



Distilled Spirits
Industry Council
of Australia Inc.

Pre-budget Submission 2011-12

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THE TREASURY

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 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 quasi-regulatory regime for alcohol advertising; and
- making a significant contribution to Australian industry through primary production, manufacturing, distribution and sales activities.

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List of abbreviations

ABAC	Alcohol Beverages Advertising Code
ABS	Australian Bureau of Statistics
abv	alcohol by volume (i.e. alcohol content)
AIHW	Australian Institute of Health and Welfare
AMA	Australian Medical Association
ANAO	Australian National Audit Office
ANPHA	Australian National Preventative Health Agency
ANZFA	Australia New Zealand Food Authority
ASSSAD	Australian Secondary School Students' Use of Alcohol Survey
ATO	Australian Taxation Office
b	Billion(s)
BAS	Business Activity Statement
Customs	Australian Customs and Border Protection Service
CTE	Consumer Tax Equivalent
DHA	Department of Health and Ageing
DSICA	The Distilled Spirits Industry Council of Australia Inc
EEGs	Excise Equivalent Goods
GST	Goods and Services Tax
Henry Review	<i>Australia's future tax system: Report to the Treasurer</i>
Lals	Litres of pure alcohol
LMAA	Liquor Merchants Association of Australia
m	Million(s)
MCDS	Ministerial Council on Drug Strategy
NAC	National Alcohol Campaign
NDRI	National Drug Research Institute
NDSHS	<i>National Drug Strategy Household Survey</i>
NHMRC	National Health and Medical Research Council
NTS	<i>New Tax System</i>
OECD	Organisation for Economic Co-operation and Development
pa	Per annum
PBS 2011-12	DSICA Pre-budget Submission 2011-12
PHT	Preventative Health Taskforce

Review Panel	<i>Australia's Future Tax System Review Panel</i>
RHS	Right Hand Scale (in graphs)
RTDs	Ready-to-drink alcohol products
Strategy	<i>National Preventative Health Strategy</i>
Strategy Roadmap	<i>PHT's National Preventative Health Strategy – the roadmap for action (2009)</i>
TES	Tax Expenditure Statement (Commonwealth Treasury)
WET	Wine Equalisation Tax
<i>WET Act</i>	<i>A New Tax System (Wine Equalisation Tax) Act 1999 (Cth)</i>
WHO	World Health Organisation

Executive summary

DSICA is the peak industry body representing the interests of distilled spirit manufacturers and importers in Australia.

Australian alcohol market composition, consumption trends and 2011-12 taxation revenue estimates

- Beer continues to dominate the alcohol market in Australia, despite its longer term declining consumption trend. DSICA estimates that in 2009-10, beer comprised over two-fifths of the alcohol market at 43 per cent (when measured in litres of pure alcohol).
- In comparison, DSICA estimates that spirits, including Ready-to-Drink alcohol products (RTDs), comprised 20 per cent of the total alcohol market. RTDs comprised less than 7 per cent.
- DSICA estimates that the alcohol industry will pay a total of \$7.5b in federal taxation (including GST) in 2011-12, with the spirits industry contributing approximately \$3.3b (or 44 per cent) of this total.
- Adult per capita alcohol consumption in Australia has been static at around 10 litres of pure alcohol (lals) per capita for the last 20 years, and is 20 per cent below peak consumption levels of the mid-1970s.
- By comparable international standards, Australia is not a high consumer of alcohol beverages – especially in relation to spirits.
- The majority (approximately 90 per cent) of Australians drink responsibly and consume alcohol in a way that is not considered harmful in the long-term.
- Contrary to popular belief, according to the most comprehensive Government alcohol survey, RTDs are not the preferred beverage of high-risk drinkers in any age grouping (AIHW 2008b).

Failure of the ‘alcopops’ tax

- The 2008 tax increase on RTDs has failed as both a health and revenue-raising measure and demonstrates yet again that an isolated tax change on one product will not impact on total alcohol consumption levels, and is unlikely, on its own, to reduce harmful consumption levels.
- Despite the tax increase, total consumption in lals has actually increased slightly. The reduction in RTD consumption resulting from the tax change has been completely offset by increased consumption of spirits, wine, beer and cider.
- The RTD tax increase has also failed as a revenue-raising measure due to the Rudd Government's failure to understand product elasticities and substitution. The most recent estimate of additional revenue to be collected from the RTD tax increase is only 40 per cent of the original estimate published by the Rudd Government in 2008.

Recommended Budget taxation measures

- DSICA provides three recommendations for changes relating to alcohol taxation in the 2011-12 Budget.
- Taken together, the recommended measures are revenue positive by \$31m per year. The three measures are:
 - ⇒ Amendments to the Wine Equalisation Tax (WET) system to prevent abuse and double dipping of the Wine Producer Rebate – estimated revenue saving of \$50m pa (**Recommendation 1**)

- ⇒ Provide tax equivalence (with relevant beer products) for low- and mid-strength RTDs – estimated revenue cost of \$3m pa (**Recommendation 2**)
- ⇒ Remove the discriminatory 5 per cent ad valorem customs duty on imported spirits and RTDs – estimated revenue cost of \$16m pa (**Recommendation 3**)
- DSICA also outlines a number of recommendations to streamline taxation administration arrangements and improve alcohol market and consumption data (see **Recommendations 8 to 14**).

Urgent need for alcohol taxation reform

- The current alcohol tax system is riddled with anomalies and complexities that cause significant distortions and less than optimal health and economic outcomes.
- There is an urgent need to reform the alcohol tax system to encourage the production and consumption of lower alcohol products.
- The current anomalies result in a disproportionate tax burden on the spirits industry. In 2009-10 the spirits industry paid approximately 46 per cent (\$2,538m) of (non-GST) revenue (\$5,505m) raised from alcohol, when it comprised only 20 per cent of the market. In contrast, the wine sector paid only 13 per cent of total (non-GST) tax collections, but comprised 37 per cent of the market during 2009-10.
- The inequitable tax treatment of spirits is also demonstrated by the uniform measure of 'tax per standard drink'. Spirits and RTDs pay a high 91 cents per standard drink, while cask wine pays only 7 cents per standard drink.

The Henry Review and volumetric tax reform

- DSICA commends the Henry Review process and its recommendations for alcohol taxation reform.
- DSICA strongly supports Henry Recommendation 71 which proposes a single volumetric rate of taxation for all alcohol products, with a low-alcohol threshold for all products.
- DSICA strongly supports the call for alcohol taxation to be considered at the 2011 Tax Forum and requests the Government to confirm alcohol taxation as an agenda item for the Forum (**Recommendation 4**).
- There is a wide range of research that proposes and/or endorses a switch to volumetric taxation for wine. This approach is also widely supported by a range of health policy academics and health professionals.
- DSICA notes that two of Australia's largest winemakers support a debate on volumetric tax on wine.
- Accordingly, the Government should implement the Recommendation of the Henry Review to introduce a volumetric taxation system for all alcohol, including wine. (**Recommendation 5**).
- The Government should commission independent modelling to calculate the 'spillover' costs from alcohol consumption as proposed by the Henry Review to assist the Government set the appropriate new volumetric rate under the reformed alcohol tax system (**Recommendation 6**).
- The Government should set a timeframe in legislation for reform and transition to the new alcohol tax system (**Recommendation 7**).
- DSICA seeks immediate commencement of a review into the administrative arrangements for alcohol tax, as recommended by the Henry Review, and to be discussed at the Tax Forum.

Summary of recommendations

Taxation, the Henry Review and wine taxation reform

Wine Producer Rebate anti-avoidance amendments

Recommendation 1: Wine Producer Rebate anti-avoidance amendments

That the Government should make all necessary legislative amendments to the A New Tax System (Wine Equalisation Tax) Act 1999 (Cth) (and rebate provisions) as a matter of urgency to reduce ongoing distortions within the wine market, with a view to eventually phasing out the rebate altogether.

Estimated revenue impact: \$50m pa savings (Winemakers' Federation of Australia estimate)

Tax equivalence for low and mid-strength Ready-to-Drink alcohol products

Recommendation 2: Tax equivalence for low and mid-strength Ready-to-Drink alcohol products

That the Government should introduce taxation equivalence between low and mid-strength packaged RTDs and packaged beer of similar alcohol content by applying the same volumetric rates as well as also applying the 1.15 per cent abv excise-free threshold.

Estimated revenue impact: \$3m pa cost

Removal of 5 per cent ad valorem customs duty

Recommendation 3: Removal of 5 per cent ad valorem customs duty

That the Government immediately remove the 5 per cent tariff on imported spirits and RTDs in order to remove structural complexity from the current system.

Estimated revenue impact: \$16m pa cost

Proposed tax forum

Recommendation 4: Proposed Tax Forum

That alcohol tax reform be confirmed for inclusion in the agenda for the 2011 Tax Forum.

A volumetric tax on all alcohol

Recommendation 5: Introduce volumetric taxation for all alcohol

That the Government implement the recommendation of the Henry Review to introduce volumetric taxation on all alcohol, including wine.

Commission modelling to calculate spillover costs

Recommendation 6: Commission modelling to calculate spillover costs

That the Government commission independent modelling to calculate a robust estimate for spillover costs from alcohol, to assist in determining the appropriate destination rate of taxation for alcohol in Australia, as recommended by the Henry Review.

Setting a timeframe for reform

Recommendation 7: Set a timeframe for reform

That the Government consider introducing legislation during 2011 which would set out the timeframe for transition to volumetric taxation for all alcohol. DSICA also recommends that the

Government adopt the transition method modelled by the Henry Review team, which would utilise existing indexation arrangements to gradually unify the different alcohol tax rates.

Tax administration and data collection arrangements for the alcohol industry

Tax administration reform

Recommendation 8: Policy and legislative responsibility equivalent goods

DSICA recommends that the Government transfer responsibility for policy and legislation of excise equivalent goods to the Treasury portfolio.

Recommendation 9: Duty payments recorded on the Business Activity Statement

DSICA recommends that excise duties on alcohol be reported and remitted on the Business Activity Statement (BAS).

Recommendation 10: Single licensing arrangements

DSICA recommends that licensing arrangements for alcohol manufacturers be streamlined to allow for single licences.

Improvements needed in collection of alcohol market data, alcohol consumption surveys and data reporting

Recommendation 11: Apparent Consumption of Alcohol, Australia series amendments

DSICA recommends that cider data be included in the ABS *Apparent Consumption of Alcohol, Australia* data series.

DSICA recommends that representative abv strengths used to calculate spirits and RTD product consumption levels be made publicly available.

DSICA also recommends that the ABS should continue to produce its *Apparent Consumption of Alcohol, Australia* data series and that it be prepared and released on a more timely basis.

Recommendation 12: Consistent approach to data collection

DSICA recommends that the Federal Government agencies which collect statistics on the production and consumption of alcohol should collaborate, with industry involvement, to establish a defined and consistent methodology for collection and reporting of alcohol-related data.

DSICA also recommends that Customs be instructed to regularly (at least annually) release data regarding customs duty collections on imported alcohol products.

Recommendation 13: National Drug Strategy Household Survey series amendments

DSICA recommends the AIHW be directed to conduct more regular *NDSHS* surveys (say every two years rather than every three) and that results be reported on a more timely basis.

Recommendation 14: Budget Papers to report spirits excise duty revenue

DSICA recommends that Treasury examine alternative approaches that would allow reporting of spirits excise duty revenue, while at the same time being able to maintain confidentiality of excise duty payments in other areas.

1 The Australian alcohol market and DSICA revenue estimates for 2011-12

Introduction

In this Section, DSICA provides an overview of the latest data on the make-up of the alcohol market in Australia in 2009-10 and provides estimates of revenue from alcohol products in 2011-12.

The alcohol market in Australia remains **dominated by beer, which comprised over two-fifths** (43 per cent) of consumption in 2009-10 (when measured in litres of pure alcohol). By comparison, spirits and RTDs together comprise only 20 per cent of the market, with RTDs comprising about 7 per cent. Cider is the fastest growing category in the alcohol market.

1.1 Alcohol taxation in Australia

Revenue authorities around the world apply two main methods in taxing alcohol products:

- tax on the basis of the volume of alcohol in the beverage (a 'volumetric', or specific rate method); and
- tax on the basis of the value of the product (an 'ad valorem' method).

Australia uses a combination of both methods, depending on the beverage type.

Volumetric systems are usually described as 'excise' duties – that is, taxes which are selective in the product they cover and involve quantification of the product in determining the liability. In the case of alcohol, the quantification is in "litres of pure alcohol", which is usually abbreviated to either LPA, or lals. Australia applies a volumetric excise duty to beer, spirits and RTDs.

Ad valorem taxes can take various forms. Broad-based general purpose taxes such as the Goods and Services Tax (GST) are usually ad valorem taxes, but in some cases, ad valorem taxes are selectively applied. This is the case with the WET in Australia, which is levied on wine, grape wine products and cider.

Architecture of Australia's tax system

The Australian Government levies tax on alcohol beverages which are more than 1.15 per cent alcohol by volume (abv). The exact tax arrangements applicable depend on the type of alcohol beverage.

