcohol consumption in the RTD category by around 30 per cent, other categories benefited from the change.
- **Negligible impact on overall consumption:** The overall net decline in alcohol consumption was just 0.2 per cent for the year to April 2009. Beer and spirits consumption increased by 5 per cent and 16 per cent respectively.

The assessment of overall market growth is very similar to the overall change in alcohol consumption between 2007-08 and 2008-09 as revealed by the ABS (see **Section 2.3** above).

The Nielsen findings include:

“Early indications show that as the first year effects from the tax increase ‘wash through’, standard drinks for total packaged liquor and the RTD category will both move into growth” (Nielsen 2009, p6).

Roy Morgan confirms no reduction in alcohol consumption by young people

Roy Morgan Research (Roy Morgan 2009) produced detailed research in 2009 which demonstrated that the RTD tax had failed to reduce the level of RTD consumption by young people aged 18-24. Roy Morgan confirmed a range of other evidence of beverage substitution following the RTD tax increase. More importantly it found that there was no evidence of a decline in RTD consumption by 18-24 year olds or a decline in overall alcohol consumption by 18-24 year olds.

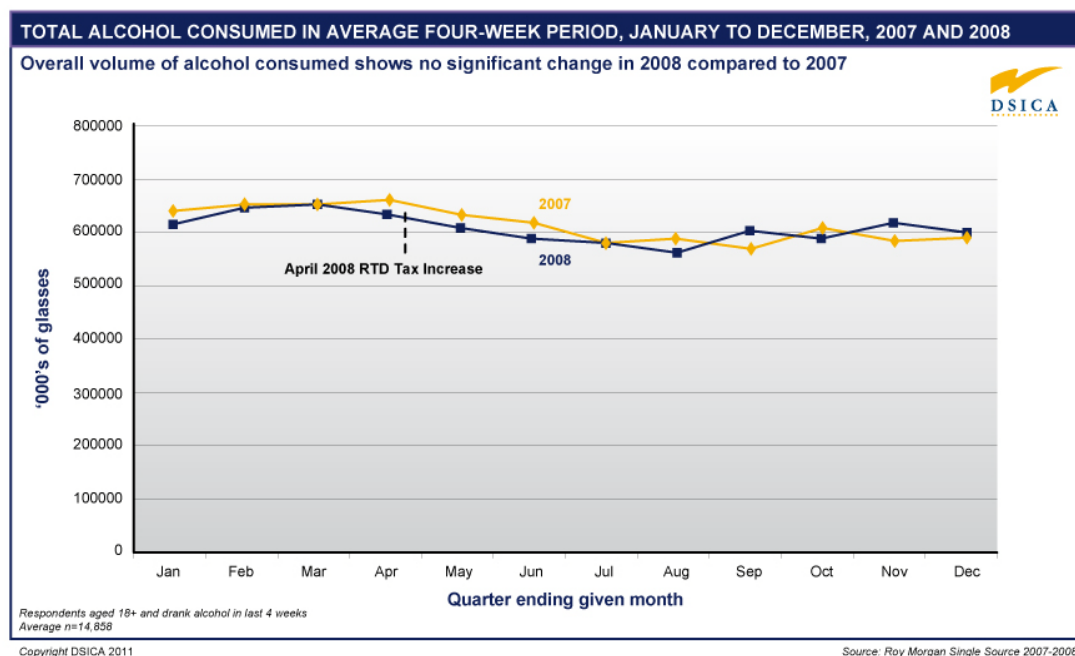
Roy Morgan prepared a detailed report into alcohol consumption trends over 2007 and 2008, with a specific focus on the July to December period of both years (Roy Morgan 2009). The results in the survey are based on *Roy Morgan Single Source* – a syndicated survey of Australians nationwide conducted 48 weeks out of every year since 1997. Questions around people’s alcohol consumption have been tracked since 2001, with an annual sample of over 14,000 people over 18 years old who consume alcohol.

Each of the Roy Morgan findings is discussed below.

Roy Morgan Finding 1: No overall increase in alcohol consumption since 2007

The graphic below illustrates that over a 12-month period, the total alcohol consumed on average in a four-week period in 2008 has been relatively similar to the same 12-month period in 2007.

Graphic 2.7: Total alcohol consumed in average four-week period (January to December 2007 and 2008)

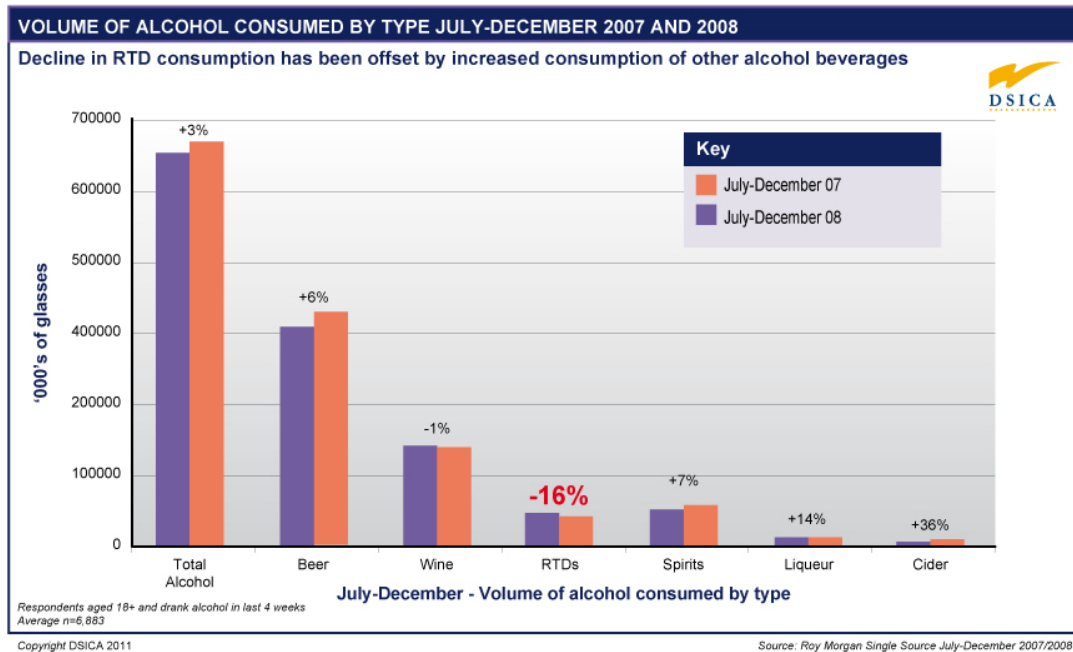


Roy Morgan Finding 2: Decline in Ready-to-Drink alcohol product consumption from tax change has been offset by increased consumption of other alcohol beverages

The graphic below shows that in the period from July to December, RTD consumption fell by 16 per cent in 2008 compared to the previous year.