Beer

Beer is subject to seven different volumetric excise rates, depending on whether the product is brewed for commercial or non-commercial purposes, the alcohol content of the beer and the size of the container.

There are three 'tiers' of taxation that apply to commercial beer products according to alcohol content. That is, low-, mid- and full-strength. Low-strength packaged beer qualifies for a lower rate of excise. The exception to this is that mid-strength packaged beer pays the same headline rate as full-strength packaged beer.

In addition, beer products qualify for an excise-free threshold of 1.15 per cent abv. This means that excise is not payable on the first 1.15 per cent abv of a beer product. The effect of the threshold is to lower the 'effective rate' of excise on low and mid-strength beer compared with full-strength beer.

Draught beer – that is, beer which is sold 'on tap' – pays a lower rate of excise duty than the equivalent packaged beer. To qualify for the 'draught beer' rates of excise, the beer must be sold in a container exceeding 48L in volume – for example, a keg.

Beer produced for non-commercial purposes also benefits from a concessional excise duty rate.

Wine

Wine, grape wine products and cider are taxed on an ad valorem basis under the WET.

WET is payable by manufacturers, wholesalers and importers of wine, grape wine products and cider as defined. It is collected under the WET Act which is administered by the Australian Taxation Office (ATO).

The WET rate is currently 29 per cent and is applied to the 'wholesale' value of the product. WET is levied on the last wholesale sale (or equivalent) of a product.

Wine Producer Rebate

A special Wine Producer Rebate was introduced by the Australian Government effective from 1 October 2004. The rebate sought to address the inherent bias created by the WET system in favour of large producers. The maximum rebate amount was increased on 1 July 2006 and now effectively provides an exemption from WET for a producer's first \$1.7m of domestic wholesale sales. This has the effect of removing WET liability for the wine sales of the large majority of small/medium producers.

The Henry Review identified that around half of all wine producers are unprofitable. It further commented that the Wine Producer Rebate may be acting to prevent proper market responses by discouraging mergers (Commonwealth of Australia 2010b, p438).

Spirits

All spirits (including RTDs) are taxed at a single volumetric rate, with the exception of brandy. Brandy pays a lower rate of excise, an anomaly which dates back to a policy of providing a taxation concession to the local grape growing industry.

Prior to the tax increase on RTDs in April 2008, RTDs were subject to excise duty at similar rates as packaged beer. The rationale for this approach was that RTDs and beer were products of similar alcohol content, marketed in similar ways (i.e. bottles and cans) to a similar demographic (that is, primarily males 24 years and above).

The failure of that tax increase to achieve the Government's objectives is addressed in detail in **Chapter 2**.

Spirits and RTDs do not qualify for the 1.15 per cent abv excise-free threshold available to beer, despite spirits and RTDs being subject to a much higher rate of volumetric taxation.

Australia's current alcohol tax arrangements are summarised below.

Graphic 1.1: Taxation of alcohol in Australia

TAXATION OF ALCOHOL IN AUSTRALIA				
Product category	Beer	Spirits (incl. RTDs)	Wine	Cider
Excise duty (Locally produced goods)	✓	✓		
Customs duty – ad valorem (Imported goods only)		✓	✓	
Customs duty – excise equivalent (volumetric) (Imported goods only)	✓	✓		
WET			✓	✓
GST	✓	✓	✓	✓

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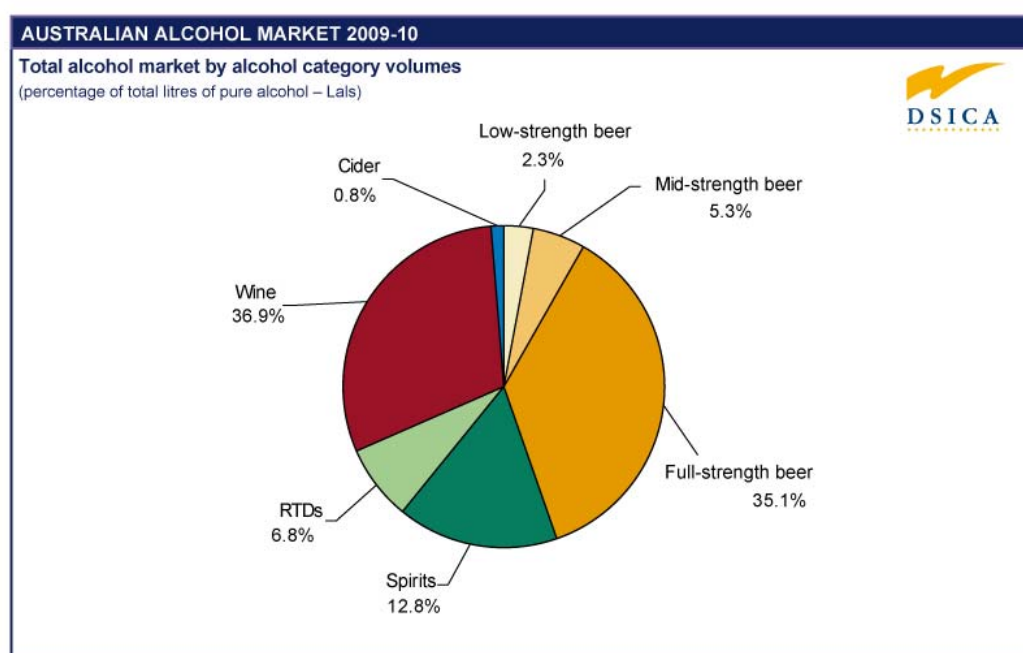
Source: DSICA Pre-Budget Submission, 2011-12

1.2 Composition of the Australian alcohol market in 2009-10

According to DSICA estimates, the alcohol market in 2009-10 was made up as follows:

- beer comprised 43 per cent;
- spirits overall (including RTDs) comprised 20 per cent;
- wine (and grape wine products) comprised 37 per cent; and
- cider comprised less than one per cent of the market, but was the fastest growing market segment.

Graphic 1.2: DSICA estimate of Australia's alcohol market 2009-10



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Source: ABS, DSICA Pre-Budget Submission 2011-12

1.3 Alcohol revenue estimates for 2011-12

DSICA estimates that the Australian Federal Government will collect approximately \$7.5b in taxation revenue from the production and consumption of alcohol beverages in the 2011-12 financial year. This revenue is broken down as follows:

- \$1.8 billion in customs duty;
- \$3.3 billion in excise duty;
- \$816 million in WET;

Resulting in \$5.9 billion in non-GST revenue (see below); and

- \$1.6 billion in GST revenue;

Graphic 1.3: DSICA estimates of Commonwealth revenue from alcohol taxation (2011-12)

DSICA REVENUE ESTIMATES 2011-12 (\$MILLIONS)							
Product category	Customs Duty	Excise Duty	WET	Total Non-GST Revenue	GST Revenue	TOTAL	%
Beer low-strength	-	\$74	-	\$74	\$43	\$117	1.6%
Beer mid-strength	-	\$258	-	\$258	\$95	\$353	4.7%
Beer full-strength	\$207	\$1,731	-	\$1,938	\$512	\$2,450	32.6%
Total Beer	\$207	\$2,063	-	\$2,270	\$650	\$2,920	38.9%
Spirits	\$1,546	\$222	-	\$1,768	\$285	\$2,052	27.3%
RTDs	*	\$999	-	\$999	\$252	\$1,251	16.7%
Total Spirits	\$1,546	\$1,221	-	\$2,767	\$537	\$3,303	44.0%
Wine	\$12	-	\$767	\$779	\$439	\$1,219	16.2%
Cider	-	-	\$49	\$49	\$23	\$72	1.0%
Grand Total	\$1,765	\$3,284	\$816	\$5,866	\$1,640	\$7,514	100.0%

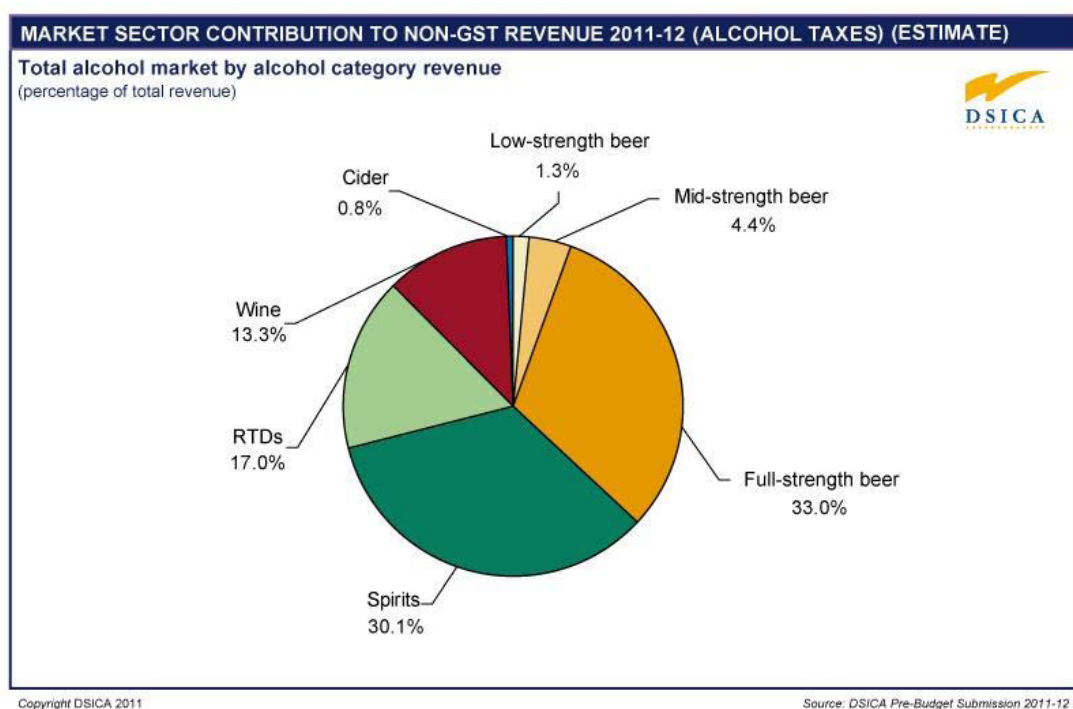
* It has been assumed that "imported" RTDs are imported in the form of bulk spirits then bottled as RTDs in Australia. Therefore Customs duty on imported RTDs has been included in the "Spirits" category.

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Source: DSICA Pre-Budget Submission 2011-12

The percentage shares of total estimated non-GST (alcohol tax) revenue for 2011-12 is illustrated below.

Graphic 1.4: Market sector contribution to non-GST revenue (alcohol taxes) (2011-12)



DSICA estimates that the Government will receive \$1,649m in GST revenue from sales of alcohol products in 2011-12 (see below). This does not include the GST on products bought 'on-premise' or across the bar (e.g. draught beer, cocktails and spirits mixed across the bar) which includes a service component, so is a conservative estimate.

Graphic 1.5: DSICA estimates of GST revenue from alcohol taxation (2011-12)

GST REVENUE ESTIMATE 2011-12 (\$ MILLIONS)			
Product category	Retail sales (GST inclusive)	GST Revenue	%
Beer low-strength	\$469	\$43	2.6%
Beer mid-strength	\$1,045	\$95	5.8%
Beer full-strength	\$5,633	\$512	31.1%
Total Beer	\$7,147	\$650	39.4%
Spirits	\$3,130	\$285	17.3%
RTDs	\$2,774	\$252	15.3%
Total Spirits	\$5,904	\$537	32.6%
Wine	\$4,833	\$439	26.6%
Cider	\$251	\$23	1.4%
Total	\$18,135	\$1,649	100%

Copyright DSICA 2011 Source: DSICA Pre-Budget Submission, 2011-12

(Note: figures above may not add to the totals provided, as small differences arise due to rounding).

1.4 Weaknesses in the current Australian alcohol tax structure

The current alcohol taxation system fails to adequately satisfy any of the key criteria of a good tax system. This was confirmed in the Henry taxation review (see a detailed discussion of the Henry recommendations in **Chapter 3**).

Furthermore, the system does not help achieve good health outcomes and it also distorts the alcohol beverage market place by unduly influencing decision making regarding product manufacture and consumption.

The problems of the current taxation regime are demonstrated by:

- a mix of ad valorem (wine, grape wine products and cider) and volumetric taxation rates (beer, spirits and RTDs);
- a system of eight different rates – only some of which are inflation-indexed;
- automatic bi-annual indexation of spirits and RTD excise rates, which results in growing disparities in the relativities with wine prices, which are not subject to similar increases, and which are not rising due to the current grape and wine oversupply;
- some products (i.e. spirits) have import duty at ad valorem rates indiscriminately applied based on country of origin; and
- rebates and tax free thresholds are available to some products (e.g. wine and beer) and not to others.