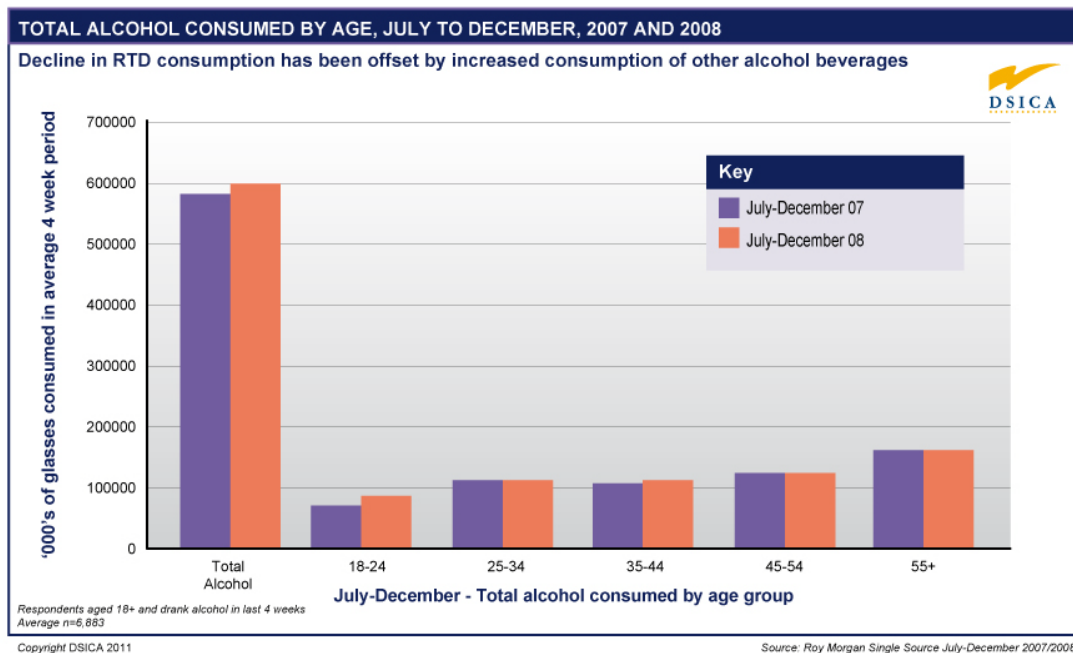
However, consumption of other alcohol beverages had increased including beer (up 6 per cent), full-strength bottled spirits (up 7 per cent) and cider (up 36 per cent). This confirms DSICA’s long-held view that the RTD tax increase would result in substitution into full-strength bottled spirits, beer, cider and other cheaper and often stronger forms of alcohol.

Graphic 2.8: Volume of alcohol consumed by type (July to December 2007 and 2008)

**Roy Morgan Finding 3: No significant decline in consumption among age groups**

In the July to December period following the RTD tax increase, the graphic below shows that no age group has shown any significant decline in total alcohol consumption.

Graphic 2.9: Total alcohol consumed by age group (July to December 2007 and 2008)



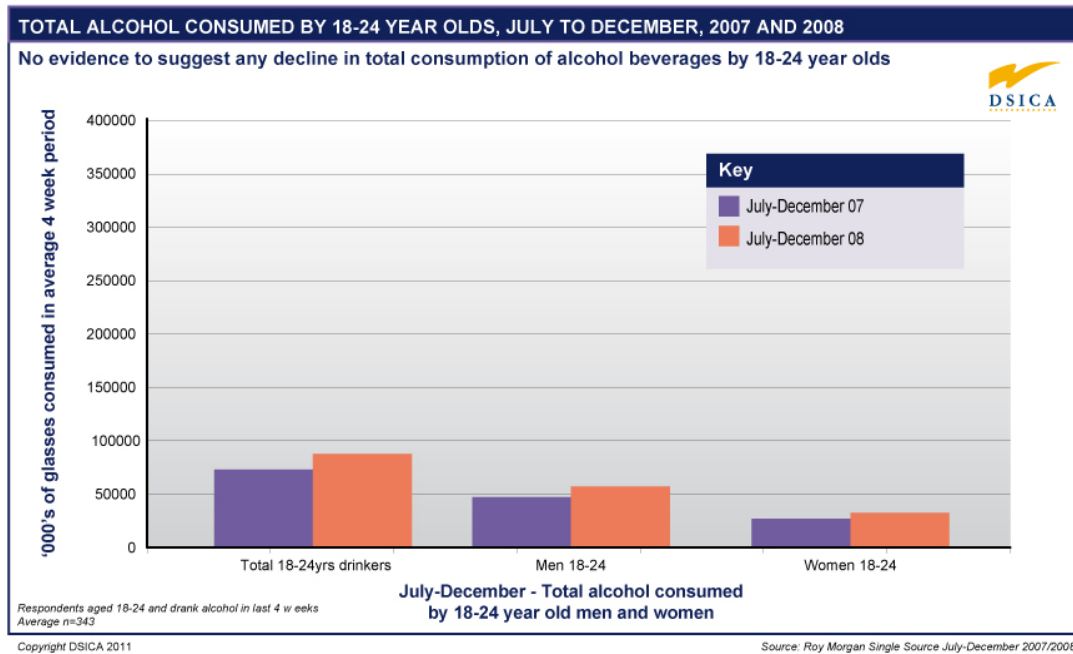
“Free The Spirit”



Roy Morgan Finding 4: No evidence of decline in total alcohol consumption by 18-24 year olds

There is no evidence to suggest a decline in total alcohol beverages consumed by 18-24 year olds (see below).