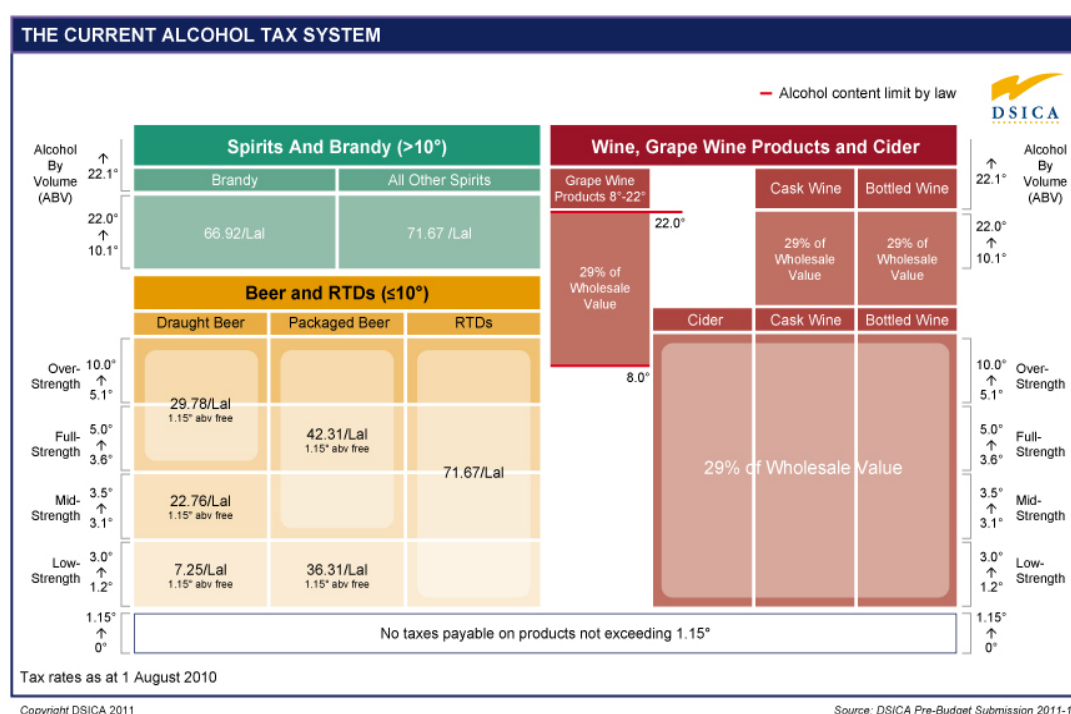
DSICA analysed the many shortcomings of the current alcohol tax system in its submissions to the Henry Tax Review (see DSICA 2008a; DSICA 2009).

Conceptual framework of Australia's alcohol tax system

DSICA has developed a graphical representation tool to illustrate the current taxation regime for alcohol in Australia. The purpose of the graphic is:

- to demonstrate the current complexities and anomalies that exist, particularly in relation to differing tax treatments that apply to products that are substitutable;
- to identify opportunities for incremental tax changes to remove unsustainable concessions; and
- to act as a framework to assist in the development of alternative models for alcohol taxation reform.

Graphic 1.6: Australia's alcohol tax system



Key features of the graphic are:

- different beverage categories are listed horizontally across the page, with products levied a volumetric excise coloured green, whilst products levied the ad valorem WET are coloured red;
- alcohol by volume (abv) content is listed along the left-hand side vertical axis of the graphic;
- there is a deliberate delineation in the graphic at 10 per cent abv, as this tends to be the upper limit on 'lower-strength' beverages such as beer, and spirit-based RTDs, while most wine, liqueur and spirit-based products are above this level. The exception to this is the red (ad valorem) category for wine-based products, which dips slightly below 10 per cent as some products, for example cider, contain lower alcohol contents, that are similar to the alcohol contents of beer and RTDs;
- we note that 10 per cent abv is also a key reference point in the Excise and Customs legislation. It also separates Tax Base 1 from Tax Base 2 in Treasury's Tax Expenditure Statement analysis;
- the placement of the grape wine product category (in red) also reflects the definitional requirement in the WET Act that grape wine products must be between 8 and 22 per cent abv;
- different beverages are then listed in the category boxes in the graphic. Current taxation rates are indicated, as well as whether a particular beverage qualifies for the 1.15 per cent abv excise-free threshold;
- abv levels below 5 per cent are designated to reflect the different excise rates that currently apply to low-, mid- and full-strength beer, but not to wine-based products or spirit-based products; and
- draught beer is separated as a category as it is subject to different excise rates compared with packaged beer.

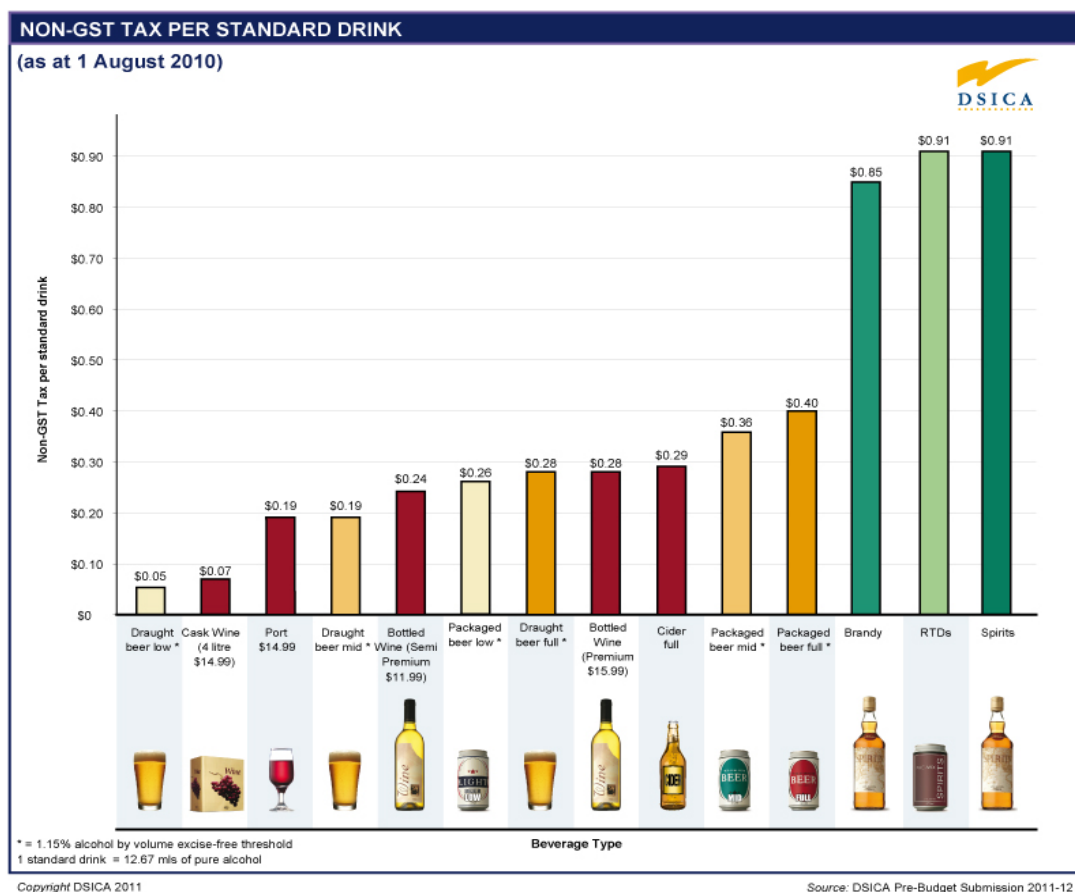
This graphic shows both the current taxation regime (including its anomalies and complexities) and provides a framework to consider possible tax changes and tax reform options.

1.5 Non-GST (alcohol taxes) tax per standard drink

Using the concept of a standard drink allows for a uniform comparison of the incidence of taxation on products of differing alcohol strength and retail price, shown in the graphic below. The graphic highlights some of the issues and complexities inherent in the current tax system.

DSICA believes that consumers have an increasing appreciation of the need for taxation equity when tax incidence can be compared on a 'per standard drink' basis.

Graphic 1.7: Non-GST tax per standard drink



The inconsistency in the tax treatment of particular beverages becomes particularly clear when one considers that:

- cask wine (typically abv of 11 to 13 per cent) pays only 7 cents per standard drink;
- full-strength RTDs (less than half the abv of most cask wines) pay 91 cents per standard drink (13 times that paid by cask wine); and
- full-strength packaged beer (at about the same abv as full-strength RTDs) only pays 40 cents per standard drink, less than half that paid by RTDs of equivalent alcohol content.

1.6 Trends in alcohol consumption by product category

Stable trend in Australian adult per capita alcohol consumption

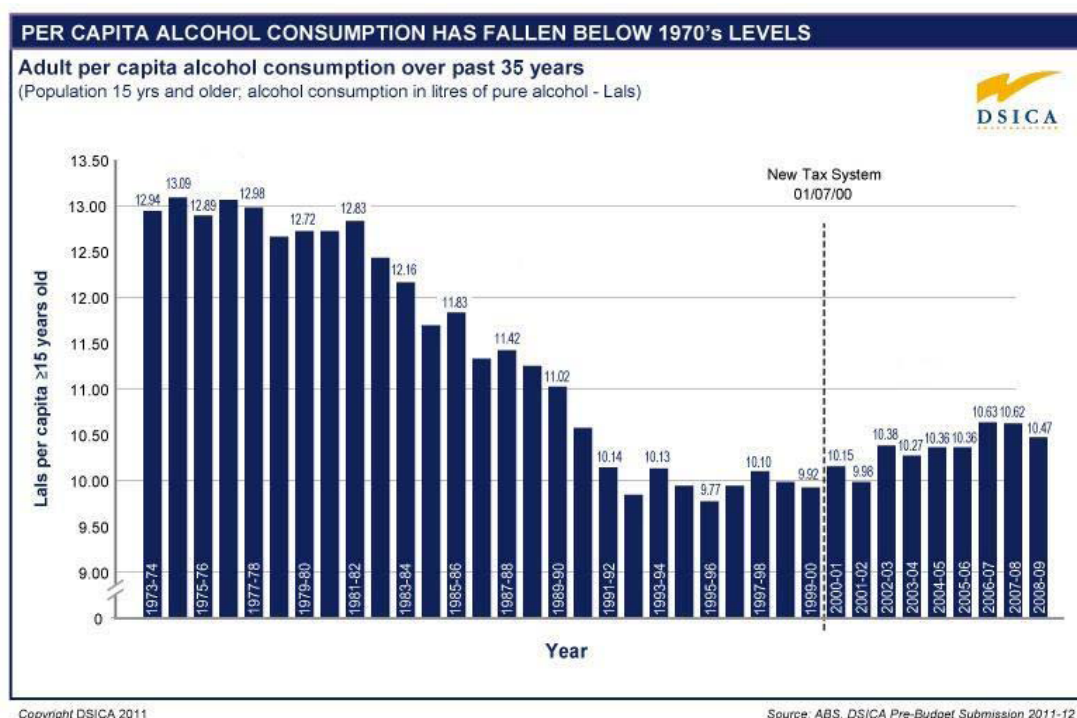
DSICA estimates adult per capita (population 15 years and over) alcohol consumption for 2009-10 in Australia at 10.47 lals. This is down from 10.62 lals adult per capita consumption in 2008-09.

The Australian Bureau of Statistics (ABS) figure for alcohol consumption in 2008-09 was 10.40 lals (ABS 2010a). It should be noted that the DSICA figure covers all alcohol beverages including cider. The ABS does not include cider in its calculation.

A time series of per capita alcohol consumption from 1973-74 to 2008-09 is set out below. Observations and insights in relation to this time series are:

- adult per capita alcohol consumption has fallen below levels in the 1970s;
- adult per capita consumption is now 20 per cent below its peak, reached in 1974-75;
- there has been no significant increase in adult per capita alcohol consumption since the New Tax System (NTS) reforms of 1 July 2000, which reduced tax for RTDs;
- while the reduction in RTD volumes after the RTD tax increase on 27 April 2008 was entirely offset by substitution to full-strength bottled spirits and beer, growth in alcohol volumes has been outpaced by population growth. As a result per capita consumption fell slightly in 2008-09; and
- the Global Financial Crisis and accompanying fiscal stimulus would also have impacted consumption levels, although to what degree and direction is unclear.

Graphic 1.8: Adult per capita alcohol consumption in Australia since 1973-74



The stable trend in adult per capita alcohol consumption is supported by other respected statistical agencies, including the ABS and the Australian Institute of Health and Welfare (AIHW).

People are changing their product preferences, but not increasing total consumption

Total adult per capita alcohol consumption has been static over the last decade, and has been in long-term decline since the mid 1980s.

Long-term trends in total consumption of alcohol have been for the most part driven by a continuing long-term decline in the beer category (although this has shown a turnaround in the 12 months following the 2008 RTD tax change) and at the same time increasing wine consumption. The graphic below illustrates these effects by product category for the period 1970-71 to 2008-09.

In past decades, Australian Governments have altered the taxation treatment of different categories of alcohol beverage. As this has occurred, consumers have tended to shift consumption to those products with lower effective rates of taxation. **However, substitution from one alcohol category to another has not been a significant driver of overall changes in total consumption.**

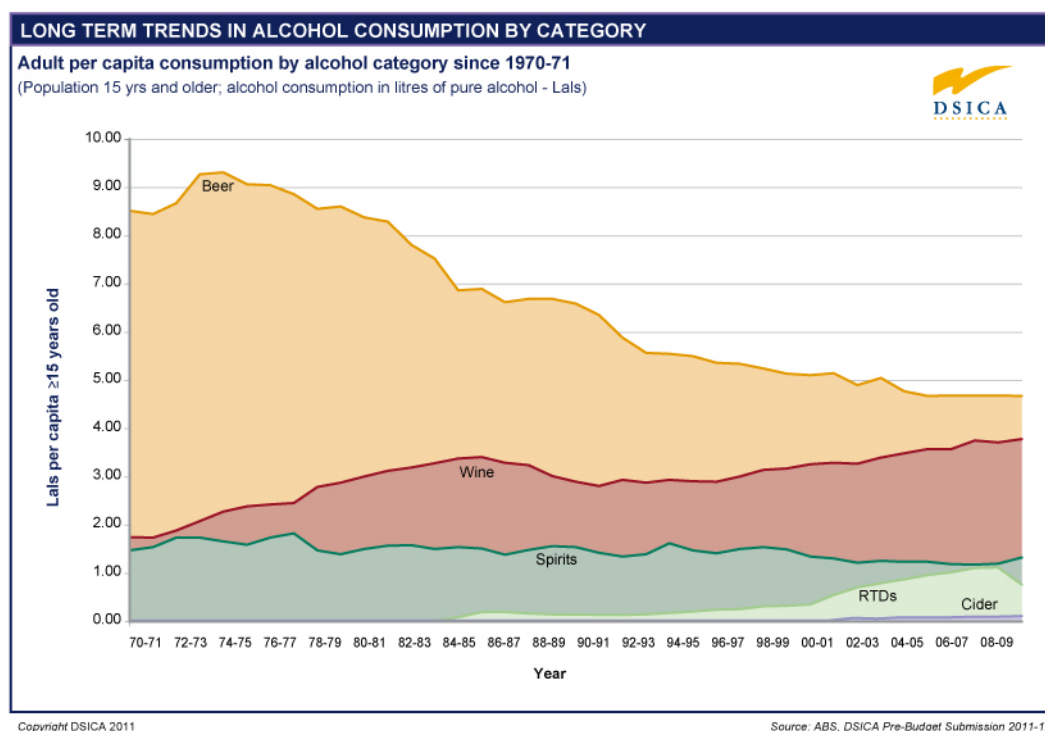
It is also interesting to note that, contrary to popular belief, RTDs comprise only a very small percentage of the market - only 6.8 per cent in 2009-10. This is one of the many misconceptions about RTDs - see more information on common misconceptions in **Appendix A**.

Other industry analysis has also established who the typical RTD consumer is. Popular belief is probably that RTDs are mainly consumed by young females. However, surveys undertaken by Roy Morgan Research in 2008 (and published in IDA 2008) indicate the following:

- males are the primary consumer of RTDs – 55 per cent by volume;
- more than three-quarters (76 per cent) of RTD consumers are aged 25 years and over;
- 76 per cent of dark spirit-based RTDs (which, according to DSICA, comprise 76 per cent of total RTD consumption), are mainly consumed by males (68 per cent by volume) who are 25 and over; and
- only 31 per cent of light spirit-based RTDs are consumed by females 18 to 24.

These conclusions are consistent with other industry product and taste-testing research which indicates that males aged 24 years and older prefer dark spirit-based RTD colours and flavours.

Graphic 1.9: Adult per capita alcohol consumption by alcohol category since 1970-71



Australia's proportional alcohol consumption

Despite 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 – especially in relation to spirits. A comparison between OECD countries for which recent per capita consumption data is available reveals that Australia ranks only twelfth out of a total of twenty-three countries (OECD 2009).

A further comparison with nine selected OECD countries in the International Comparison of Australia's Taxes report (Warburton and Hendy 2006) further supports this conclusion. DSICA's analysis reveals that within these ten OECD countries (referred to as the 'OECD-10'), Australia has the lowest per capita consumption of spirituous beverages.

The World Health Organisation (WHO) ranks Australia within the top 30 highest alcohol consuming nations out of 180 countries. **DSICA cautions readers about such large international comparisons due to cultural and religious factors in some other countries.** Accordingly, DSICA believes it is appropriate to compare Australia's consumption only against similar western countries – as in the OECD comparisons above.

1.7 Sectors of the Australian alcohol market

The spirits market

Ready-to-Drink alcohol products

The 70 per cent tax increase on RTDs in April 2008 has had a significant impact on RTD volumes. Sales data in the months immediately following the change demonstrated a decline of up to 40 per cent. This is now moderating, but continues to arrest the demand for RTDs compared with the period prior to the RTD tax increase.

Full-strength bottled spirits

The April 2008 tax change on RTDs had a significant positive impact on the demand for full-strength bottled spirits.

Data in the months following the change demonstrated a 10 to 20 per cent increase in the sales of full-strength bottled spirits for 2008-09 due to the substitution of full-strength bottled spirits in place of RTD products.

However, the effects of the RTD tax change are beginning to subside. The full-strength bottled spirits market grew by 3 per cent in 2009-10. However, DSICA forecasts that the spirits sector will not grow in 2010-11, and will resume slow growth in 2011-12.

Cider

In the last financial year, cider – a direct competitor of RTD products, with a broadly equivalent abv – has demonstrated a considerable rate of growth of 25 per cent and now constitutes the fastest-growing alcohol beverage category.

The April 2008 increase on RTD products is one major factor contributing to this substantial increase in cider sales. The tax change resulted in a less favourable tax treatment for RTD products, while cider beverages continued to be taxed under the much lower WET arrangements. Cider pays approximately 29 cents per standard drink, compared to 91 cents per standard drink for RTDs. According to AC Nielsen figures, cider consumption has increased fourfold in the past three years and now constitutes the fastest-growing alcohol beverage in Australia (*The Sunday Times* 2011).

Participants in the alcohol market have observed a wide range of high profile marketing campaigns from cider producers aimed at targeting RTD and beer drinkers. Cider producers have developed a competitive edge against RTD manufacturers, and this has been strengthened ever since the 70 per cent tax increase on RTDs through pricing advantages and increases in marketing and promotion. Two examples of recent cider campaigns include *Aparella* and *WKD Apple Cider* are included below.

Graphic 1.10: Example of new cider products hitting the Australian market – Aparella



Graphic 1.11: Example of new cider products hitting the Australian market – WKD Apple Cider



Wine

A detailed analysis of the state of the Australian wine market is set out in **Chapter 3**, which examines wine taxation issues in detail. In summary, wine continues to receive preferential taxation treatment compared with other alcohol beverages.

Conclusion

These overall results confirm past analysis – while tax increases on particular products will shift consumption away from that product, total alcohol consumption will remain broadly stable (and may increase). This is certainly consistent with recently observed patterns of significant substitution away from RTDs to full-strength bottled spirits, beer, wine and cider. This is also the pattern seen internationally.

While overall alcohol consumption (in absolute terms) has increased slightly since the April 2008 tax change, there could conceivably also have been an increase in levels of risky and high-risk drinking as a result of the measure.

1.8 International comparisons

The Consumer Tax Equivalent comparison

A newly developed comparative tool, the ad valorem Consumer Tax Equivalent (CTE), allows the total taxation burden on various alcohol categories to be compared internationally. This tool assists policy makers analyse the effective comparative taxation rates between countries.

In December 2009, the Australian Agricultural and Resource Economics Society released a study conducted by Professor Kym Anderson at the School of Economics, University of Adelaide, which provides an international comparison of the CTE of non-GST/VAT taxes on wine, beer and spirits beverages in 46 countries, including the entire OECD except Israel – focusing on excise duties (or equivalent taxes) and import duties (Anderson 2009).

The CTE figure is calculated as total non-GST/VAT taxes as a percentage of the pre-tax wholesale price of the beverage.

The analysis assesses the alcohol tax systems across a wide range of economies around the world.

Anderson's study contains some telling findings regarding the ad valorem CTE burden of alcohol beverages in Australia, when compared with similar economies around the world, notably:

- **Spirits:** Australia's ad valorem CTE of 171 per cent on spirits products (pre-tax wholesale price of \$15/litre) only ranks behind three other countries: Sweden (234 per cent), Norway (202 per cent) and Ireland (173 per cent).
- **Wine:** The significant differences in Australia's CTE tax burden on the 'non-premium wine' sector (pre-tax wholesale price of \$2.50/litre) and the 'super-premium wine' sector (pre-tax wholesale price of \$20/litre) demonstrate the distortion that Australia's current wine tax arrangements produce:
 - ⇒ *non-premium wine* in Australia has an ad valorem CTE of 30 per cent, which is the 14th highest CTE of the 32 OECD countries in the study.
 - ⇒ *super-premium wine* in Australia has an ad valorem CTE of 30 per cent, which is the 5th highest CTE of the 32 OECD countries in the study.

Anderson states that Australia's ad valorem wine tax structure is unusual in comparison with other systems around the world, where volumetric tax systems are more common-place.

The advantageous tax arrangements for lower-quality wine in Australia run counter to the trend in global wine consumption, which is shifting towards premium products (Anderson 2009).

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.

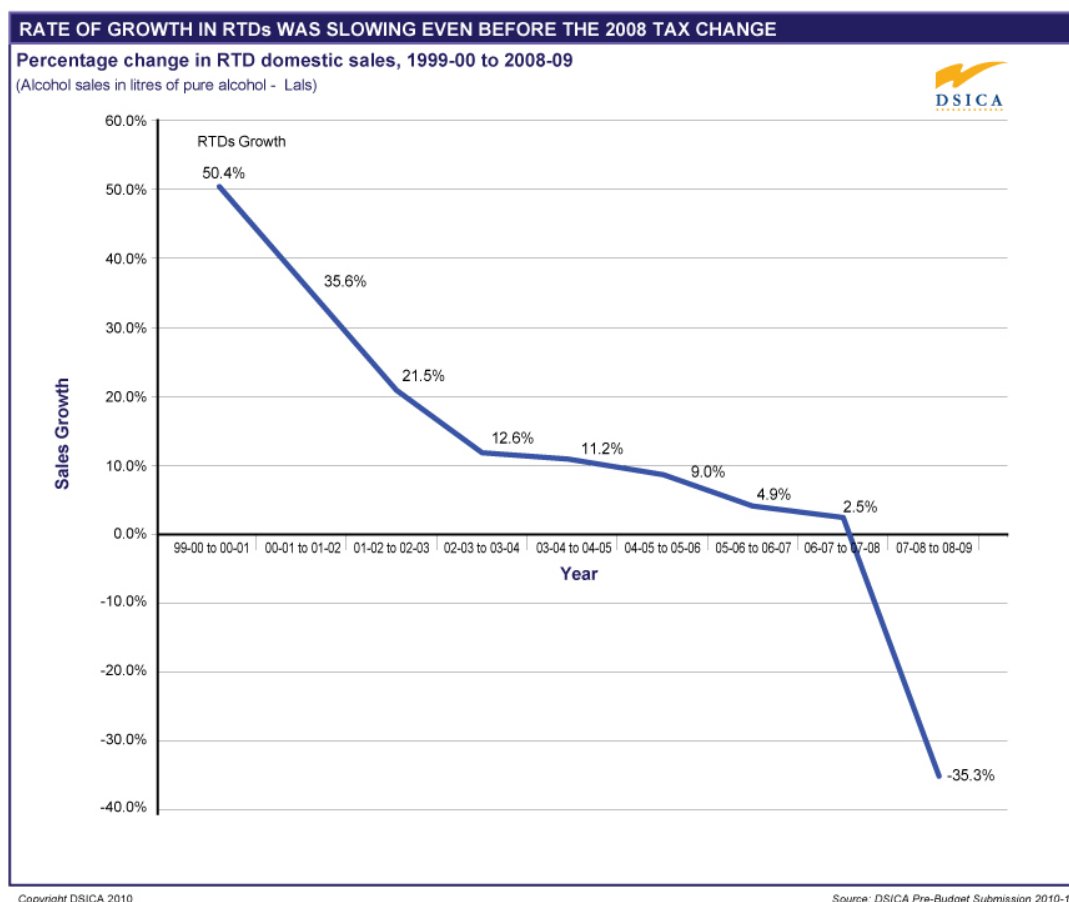
Important intrinsic and contextual factors about RTDs explain that growth:

- **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.