Graphic 2.10: Total alcohol consumed by 18-24 year old men and women (July to December 2007 and 2008)



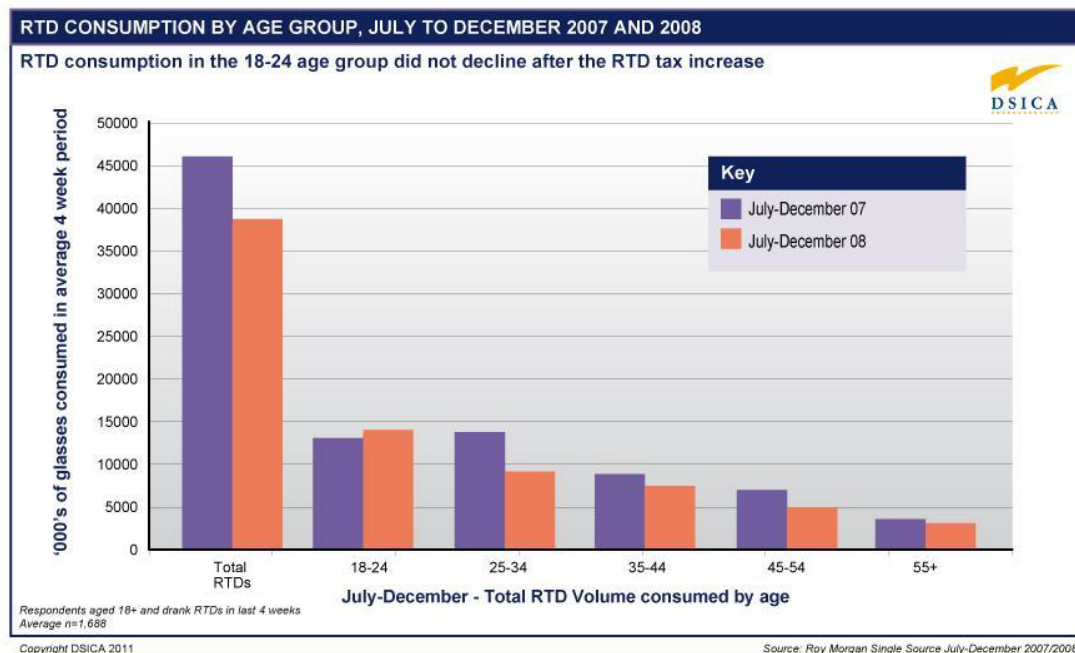
Roy Morgan Finding 5: The overall decline in Ready-to-Drink alcohol products has not come from 18-24 year olds

The data shows that in 2008, consumption of RTDs for 18-24 year olds had not fallen to any statistically significant degree in the July to December period when compared with the same six-month period in 2007.

In contrast, the tax increase had an unintended consequence of only reducing the volume of RTDs consumed by older age groups, and it is these declines in volume that resulted in a reduction in total RTD consumption.

In other words, young people aged 18-24 have not contributed to the overall decline in RTD consumption since the RTD tax increase (see below).

Graphic 2.11: Total RTDs consumed by age group (July to December 2007 and 2008)

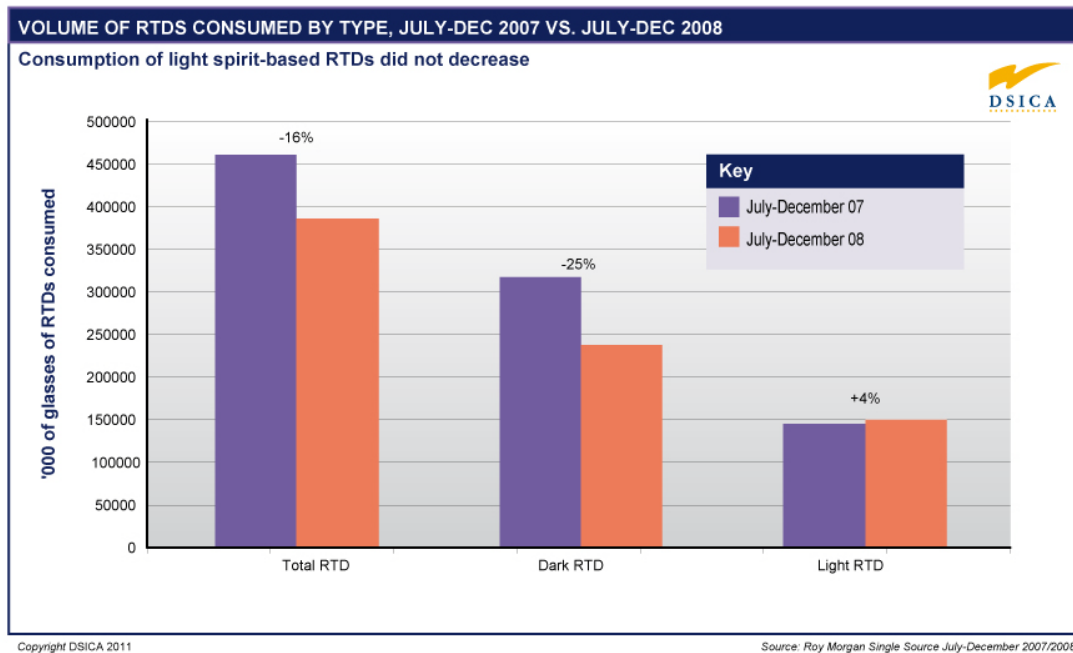


Roy Morgan Finding 6: No decrease in light spirit-based Ready-to-Drink alcohol products

Since the implementation of the tax increase, there has been no decline in the volume of light spirit-based RTDs, but rather only in the more traditional dark spirit-based RTDs (such as bourbon, rum and Scotch whisky-based products). These RTDs are favoured by male consumers 24 years and older.

This means that sales of light spirit-based RTDs, which include 'brightly coloured' variants that the Rudd Government was supposedly targeting with the tax measure, did not decrease to any statistically significant extent when compared with the previous year (see below).

Graphic 2.12: Volume of RTDs consumed by type (July to December 2007 and 2008)



Germany's experience of Ready-to-Drink alcohol product tax failure

Australia is not the first country to try very high taxation on RTDs. Germany increased taxation exclusively on RTDs in 2004, and has similarly failed to decrease alcohol consumption by young drinkers.

A study by The German Federal Center for Health Education into alcohol consumption by young people in Germany over the period of 2004-2007 (GFCHE 2007) following the tax increase found that the tax increase had no impact on total alcohol consumption in the period to 2007.