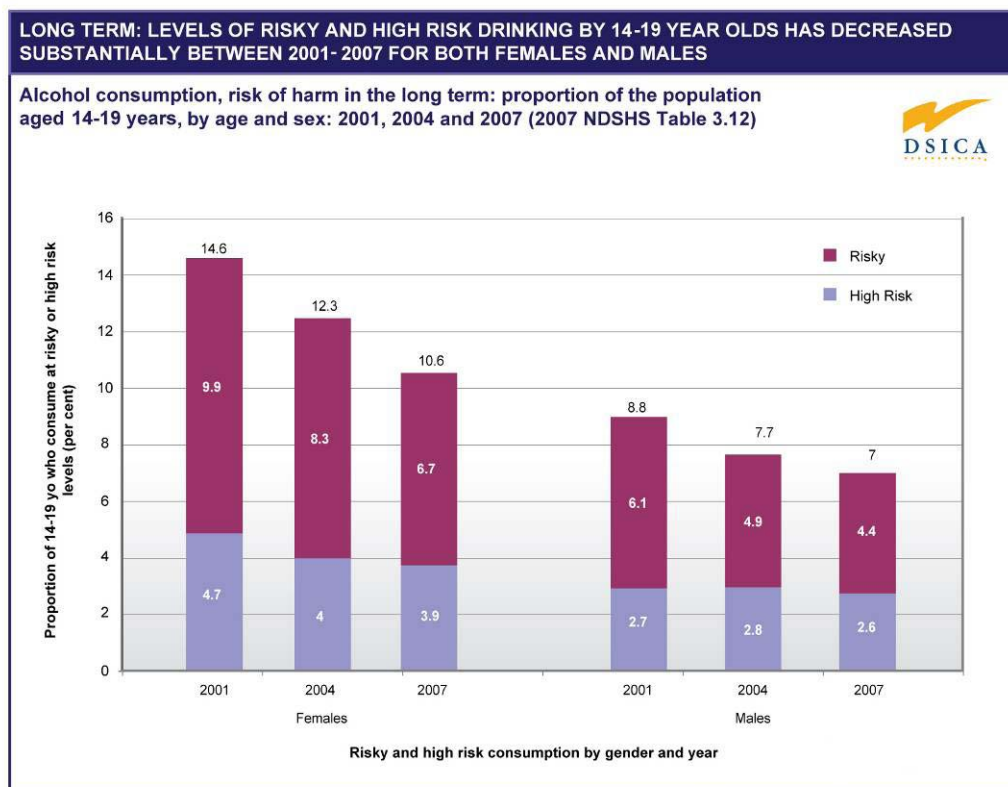
The most current *NDSHS* results available at the time related to the 2007 *NDSHS* (AIHW 2008a).¹ The Government sought to use the 2007 *NDSHS* to show increased at risk alcohol consumption by young people, particularly amongst young women. However, closer examination of the results illustrates that 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).

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.

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



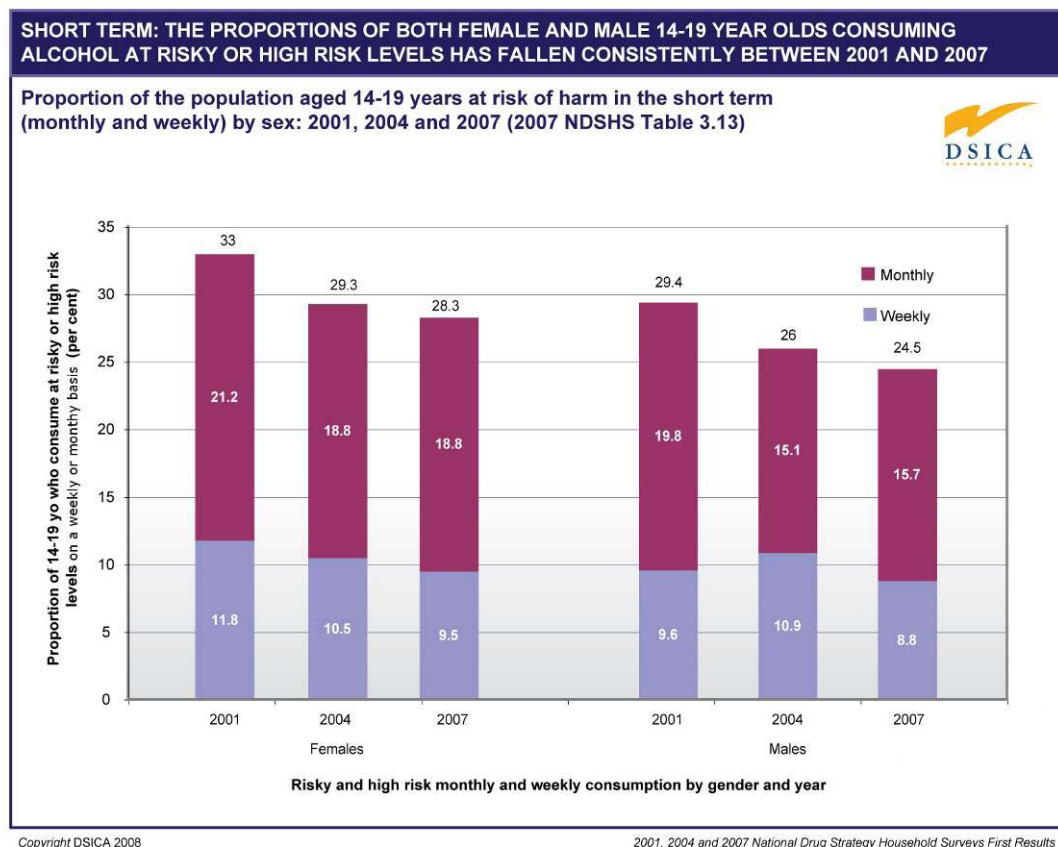
Copyright DSICA 2008

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

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, 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).

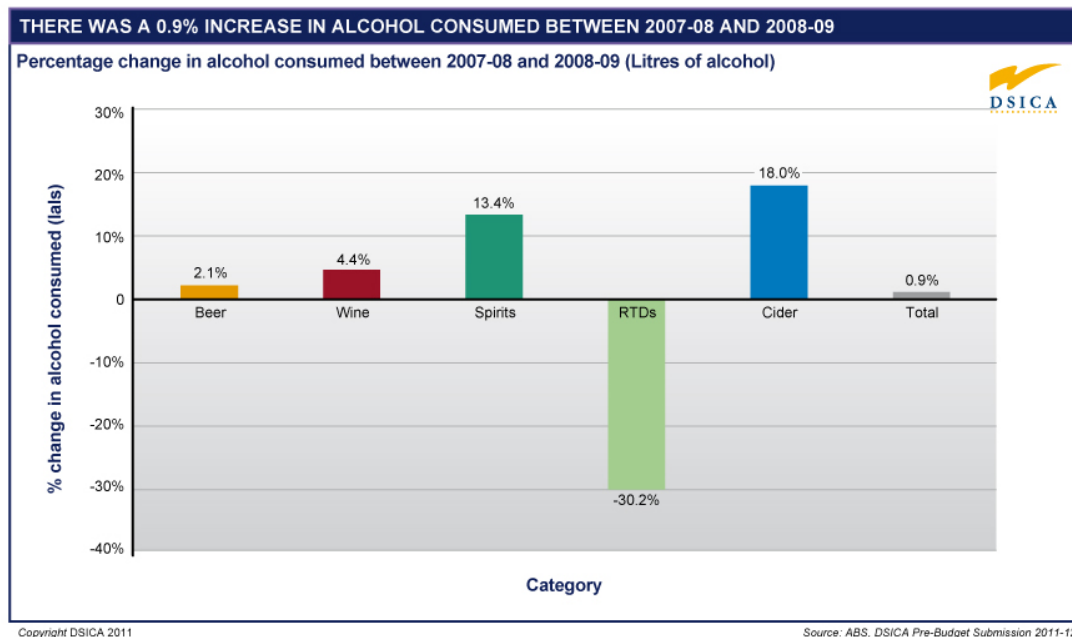
Factoring in industry estimates for growth in cider sales, the change in total alcohol consumption has increased by almost 0.9 per cent. This data confirms other widely held views that an isolated tax change for one beverage may alter the consumption of that beverage, but will not necessarily reduce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

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



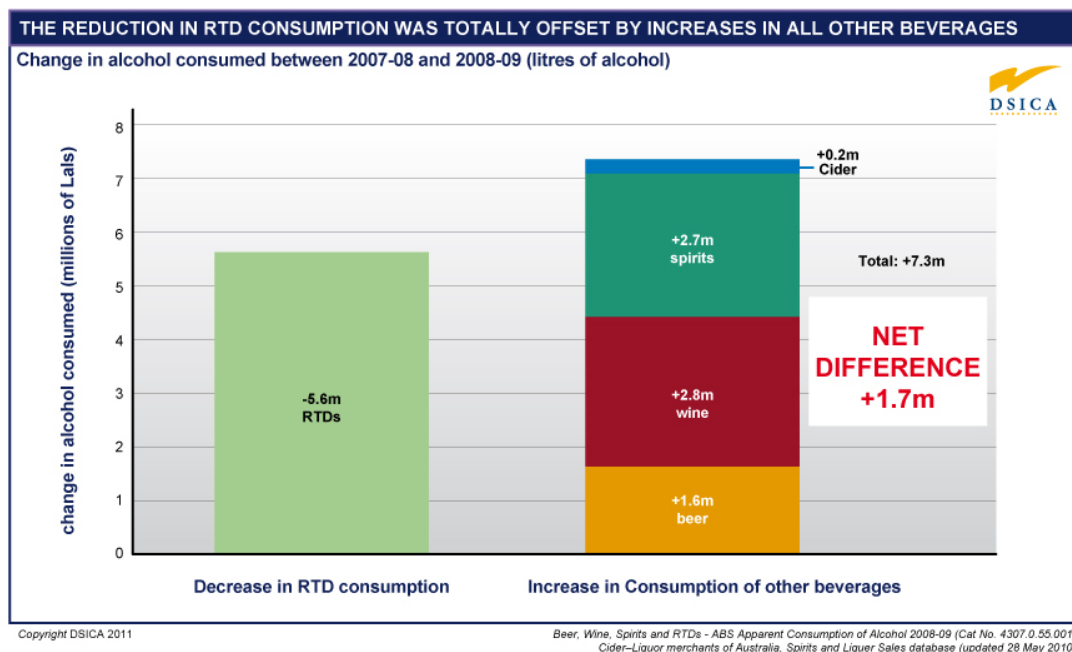
In summary, the latest ABS release, combined with industry cider figures, confirms the following:

- **total alcohol consumption increased by 0.9 per cent** (or 1,726,000 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:

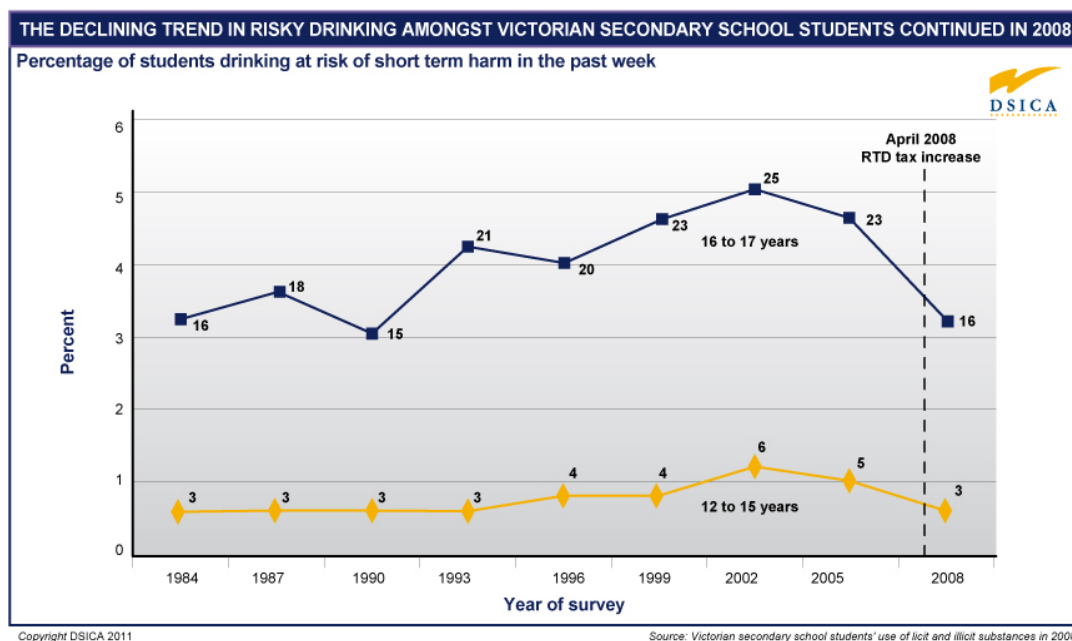
- the RTD tax increase had no impact on the number of current drinkers preferring RTDs;
- the RTD tax increase did not cause young people to change their drinking preference;
- the prevalence of current drinkers declined in the period 2005 to 2008, but this is a continuation of a trend that commenced 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 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.