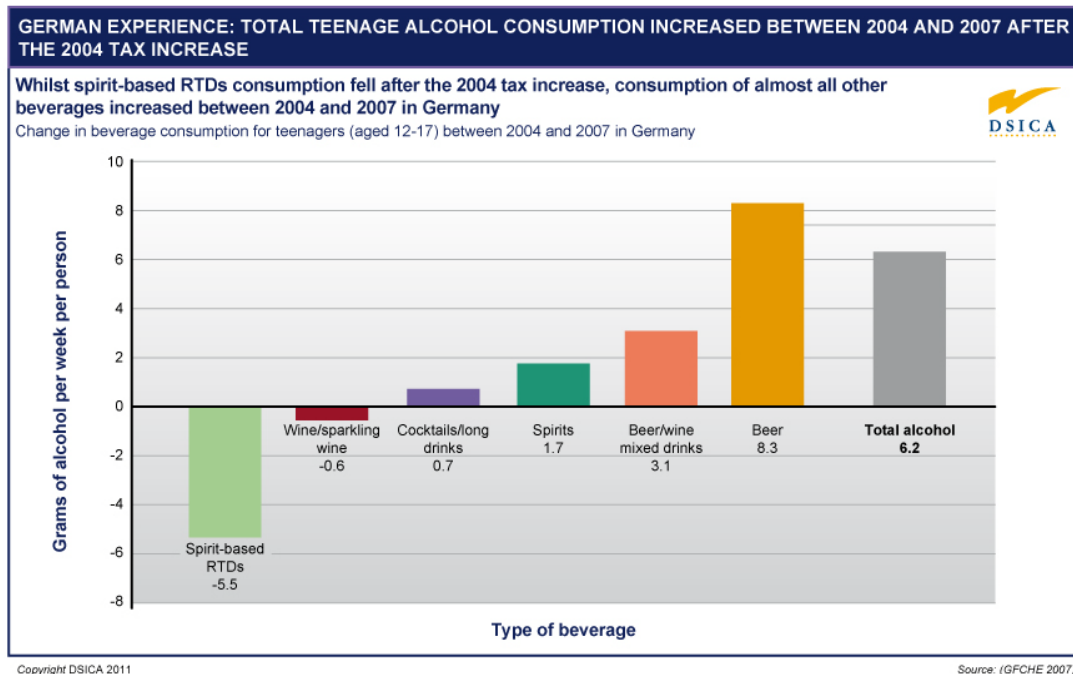
While the study found that total consumption of alcohol decreased in the first year of the tax increase, consumption increased in the later two years. This overall increase in consumption occurred despite the increased taxes and prices on RTDs, and despite a significant decrease in the consumption of spirit-based RTDs.

The graphic below illustrates clearly the outcomes following the RTD tax change by illustrating the change in consumption levels of different beverages and total alcohol consumption between 2004 and 2007. The graphic illustrates that while consumption of spirit-based RTDs fell 5.5 grams per week over the period, total consumption actually increased by 6.2 grams per week.

Again, these results illustrate the phenomenon of substitution into other beverages (in this case, primarily beer) that occurs following a tax increase which is targeted at an isolated beverage.

Furthermore, the study also found (GFCE 2007, p18) that patterns of risky drinking over the three year period did not improve, and in fact increased.

Graphic 2.13: German experience – total teenage alcohol consumption increased between 2004 and 2007 after the 2004 tax increase



Conclusion

The best available Government and commercial/industry data confirms that the 2008 RTD tax increase failed to reduce overall alcohol consumption in Australia, and also failed to reduce RTD consumption amongst 18-24 year olds. A recent German study also evidences the failure of an isolated tax increase on RTDs to reduce alcohol consumption by young people.

2.4 The Ready-to-Drink alcohol product tax increase has failed to reduce levels of harmful drinking

There is no reliable evidence that the 2008 RTD tax increase was effective in reducing the levels of harmful drinking amongst young people.

To assess if the RTD tax increase has been effective, evidence regarding the extent and trends of harmful drinking and changes in beverage choice by young people since April 2008 must be examined. It is not sufficient to look at overall levels of drinking, as this does not measure harmful drinking.

There has been significant data and information released on overall alcohol consumption and consumption trends in relation to particular beverages. However, this information does not allow us to assess what has been occurring with levels of harmful drinking amongst young people. As the Minister for Health and Ageing stated in her speech to Parliament when debating the RTD tax amendment bills:

“What is very difficult to be able to tell – and I agree with this – is who is consuming less...” (Commonwealth of Australia House of Representatives Hansard [Nicola Roxon] 2009).

Accordingly, in this Section of the submission, we concentrate on the evidence that is available to assess any reduction in the indicators of alcohol-related harm.

Evidence which DSICA considers assesses what is occurring with harmful drinking trends includes:

- evidence given to a Senate Committee hearing in March 2009 by numerous health advocacy groups and researchers regarding the lack of evidence that the RTD tax increase was achieving its objective; and
- academic studies and comments by health professionals.

No evidence produced by health experts to Senate Committee Inquiry, March 2009

Leading health advocacy groups and researchers have been unable to point to any definitive evidence that the RTD tax increase has had an impact on reducing harmful drinking by young people.

All health lobby groups and researchers who appeared to give evidence before the *Senate Standing Committee on Community Affairs Inquiry into the Excise Tariff Amendment (2009 Measures No. 1) Bill 2009, the Customs Tariff Amendment (2009 No. 1) Bill 2009 [the RTD Bills] and the impact of the tax on Ready-to-Drink alcoholic beverages* on 10 and 11 March 2009 were asked whether they had any evidence that there had been a reduction in harmful alcohol consumption since the RTD tax increase.

Consistently, they stated that they had no evidence. Samples of their responses are outlined below.

National Drug and Alcohol Research Centre

“Unfortunately, we just do not have the data that would tell us whether young people who were going out on Friday and Saturday nights – whatever it is – and getting really drunk are still doing that and, even if they are, whether they are doing it on some other type of alcohol”

- Professor Anthony Shakeshaft, Senior Lecturer, National Drug and Alcohol Research Centre

Alcohol Education and Rehabilitation Foundation

“I have not seen any evidence which has shown a decline in alcohol problems in the community since it was introduced”

- Professor Ian Webster, Chair, Alcohol Education and Rehabilitation Foundation

Australian Drug Foundation

“I do not think there have been any large-scale surveys that have been published that would indicate what is happening...”

- Mr Geoff Munro, Director, Community Alcohol Action Network

National Drug Research Institute

“Directly answering that question, the answer is no”

- Associate Professor Tanya Chikritzhs of the National Drug Research Institute in answer to the question if she was aware of any evidence that would indicate a reduction in sales of alcohol to young people drinking at risky levels.

Australian Medical Association

“It is too early to be able to determine whether there is a reduction in harm”

- Dr Rosanna Capolingua, then President, Australian Medical Association

Alcohol and Other Drugs Council of Australia

“We do not have the hard evidence to prove it categorically”

- Mr David Templeman, Chief Executive Officer, Alcohol and Other Drugs Council of Australia

It is telling that not one of these six leading Australian experts could point to one piece of evidence to support the proposition that the RTD tax increase was having an impact on curbing harmful alcohol consumption by young people.

Health professionals and academics doubt the effectiveness of the Ready-to-Drink alcohol product tax increase

Leading health professionals and health academics have also expressed concern that the RTD tax increase will not be effective in reducing alcohol-related harm.

The Australian Medical Association

The Australian Medical Association (AMA), Australia’s peak national health advocacy group, noted in 2008 that rather than reducing teenage drinking, the RTD tax increase could have the opposite effect. The AMA commented in its submission to the 2008 *Senate Inquiry into Ready-to-Drink alcohol beverages* that the focus on RTD taxation alone could provide “perverse incentives” for young people to shift their preference to potentially more harmful behaviours or alcohol substitutes (AMA 2008).

In very clear language, the AMA noted:

“The Federal Government’s proposed RTD tax increase alone will not solve the problem, and it is simplistic to suggest otherwise. It is important also that the 70 per cent level that has been set of this proposed increase be justified, especially in relation to levels applying to other beverages. Currently, it is not clear how this has been derived” (AMA 2008).

Researchers from the National Drug and Alcohol Research Centre

Two prominent researchers from the National Drug and Alcohol Research Centre (NDARC), Christopher Doran and Anthony Shakeshaft, published an article in *The Lancet* in August 2008 which strongly questioned the effectiveness of the RTD tax increase in curbing binge drinking (Doran and Shakeshaft 2008).

The authors concluded that while the tax increase was likely to reduce sales of RTDs, it was unlikely to reduce the overall rates of usual or binge drinking. The authors concluded:

“A sensible public health strategy would be to aim to be comprehensive by combining fiscal measures of volumetric taxation with other supply and demand initiatives” (Doran and Shakeshaft 2008).

These views are widely held by many in the medical and public health arena.

Medical Director of Drug Health Services, Royal Prince Alfred Hospital

Professor Paul Haber, Medical Director of Drug Health Services at the Royal Prince Alfred Hospital, was quoted in the *Medical Observer* in August 2010 (Burton 2010) as saying that selective tax changes on alcohol will not be effective. He noted that while there was some evidence that total alcohol consumption may have decreased, there had been notable substitution between beverages. He also observed:

“It proves two things, that costs drives behaviour, and secondly, that if you apply a selective tax to part of the liquor industry, you won’t change anything” (Burton 2010).

Conclusion

All available Australian evidence confirms that a tax increase solely on RTDs would fail as a single measure to reduce harmful drinking by young people.

While the Rudd Government and some health advocates may point to isolated pieces of evidence that RTD sales declined following the tax increase or that total alcohol sales or consumption may have slightly reduced, this does not equate to success of the tax increase as a health measure. It is only by examining what has happened with harmful or risky drinking patterns, and levels of alcohol-related harm, that a conclusion can be reached as to the effectiveness of the measure.

The best available evidence confirms that the RTD tax increase failed as a health measure to reduce alcohol-related harm (especially among young people).

2.5 The Ready-to-Drink alcohol product tax increase has failed to reduce levels of alcohol-related hospitalisations

There is no evidence that the 2008 RTD tax increase was effective in reducing alcohol-related hospitalisations.

Recent studies of alcohol-related hospitalisations and Emergency Department (ED) presentations have concluded that alcohol-related hospitalisations and presentations have not declined since the tax increase. This demonstrates that the RTD tax increase has not been effective in reducing the incidence of alcohol-related harm, as measured in terms of hospitalisations or ED admissions.

Relevant studies by the Griffith Health Institute and Access Economics are discussed below.

The Griffith Health Institute finds no evidence

The Griffith Health Institute at Griffith University collaborated with a range of other Queensland-based institutions and the Gold Coast Hospital (GCH) to study alcohol-related presentations at the GCH for the four-year period 2006 to 2010.

The study found that there was a significant increase in alcohol-related ED presentations at GCH in 15-29 year olds over the period (Kisely et al. 2010).

The study concluded that the RTD tax increase was not associated with a reduction in alcohol-related harms on the Gold Coast. One of the study’s authors, Associate Professor Julia Crilly was recently quoted in the media as saying:

“The findings clearly demonstrate policies to reduce binge drinking need to be reviewed as current policies are not effective” (quoted in Rose 2010).

Another of the study’s authors, Professor Steve Kisley, put it more bluntly:

“When young people go into a bottle store and see that their favourite bottle of alcopops has doubled in price they are not going to go home and say ‘I won’t get drunk tonight’” (quoted in Rose 2010).

Access Economics finds no evidence

Two studies of alcohol-related hospitalisations and ED presentations were conducted by Access Economics (as commissioned by DSICA) in the period immediately after the RTD tax increase. Like the Griffith Health Institute study above, both Access Economics studies confirmed that, at the time of the studies, hospitalisations/ presentations had not reduced since the tax increase.

The first study, released in January 2009 (Access Economics 2009a), found that alcohol-related hospitalisations and presentations (for those states for which data was available) for people aged between 12 and 24 were higher in May and June 2008 when compared to the same months going back to 2005. For females, the rates were not only substantially higher but also higher than in earlier months of 2008.

These results indicate that the RTD tax change (effective from 27 April 2008) had been ineffective in stemming the rate of risky alcohol consumption by young people. To quote directly from the Access Economics report:

“The monthly hospital data collected for this analysis, despite the relatively short time since the introduction of the RTD tax increase, do not support claims that the RTD tax policy has reduced risky drinking by young people” (Access Economics 2009a, piv).

The follow up study by Access Economics released in March 2009 (Access Economics 2009b) extended the period of analysis of the first study, allowed for seasonal adjustment and other econometric enhancements.