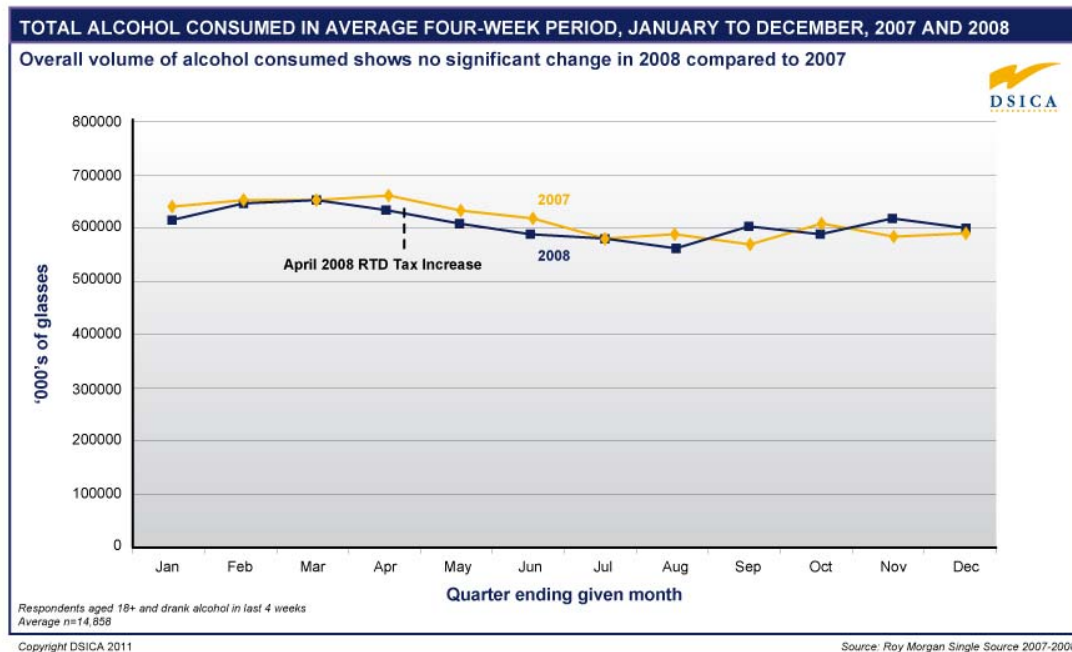
Roy Morgan prepared a detailed report into alcohol consumption trends over 2007 and 2008, with a specific focus on the July to December period of both years (Roy Morgan 2009). The results in the survey are based on *Roy Morgan Single Source* – a syndicated survey of Australians nationwide conducted 48 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)

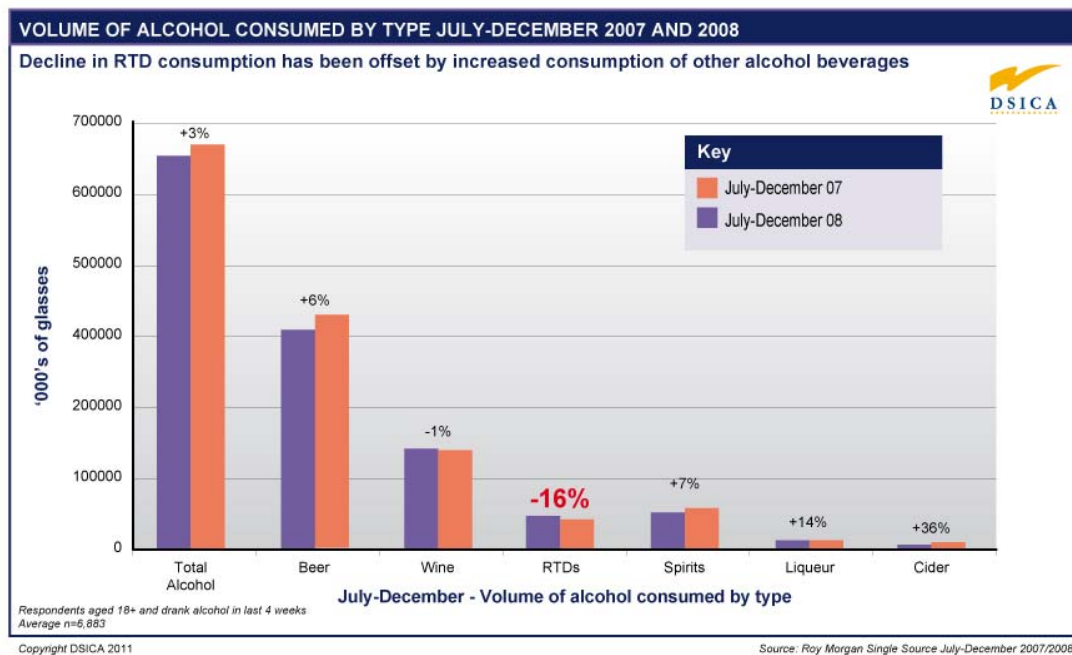


Roy Morgan Finding 2: Decline in Ready-to-Drink alcohol product consumption from tax change has been offset by increased consumption of other alcohol beverages

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.

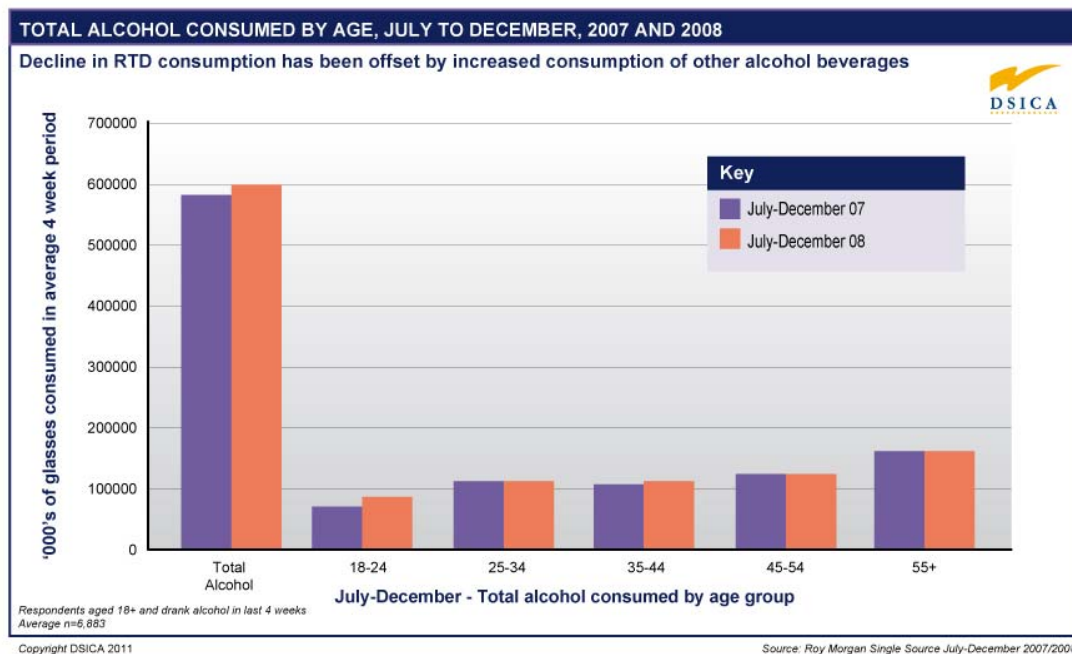
Graphic 2.8: Volume of alcohol consumed by type (July to December 2007 and 2008)



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.

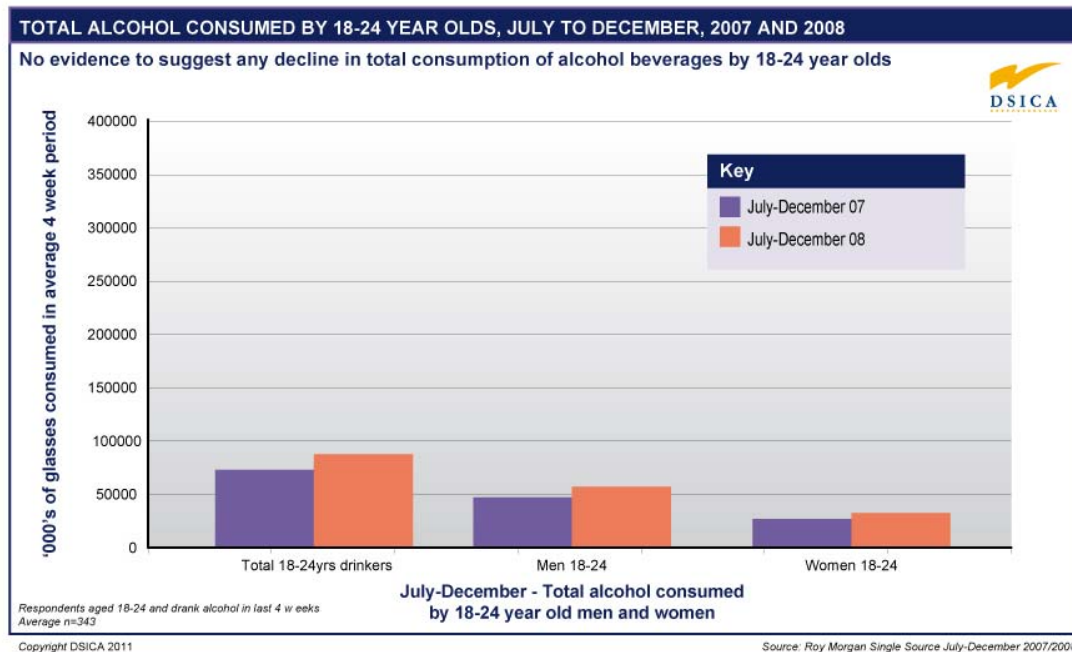
Graphic 2.9: Total alcohol consumed by age group (July to December 2007 and 2008)



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)



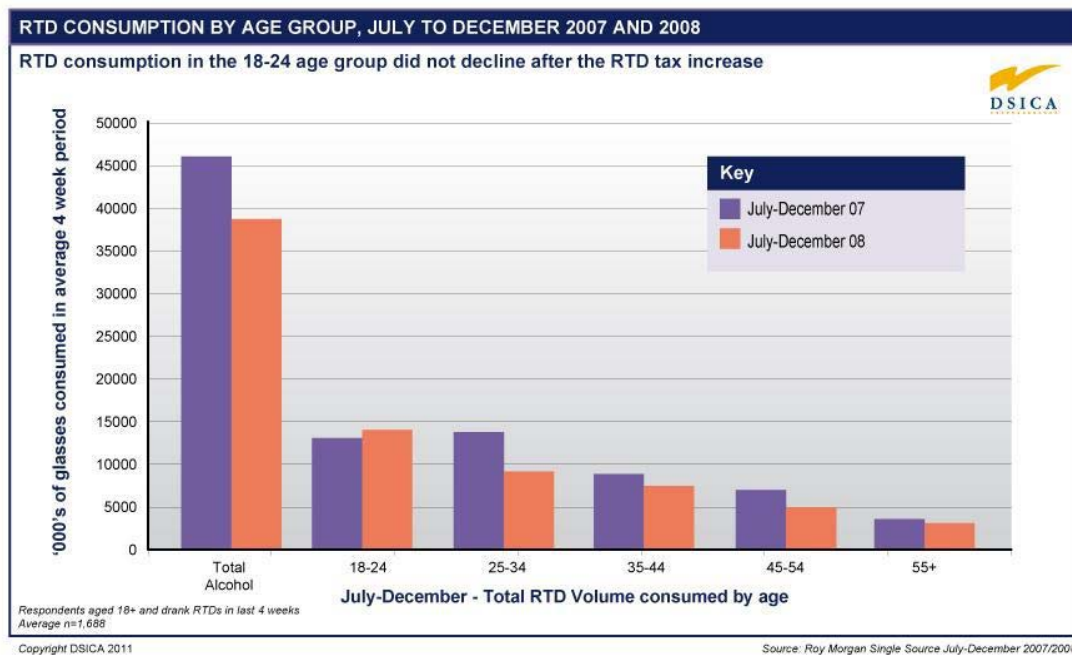
Roy Morgan Finding 5: The overall decline in Ready-to-Drink alcohol products has not come from 18-24 year olds

The data shows that in 2008, consumption of RTDs for 18 to 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 to 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)

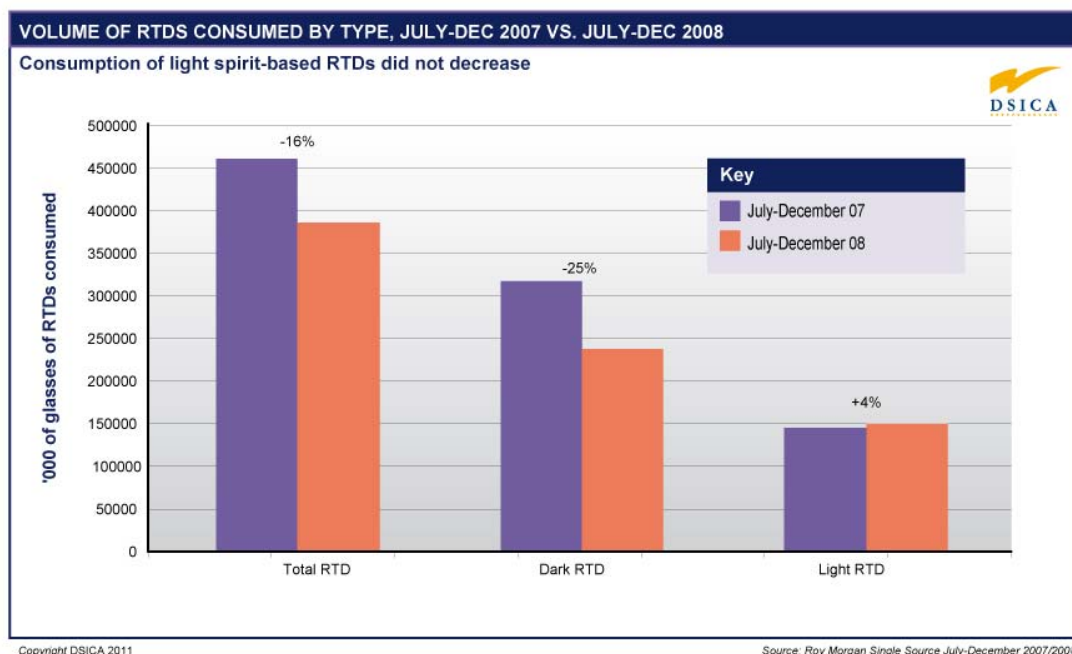


Roy Morgan Finding 6: No decrease in light spirit-based Ready-to-Drink alcohol products

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.