The further and updated results provided additional empirical evidence of little change to alcohol-related hospitalisations for young people following introduction of the RTD tax. Access Economics concluded:

“In other words, using a variety of econometric specifications and a longer time series, there has still been no significant impact of the RTD tax on hospital use by young people aged 12-24 years” (Access Economics 2009b, pi).

Conclusion

Two recent and independent studies both confirm that the RTD tax increase has been ineffective in reducing the levels of alcohol-related hospitalisations.

2.6 The Ready-to-Drink alcohol product tax increase failed as a revenue measure

The RTD tax increase has failed as a revenue measure. Behavioural and economic responses to isolated tax changes, that is, beverage substitution, and shifts into the manufacture of lesser taxed, substitute products were always going to undermine the revenue objectives of the RTD tax increase. These realities have been borne out in events since April 2008.

Over a 12-month period after the tax increase was announced, the Rudd Government was forced to revise downward by nearly 40 per cent the estimated revenue collections from the

measure. The reasons why the revenue estimates had to be revised downward significantly are discussed below.

Original Treasury revenue estimates deeply flawed

Flaws in the Treasury modelling that accompanied the Budget estimates of the expected revenue gain from the RTD tax increase demonstrate that the Rudd Government made assumptions regarding consumer responses that would never eventuate and therefore never deliver the health or revenue outcomes that it desired.

No substitution assumed by Treasury in original modelling and no reduction in Ready-to-Drink alcohol product consumption following tax increase

Treasury's original modelling of the tax increase assumed no substitution into full-strength bottled spirits, or to beer. This assumption is borne out in the Government's budget documents and a 'Treasury Executive Minute' (dated 14 May 2008 - the day after the Budget was released) tabled in the Parliament on 15 May 2008.

It is clear from these documents that the stated **health policy** rationale for the Government's decision was based on assumptions of:

- an absolute reduction in consumption of RTDs; and
- no change in consumption of close substitutes.

This is clear from the following:

- Treasury modelling tabled in the Parliament explicitly stated that Treasury had assumed zero substitution into other alcohol products as a result of the tax change and a very low elasticity of demand for RTDs of -0.4; and
- the Government's May 2008 Budget Papers which showed that revenue from full-strength bottled spirits, beer and wine were growing modestly or falling in real terms across the budget forward estimates.

It is clear from those estimates that any reduction in risky/high-risk alcohol consumption and any **improvement in health outcomes** were based entirely on the Treasury assumption that there would be no substitution into other alcohol products and an absolute reduction in the consumption of RTDs.

However, as the estimates of revenue growth from 2008-09 to 2011-12 (approx 12 per cent pa) significantly outpace inflation, it is inferred that Treasury's revenue estimates show that consumption of RTDs would return to strong growth, albeit after a sharp initial decline in RTD consumption.

Revised revenue estimates demonstrate flawed forecasts

The incorrect nature of the Treasury assumptions was borne out subsequently by:

- ATO and Customs clearance data;
- revised estimates of additional revenues under the measure provided in the *Mid-Year Economic and Fiscal Outlook 2009-10* (MYEFO) (Treasury 2009b); and
- the explanatory memorandum to the relevant RTD Amendment Bills.

From these sources it is clear that:

- the Government’s own actual clearance data for the period May 2008 to March 2009 compared to May 2007 to March 2008, showed that RTD volumes had declined by -34.9 per cent while, over the same period sales of full-strength bottled spirits had risen by +18 per cent. Clearances of beer rose by 4.7 per cent (Treasury 2009a, pp5-32); and
- this data is supported by previous studies on the elasticities of demand for spirits and RTDs which show a high degree of sales responsiveness per 1 per cent rise in price – up to -2.6 for RTDs, compared to a Treasury estimate of -0.4 (CIE 2008).

The key assumptions underlying the health and social benefits of the Government’s decision are therefore invalid because ABS and industry data confirms substantial substitution into other products – notably full-strength bottled spirits and beer – in contradiction to the Treasury modelling.

Significant reductions in revenue estimates

Repeated revisions to revenue forecasts demonstrate that the Rudd Government had failed to conduct due diligence into the social and economic impacts of the tax change and failed to understand that foreseeable consumer responses would ensure that the desired health outcomes would not be achieved.

When the tax was first announced on the morning of 27 April 2008, the Minister for Health and Ageing said the tax increase would deliver about \$2b in revenue over four years.

When announced by the Treasurer in the Budget speech on 13 May 2008, the additional revenue attributed to the tax change had increased by over 50 per cent to \$3.1b. The flawed Treasury modelling produced the next day (discussed above) supported this figure.

However, the *2007-08 Final Budget Outcome* demonstrated the significant deterioration in RTD volumes (at much larger levels than predicted by Treasury) and substitution to other alcohol beverages (Treasury 2008).

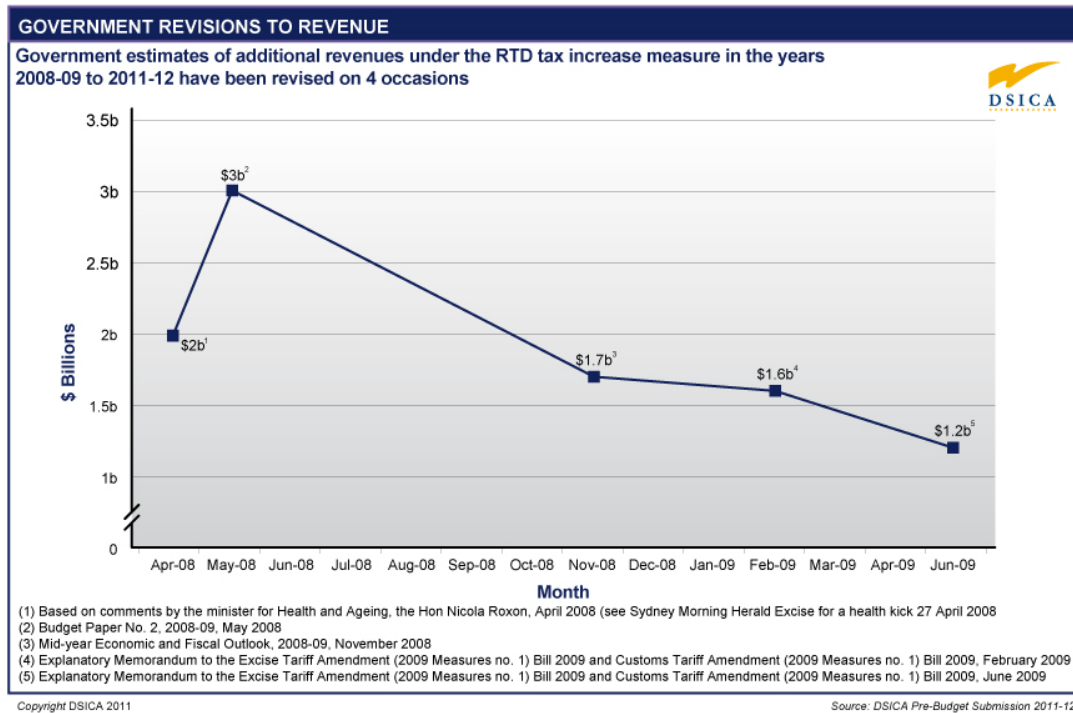
Following this, the Government was forced in MYEFO 2009-10, to further revise downward the revenue impact of the tax increase by \$1.4b, or 45 per cent, to a total of \$1.7b over the four years to 2011-12 (Treasury 2009b; CIE 2008).

In figures published in the explanatory memorandum accompanying the second round of RTD Amendment Bills in June 2009, the Rudd Government had further revised the estimated revenue down another \$500m over the four years to just \$1.2b.

Accordingly, the most recent estimate of revenue to be collected from the RTD tax increase is less than 40 per cent of the original \$3.1b estimate by the Government in May 2008.

The graphic below illustrates the significant revisions to revenue made since the tax took effect on 27 April 2008.

Graphic 2.14: Government revenue revisions (2008-09 to 2011-12)



2.7 Development of alternatives to Ready-to-Drink alcohol products

In response to the higher tax on spirit-based RTDs, some manufacturers reverted to pre-2000 practices of producing beverages with a lower taxed alcohol base. This provided drinkers with yet more alternative beverages to substitute into, exacerbating the substitution effect documented above and providing more scope to undermine the effectiveness of the RTD tax.

In addition, there are also existing products in the market that closely resemble RTDs, but have a wine alcohol base and are therefore not subject to the higher RTD tax. These products are commonly referred to as ‘grape wine products’.

The development and growth in RTD alternatives is predicted by international experience from other countries that have imposed higher taxes on RTDs in isolation.

For this very reason, in 2000 the then Government – based on sound tax principles – reduced the excise and customs duty rates on RTDs from the same rate as full-strength bottled spirits to a similar rate to full-strength packaged beer. When reversed in April 2008, the same market distortion was re-introduced into the alcohol market.

The RTD tax increase has forced the Government to make an illogical tax regime ever more complex as a result of its unwillingness to address the fundamental flaws in its current alcohol tax policy. The vast majority of beer and wine products now attract an even greater relative tax advantage since the tax change.

Government forced to table amendments to the Ready-to-Drink alcohol product Bills

The introduction of ‘malternatives’ (i.e. RTD style products using a beer base) into the market and the continuing presence of grape wine products forced the Government to hastily develop and table a series of amendments to the RTD Bills to help mitigate against the loophole it has re-opened.



“Free The Spirit

In view of the hastily developed and later tabling of Government amendments it is clear that:

- the Government did not think through the implications of the initial decision and its unintended consequences;
- the Government failed to acknowledge Australian and international experiences where both consumers and manufactures naturally focus on products with a lower tax burden.
- the new definition of beer is more complex than the previous one and involves precise measurements of bitters and sugars. It is likely that this will impose higher compliance costs on industry, particularly ‘craft’ brewers that do not enjoy large scale production; and
- the amendments will not prevent the ongoing marketing of piccolo bottles of wine and sparkling wine that compete in the same market as RTDs. These products are priced much lower than RTDs and can have more than twice the typical alcohol content of an RTD.

Cider growth

In addition, cider products (taxed as wine under the WET), and similar in alcohol strength to RTDs (around 5 per cent), are being marketed to RTD drinkers in terms of their marketing and taste profiles. Cider manufacturers have openly declared that they are increasing cider promotions and the range of products to take advantage of the market opportunity created by the RTD tax increase. The tax advantage that cider has over spirit-based RTDs will continue to aid the current growth occurring in the cider market.

Since the RTD tax increase, the market has observed a strong increase in cider sales of, in some periods in the vicinity of 18 to 30 per cent. It appears that cider, along with beer and full-strength bottled spirits, has also been a beneficiary of the RTD tax increase with consumers switching to this product.

2.8 The Ready-to-Drink alcohol product tax has failed as a social policy measure and is unpopular

The RTD tax increase has been assessed as unpopular and ineffective by the Australian community and is not supported as a measure to address harmful alcohol consumption.

The lack of public support for the RTD tax increase reflects community views that the tax increase has not been effective in addressing harmful drinking and that it could not be seen as a genuine attempt to address a serious health and social issue.

The public’s response to the tax measure could lead to a questioning of the Government’s overall credibility in its attempts to address such an important community and health issue.

Public opinion surveys judge Ready-to-Drink alcohol product tax as unpopular and ineffective

Two professionally conducted surveys undertaken during 2008 and 2009 consistently showed that the RTD tax increase was overwhelmingly opposed by the public and was seen as an ineffective measure to address harmful drinking.

DSICA commissioned two surveys by the respected Australian research and survey firm Galaxy Research into Australians’ opinions on the RTD tax increase. One survey was conducted in July 2008, and the other in January 2009.

“Free The Spirit”



July 2008 Galaxy Survey

The two key findings from this survey (Galaxy 2008) were:

- **81 per cent of respondents** believed that **the RTD tax increase should be scrapped** in favour of a wider and more comprehensive strategy to tackle binge drinking amongst young people, with 58 per cent “strongly agreeing” with scrapping of the tax; and
- **77 per cent of respondents** believed that the RTD tax increase was an **ineffective measure** to address binge drinking.

January 2009 Galaxy Survey

The key results from this survey (Galaxy 2009) were:

- **78 per cent of respondents** believed that after nine months of the RTD tax increase, the tax had been ineffective in solving binge drinking among young people; and
- **77 per cent of respondents** believed that the Senate should vote down the tax increase, even though it was made clear to respondents how much revenue the tax would generate (approximately \$1.7b).