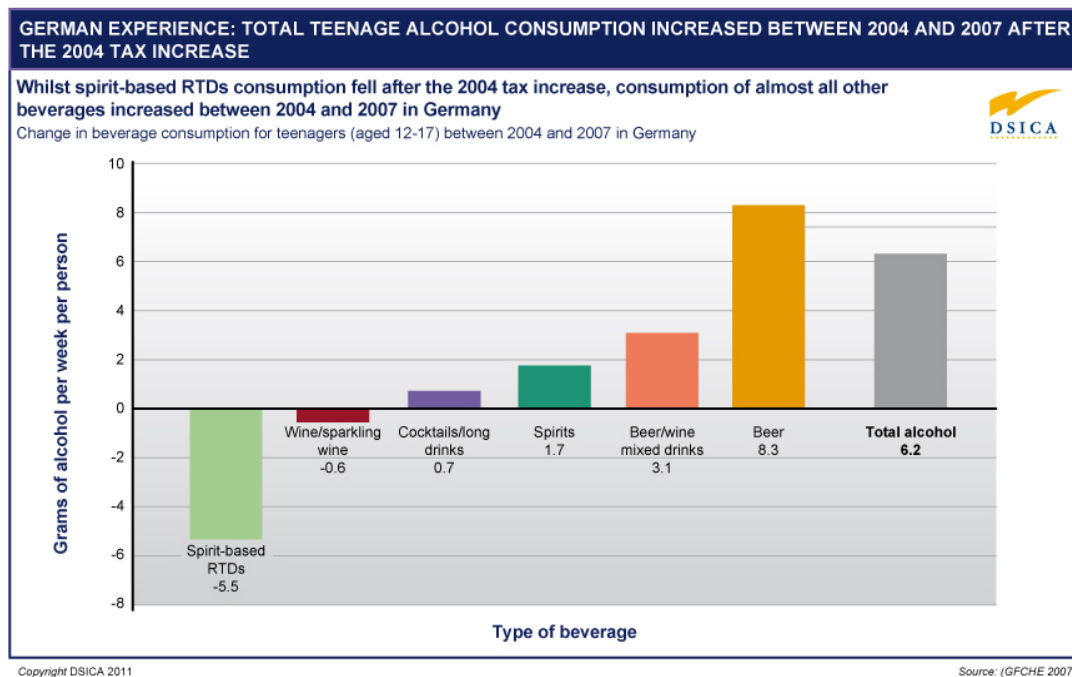
While the study found that total consumption of alcohol decreased in the first year of the tax increase, consumption increased in the later two years. This overall increase in consumption occurred despite the increased taxes and prices on RTDs, and despite a significant decrease in the consumption of 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 (GFCHE 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 to 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 (Medical Observer 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.
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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 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 MYEFO 2009-10; 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 assumption 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).

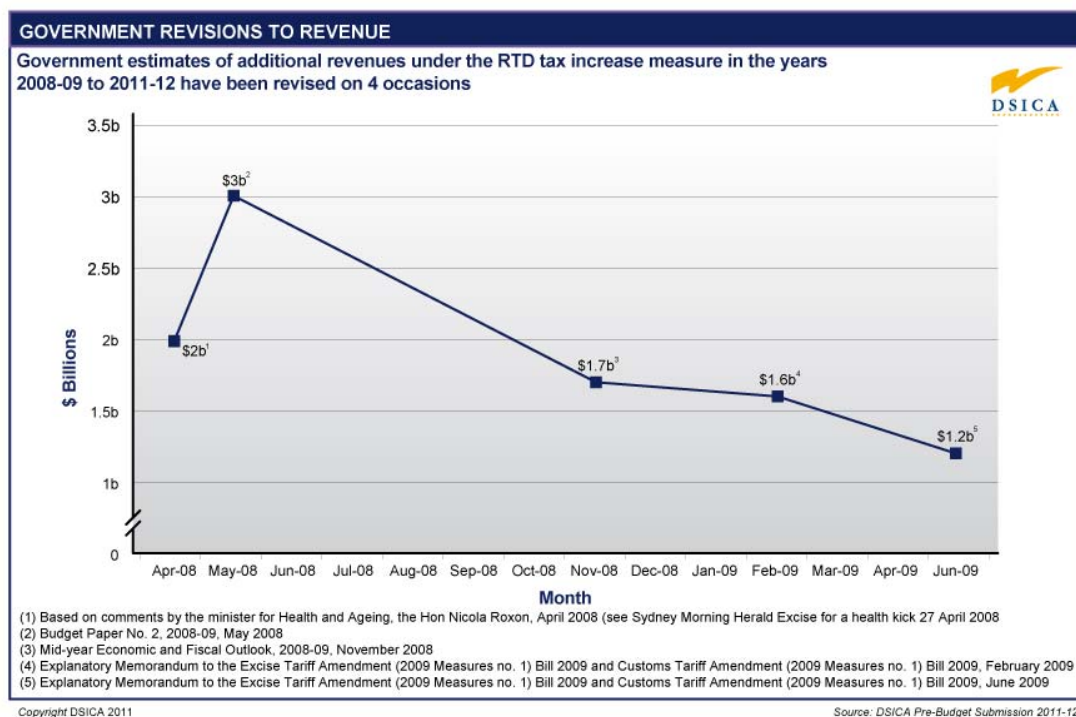
Following this, the Government was forced in MYEFO 2009-10, to further revise downward the revenue impact of the tax increase by \$1.4b, or 45 per cent, to a total of \$1.7b over the four years to 2011-12 (Treasury 2009b; CIE 2008).

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.

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.

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 groups' "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 we 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 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.

3 Taxation, the Henry Review and wine taxation reform

Introduction

This chapter deals with three themes:

- 2011-12 Budget: taxation policy recommendations for the Budget (**Sections 3.1 to 3.3**);
- 2011 Tax Forum: a recommendation that alcohol taxation reform be included in the 2011 Tax Forum agenda (**Section 3.4**); and
- The Henry Review: a summary of DSICA's support for the Henry recommendations and transition approach (**Section 3.5**).

2011-12 Budget proposals

Set out below are three Budget proposals which are collectively revenue positive for the Government.

3.1 Budget proposal: Wine Producer Rebate anti-avoidance amendments

Recommendation 1: Wine Producer Rebate anti-avoidance amendments

That the Government should make all necessary legislative amendments to the *A New Tax System (Wine Equalisation Tax) Act 1999* (Cth) (and rebate provisions) as a matter of urgency to reduce ongoing distortions within the wine market, with a view to eventually phasing out the rebate altogether.

Estimated revenue impact: \$50m pa savings (Winemakers' Federation of Australia estimate)

The Wine Producer Rebate

Wine in Australia is currently taxed on its wholesale value through the WET. This tax was introduced in conjunction with the GST to maintain a tax treatment for wine roughly consistent with the previous wholesale sales tax regime.

Because wine is taxed on a value basis, wines with the same alcohol content can be subject to different levels of taxation. The cheaper the wine, the less it is taxed. Therefore, a value-based tax favours cheaper wines that tend to have lower profit margins, and are often made by large producers.

The Wine Producer Rebate was originally introduced in 2004 in an attempt to address the bias in favour of larger producers created by the ad valorem nature of the WET. The rebate of up to \$500,000 per year means that the first \$1.7m of domestic wholesale wine sales per producer are effectively exempt from WET.

However, the Wine Producer Rebate does not provide an efficient solution to this problem because it creates biases of its own in favour of smaller producers. Small producers effectively pay no net WET, but the rebate reduces only a proportion of the WET paid by larger producers. As a result, two similar bottles of wine – one from a large producer, one from a small producer – pay different amounts of tax. Thus, while the Wine Producer Rebate does provide tax assistance to smaller producers, at the same time, it does not allow wines to compete on an equal footing.

The Wine Producer Rebate encourages small-scale production and supports some small, otherwise uneconomic wineries, contributing further to the current oversupply of wine. The wine industry has conducted a study which found that, in 20 of the 50 wine producing regions

studied, more than half the production is uneconomic, while in 10 regions 70 per cent or more is uneconomic (Wahlquist 2009).

Moreover, the rebate also provides an incentive against mergers between small wineries, which may prevent producers being able to take advantage of economies of scale. This means that resources such as land, water and capital are not being used efficiently. By supporting uneconomic wineries, the current arrangements are likely to increase the costs of production for wineries which are efficient. This also serves to exacerbate the problem of excess production that currently affects the wine industry in Australia.

Wine industry restructure

In November 2009, the national wine industry organisations launched a *Wine Restructuring Action Agenda* (the *Action Agenda*) aimed at confronting the issues of grape and wine oversupply. The *Action Agenda* identified that at least 20 per cent of bearing vines were surplus to requirements, and that the problem was not restricted to specific regions, varieties or price points (WFA et al. 2009).

The Rudd Government's May 2010 decision not to commence implementation of the Henry Review recommendations on alcohol taxation was clearly influenced by the *Action Agenda* (Rudd and Swan 2010).

In December 2010, the national wine industry organisations made a second statement on the progress being made to address the oversupply situation. One of the key conclusions was that:

"The process of adjustment is not proceeding at a sufficient pace. A combination of unrealistic expectations, non-commercial motives and short-term opportunism continues to motivate many operators to resist change" (WFA et al. 2010).

The statement identifies a number of factors contributing to the oversupply: total supply, domestic demand, and export demand. Of these, total supply is the one over which the wine industry has most control.

In terms of oversupply in particular, the statement identifies the WET rebate as one of the contributing factors which is *"shielding otherwise unprofitable businesses"*.

The Henry Review identified that around half of all wine producers are unprofitable. It further commented that the Wine Producer Rebate may be acting to prevent proper market responses by discouraging mergers (Commonwealth of Australia 2010b, p438).

In light of all of the above, it is DSICA's view that the most elegant solution to remove the biases in the market created by the WET system would be to abolish the WET altogether and replace it with a volumetric tax as recommended by the Henry Review. Such a change would also eliminate the need for the Wine Producer Rebate, thus simultaneously removing the biases created by the rebate scheme and all of the problems of tax avoidance and double-dipping created by its very existence (see below).

However, for the immediate term, DSICA supports the priority action in the WFA's December 2010 statement, that *"the WFA will continue to support the ATO crackdown on WET Rebate abuse and evaluate reform options to reduce market distortions"* (WFA et al. 2010). See further discussion below.

Urgent need for legislative amendments to Wine Equalisation Tax producer rebate provisions

The Winemakers' Federation of Australia (WFA) has previously suggested in its 2010-11 Pre-Budget Submission (WFA 2009) that the Government should amend the definitions of wine 'producer' and 'manufacturing' in order to address problems of tax avoidance and double-dipping created by the Wine Producer Rebate. In that submission, the WFA estimated

that making such changes to the legislation would save the Government approximately \$50m pa (WFA 2009, p11).

A year has passed since then, and the Australian National Audit Office (ANAO) has now concluded that there is an urgent need for *“more comprehensive changes to the definition of a ‘wine producer’ to ... address other practices that potentially provide inappropriate access to the rebate”* (ANAO 2010, p67).

This was one of the key conclusions of the ANAO when it released the results of its review of the ATO’s administration of the WET on 14 December 2010 (ANAO 2010).

The ANAO reviewed, amongst other things, the ATO’s actions in improving compliance with the Wine Producer Rebate provisions. The ANAO observed that *“it is sometimes appropriate to resolve wine tax technical issues through requesting legislative amendments rather than administrative arrangements”* (ANAO 2010, p 65).

The ANAO recommended that *“the Tax Office advises Treasury on options to clarify the definition of a wine producer for the purposes of the producer rebate”* in order to *“resolve unintended outcomes regarding access to the wine tax producer rebate”* (ANAO 2010, p14). The ATO agreed with the ANAO’s Recommendation (ANAO 2010, p67).

DSICA supports the ANAO’s Recommendation and recommends that all necessary legislative amendments to the WET Act and rebate provisions should be introduced as a matter of urgency, in the context of the 2011-12 Budget, to reduce ongoing distortions within the wine market.