Conclusions

These two surveys give a clear indication that around four-fifths of the Australian population believe that the RTD tax increase has been ineffective in addressing youth binge drinking and should be scrapped in favour of a more comprehensive approach.

More generally, the triennial *NDSHS* consistently shows that increasing the price of alcohol is the least popular policy for combating excessive alcohol consumption, with a marked decline in support since 1998 (from 26.7 to 17.6 per cent in 2007) (AIHW 2008a).

2.9 Community backlash against the Ready-to-Drink alcohol product tax increase

In line with the views expressed in the Galaxy surveys, community sentiment against the RTD tax increase was voiced in a number of other ways during the passage of the RTD amendment bills, including through the online media.

Box 2.3: Aussies Against the Alcohol Tax Increase

Aussies Against the Alcohol Tax Increase (AATATI) was a group of individuals vehemently opposed to the tax increase on RTDs. The group formed independently shortly after the RTD tax increase and had not been supported or stimulated by the spirits industry.

During the period in which the Parliament was debating the amendment bills, the group boasted over 70,000 members. Members were able to post topics on a discussion board and contribute comments on their views and experiences. Members could also post notices on the group’s ‘wall’. At some points there were over 2,000 posts available for viewing.

The overall conclusions and theme expressed through the site were that the young drinkers saw through the flawed attempt to curb binge drinking, and reacted by substituting to cheaper and higher strength alcohol alternatives or drugs.

Letters to the editor/talkback radio

Other mediums through which Australians voiced their views on the tax increase were letters to newspapers and calls to talkback radio to express their deep scepticism of the motivation for

the tax increase and its desired impact on underage binge drinking. DSCIA estimated that levels of support or opposition for the tax expressed through these means mirrored that in the two Galaxy polls discussed above.

2.10 Editorial opinion widely against the Ready-to-Drink alcohol product tax increase

Newspaper comment and editorials on the RTD tax increase also reflected the community's conviction that the tax increase was not a serious measure to reduce alcohol-related harm.

Major national and metropolitan newspapers were regularly publishing strong editorial views on the failure of the RTD tax increase during the extended period of the Parliamentary and community debate. This commentary has continued after final legislation of the measure – as we outline below.

This leadership from the press indicates that informed opinion leaders in touch with policy development and debate have assessed the views on effectiveness of the tax and concluded that it was ill-conceived and is not working.

Key examples of leading editorial coverage of the issue are as follows:

The Australian, 26 February 2009 – ‘Pop goes the alco tax’

The main national daily, *The Australian*, maintained a consistent editorial line against the RTD tax increase as an ill-conceived tax grab which plays to a moral panic over binge drinking.

The 26 February 2009 editorial highlighted a range of Government and industry evidence which showed that the tax increase was flawed policy and that the Government's thinking was *“badly askew”*.

The Australian, 6 February 2009 – ‘Policy on the rocks’

In an earlier editorial, *The Australian* declared that the RTD tax was a *“rort that wouldn't work”*.

In describing the tax increase as a *“triple-distilled fib”*, the editorial lamented the Government's initial decision given it was taken at a time when inflation concerns in the economy were paramount, and the tax increase would further fuel price increases.

It went on to label the tax as discriminatory, because RTDs are often consumed by the *“politically powerless”* (young people and older workers).

Finally, the editorial was critical of how the Government sought to sell the measure as one which would address binge drinking among the young, and that the estimated additional \$680m in revenue it generated each year was just *“entirely incidental”*.

The Australian, 17 May 2008 – ‘The real motive behind the Alcopops tax hike’

Soon after the RTD tax increase *The Australian* provided the following opinion:

“The move to lift the tax on ready-to-drink alcoholic beverages by 70 per cent was the biggest tax grab on the list of revenue measures announced by Wayne Swan on Tuesday. And it is the one that has drawn the most flak from the Opposition parties, who have the potential to hold it up in the Senate.

Was the alcopops tax motivated by concerns about the health of teenage girls or the health of the budget surplus? Circumstantial evidence points towards the latter”.

The West Australian, 24 January 2009 – ‘Time for Roxon to admit that alcopops tax is not working’

In another major daily editorial, *The West Australian* declared that:

“The alcopop strategy has been unravelling since it was announced”.

The West Australian concluded that the Government did not think through the tax increase. As a result, it has been ‘caught out’. The editorial criticised the Government for a failure to produce any concrete evidence that the tax increase is succeeding in its efforts to combat binge drinking. It contrasts this to a range of evidence that drinkers are just substituting to more potent beverages.

The West Australian concluded that the tax increase:

“Has been revealed as a ham-fisted attempt to cloak a heavy tax in the guise of a health message”.

Even in the period since final legislation of the tax increase, press coverage of the issue has continued. The following story in *The Sunday Age* appeared in September 2010 after the release of a study into alcohol consumption trends by Victorian students.

The Age, 26 September 2010 – ‘Alcopop tax fails to curb teenage drinkers’

The front page story on *The Age* responded to the release of a survey into alcohol consumption trends by Victorian secondary school students in 2008. The survey is the first survey of underage drinking since the tax increase.

The Age reported:

“The contentious tax on alcopops has failed to influence teenage drinkers and done nothing to curb binge drinking”.

For further analysis on the Victorian Study, see **Section 2.3** above.

The Brisbane Times, 26 September 2010 – ‘Alcopops – the fact, fiction and wishful thinking’

Commenting on the same Victorian survey referred to above, *The Brisbane Times* lamented that the RTD tax increase failed to live up to Government’s stated objective of reducing binge drinking and criticised the Government for ignoring pre-existing evidence that risky consumption levels amongst the target group were already trending down.

The Brisbane Times agreed that teenage binge drinking is an important issue to address, but:

“However we tackle this problem, we need to make decisions based on the evidence”.

2.11 The Government’s credibility on alcohol policy has been undermined

In conclusion, the views expressed by the public in surveys and in the media mirror an unfortunate conclusion that the community is likely to have developed a scepticism and cynicism about the Government’s credentials and credibility in developing workable and evidence-based alcohol health policy.

The strong views on the ineffectiveness of the RTD tax voiced by so many sectors of the community (the community generally, health professionals, editors, international researchers



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and policy developers) points to a weakness of the Government’s policy development process on important health issues. This could lead to an ongoing question mark over the Government’s ability to develop sound health policy and it therefore must be subject to ongoing and intensive scrutiny in this area.