DSICA notes that the estimated revenue impact of \$50m pa is approximately one-quarter of the value of benefits currently delivered to wine producers under the rebate scheme. This confirms that the Wine Producer Rebate is currently poorly targeted and supports DSICA’s more fundamental point that the Wine Producer Rebate scheme is flawed and should be removed entirely. Should the Government take the bolder step of removing the Wine Producer Rebate altogether, revenue savings of around \$200m pa would be available.

In the lead-up to the federal election on 21 August 2010, the Coalition suggested that the savings from the tightening of the Wine Producer Rebate scheme should be committed to extending the Export Market Development Grant scheme (Liberal Party of Australia 2010). However, DSICA believes that any savings from Wine Producer Rebate reform should instead be used to fund other alcohol tax-related reforms – outlined below.

3.2 Budget proposal: Tax equivalence for low- and mid-strength Ready-to-Drink alcohol products

Recommendation 2: Tax equivalence for low and mid-strength Ready-to-Drink alcohol products

That the Government should introduce taxation equivalence between low- and mid-strength packaged RTDs and packaged beer of similar alcohol content by applying the same volumetric rates as well as also applying the 1.15 per cent abv excise-free threshold.

Estimated revenue impact: \$3m pa cost

Submissions from both public health advocates and producers to the Henry Review process generally supported lower rates of tax on lower strength alcohol products.

At present, there is no incentive for RTD manufacturers to develop lower alcohol pre-mixed spirit-based products, with all RTDs being taxed at the same volumetric rate as full-strength bottled spirits and lacking an excise-free threshold.

DSICA considers that there is a sound policy case for providing complete tax equivalence between low- and mid-strength RTDs and low- and mid-strength packaged beer. This would

result in the 1.15 per cent abv excise-free threshold also applying to low- and mid-strength RTDs.

This Recommendation would be consistent with the findings of the Henry Review.

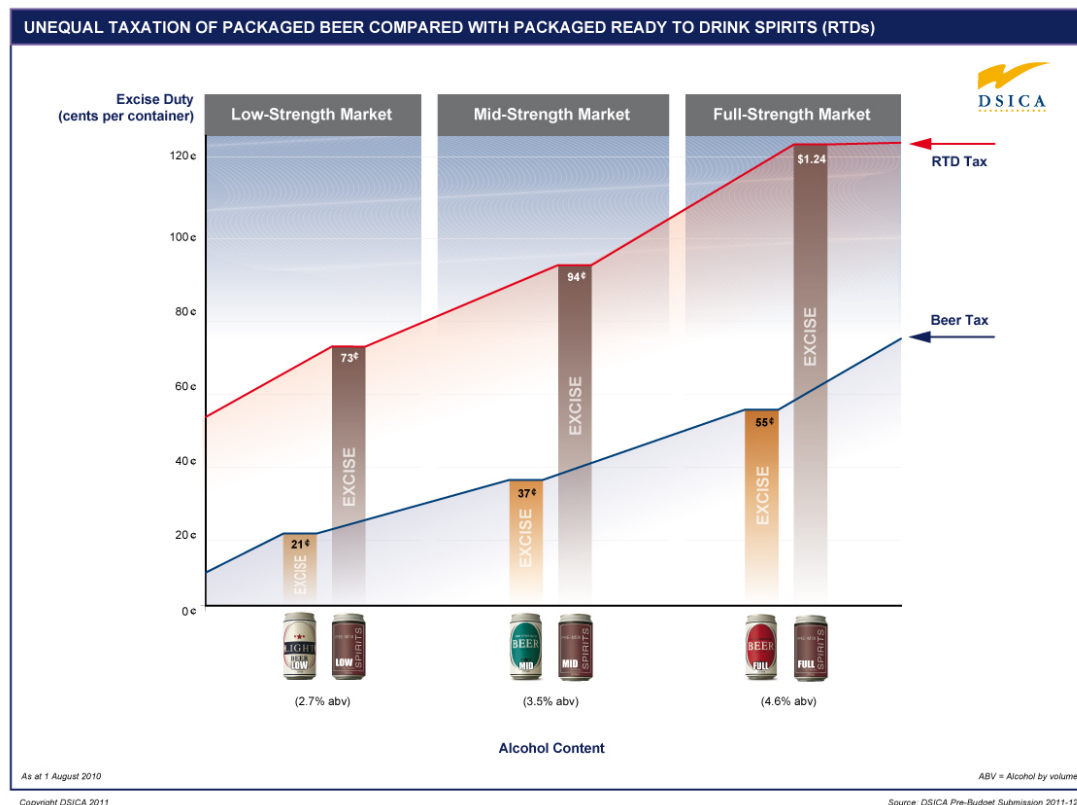
The Henry Review stated that “low-alcohol products can be considered as having a social benefit to the extent that they substitute for higher strength alcohol products that impose greater spillover costs on the community”, going so far as to characterise extremely low alcohol products as “harmless” (Commonwealth of Australia 2010b, p436). The Henry Review also rejected submissions that sought to argue that RTDs caused more harm compared with other alcohol beverages, and therefore should be taxed higher (Commonwealth of Australia 2010b, p435).

The Henry Review also recommended that the 1.15 per cent abv excise-free threshold currently applying to beer should be extended to all beverages (Commonwealth of Australia 2010b, p440).

The Preventative Health Taskforce (PHT) report also recognised that lower taxation rates for lower alcohol beverages are a desirable feature of a tiered volumetric alcohol tax system (PHT 2009b, p254).

The amount of excise duty payable on a mid-strength can of RTDs (94 cents) is almost twice as much as the amount of excise duty payable on a full-strength can of beer (55 cents). The amount of excise duty payable on a low-strength can of RTDs (73 cents) remains one-third more than a full-strength can of beer. This flaw is a direct result of the fact that low- and mid-strength RTDs receive neither (a) the benefit of the 1.15 per cent abv excise-free threshold granted to packaged beer of similar alcohol strength, nor (b) the concessional excise rates granted to low-strength packaged beer. This is illustrated below.

Graphic 3.1: Unequal taxation of packaged beer compared with packaged RTDs



The volumes of mid-strength RTDs are very small at present, and there are no low-strength RTDs that DSICA is aware of. Examples of mid-strength RTDs include *Bundaberg Rum and Cola Mid* (3.5 per cent abv) and *Jim Beam and Cola* (3.5 per cent abv). The lack of tax equivalence with mid-strength beer continues to prevent these products gaining any market share of significance. The absence from the market of low- and mid-strength RTDs is a glaring anomaly and suggests a loss of consumer welfare is being caused by the differential tax treatment between beer and RTDs.

The estimated cost to revenue of this Recommendation is \$3m pa.

3.3 Budget proposal: Removal of 5 per cent ad valorem customs duty

Recommendation 3: Removal of 5 per cent ad valorem customs duty

That the Government immediately remove the 5 per cent tariff on imported spirits and RTDs in order to remove structural complexity from the current system.

Estimated revenue impact: \$16m pa cost

The Henry Review proposed the immediate removal of the current 5 per cent tariff on imported spirits, RTDs and wine in order to remove structural complexity from the current system (Commonwealth of Australia 2010b, p443).

There is no justifiable taxation or health policy rationale for the imposition of a 5 per cent customs duty on imported spirits and RTDs, but no 5 per cent customs duty on imported beer.

The 5 per cent ad valorem customs duty tariff applies unequally to spirits with the same alcohol content. As such, it is an inefficient, discriminatory and distortionary method of taxation.

For example, the *Australia-United States Free Trade Agreement* allows whiskey (bourbon) from the United States (a significant component of the whisky market in Australia) to be imported into Australia with no ad valorem duty component, while whisky of other origin (for example, from Scotland and Ireland – another significant component of the whisky market in Australia) is required to pay the 5 per cent tariff.

We note that a Productivity Commission report from November 2010 into Australia's *Bilateral and Regional Trade Agreements* found that unilateral reform is the most direct means of reducing Australia's trade and investment barriers (Productivity Commission 2010, p213). Immediate removal of the 5 per cent ad valorem customs duty applying to imported spirits would be a perfect example of such a unilateral reform.

Based on information contained in the detailed Henry Review costing documents released by Treasury in October 2010 (Treasury 2010b, p5), DSICA estimates the cost to revenue of immediate removal of the 5 per cent ad valorem duty would be approximately \$16m in 2011-12.

3.4 Proposed Tax Forum

Recommendation 4: Proposed Tax Forum

That alcohol tax reform be confirmed for inclusion in the agenda for the 2011 Tax Forum.

As part of the agreement with the rural independent MPs to deliver a minority government to the new Gillard Government following the 2010 election, the Government committed to having a structured discussion about the recommendations of the Henry Review in the form of a tax forum to take place before 30 June 2011. The 2011 Tax Forum is a logical vehicle for the Government to revisit the decision by the Rudd Government to delay alcohol tax reform due to issues of oversupply in the wine industry.

DSICA supports the Government's decision to hold the Tax Forum and to later conduct a parliamentary debate on tax reform.

Minister Roxon has recently indicated in a letter to the President of the Senate that "*it (the Forum) is likely to canvass issues relating to alcohol pricing and taxation*" (Roxon 2010). This follows a Senate motion raising issues in relation to a possible minimum price of alcohol (Commonwealth Senate 2010, p3766).

DSICA strongly recommends that alcohol taxation be included in the agenda of the Tax Forum and in the Parliamentary Debate, and seeks confirmation that this will occur.

3.5 The Henry Review

The Review into *Australia's Future Tax System* (the Henry Review) found that Australia urgently requires alcohol tax reform. It confirmed that the current system is riddled with anomalies, causes many distortions and produces less than optimal social and economic outcomes.

The Henry Review dedicated an entire chapter (E5) to Alcohol Taxation and made two numbered recommendations regarding the arrangements for alcohol taxation in Australia.

The Henry Review recommended **that all alcohol should be subject to a single rate of volumetric taxation with a low-alcohol (excise-free) threshold** (Commonwealth of Australia 2010b, p442). This Recommendation is consistent with DSICA's long-term position on alcohol tax in Australia. Academics and preventative health advocates also support this Recommendation.

The recommendations of the Henry Review

Henry Recommendation 71: single volumetric rate

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

Recommendation 71

All alcoholic beverages should be taxed on a volumetric basis, which, over time, should converge to a single rate, with a low-alcohol threshold introduced for all products. The rate of alcohol tax should be based on evidence of the net marginal spillover costs of alcohol (Commonwealth of Australia 2010b, p442).

Further to this Recommendation, the Review suggested that "*a volumetric tax on wine products should be introduced as a matter of urgency*" (Commonwealth of Australia 2010b, p443). DSICA fully supports this Recommendation and associated statement of urgency for a number of reasons:

- cheap, low quality wine in Australia is afforded significant tax concessions relative to other forms of alcohol by the WET system. The amount of tax paid per standard drink for cask wine is less than 8 per cent of the tax paid on one standard nip of spirits;
- premium wine in Australia is relatively highly taxed compared with other countries. Changing to volumetric tax would go some way to addressing the existing 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.

DSICA STRONGLY SUPPORTS THE RECOMMENDATION

DSICA strongly supports the adoption of the Recommendation, and immediate transition of alcohol to a single volumetric rate.

Henry Recommendation 72: immediate review of administrative arrangements

The Henry Review has also recommended that alcohol tax reform should be accompanied by a review of the current administrative arrangements for alcohol tax:

Recommendation 72

The introduction of a common alcohol tax should be accompanied by a review of the administration of alcohol tax, to ensure that alcohol taxpayers do not face redundant compliance obligations (Commonwealth of Australia 2010b, p442).

DSICA STRONGLY SUPPORTS THE RECOMMENDATION

Further details on DSICA's suggested areas for administrative review are contained in **Chapter 4** of this Pre-Budget Submission.

The Rudd Government's response

In its response to the Henry Review (released on 2 May 2010), the Rudd Government committed to postponing any changes to alcohol tax as recommended by the Henry Review while Australia is *"in the middle of a wine glut and where there is an industry restructure underway"* (Rudd and Swan 2010).

This statement lacks clarity and creates uncertainty for industry. The Government has not yet provided a definition of a 'wine glut' and what criteria, timeline or 'roadmap' will be used to assess the completion of a wine industry restructure.

DSICA seeks clarification on a timeframe and 'road map' to signal when wine industry restructuring will have been achieved so as to permit the implementation of long-overdue alcohol tax reform. DSICA is concerned regarding the likelihood that the slow pace of restructuring, and the ongoing domestic and overseas demand issues, referred to in the second wine industry statement, may delay restructuring for many years.

The current position is inequitable for both manufacturers and consumers – stalled reform means the current system continues to impose a social and economic cost on society.

DSICA notes that despite the oversupply situation and industry restructure, two of Australia's largest winemakers support a debate on volumetric tax on wine. Pernod Ricard and Fosters Group Ltd have indicated that they are open to debate on a volumetric wine tax arrangement and are seeking to discuss this further with Government (Maher 2010; Ahmed 2010a and Ahmed 2010b).

3.6 Minimum floor price for alcohol

DSICA strongly opposes the introduction of a minimum (floor) price on alcohol beverages in Australia, and believes that such a reform would be regressive and contrary to competition in the alcohol beverage industry and, ultimately, to the detriment of the consumer. DSICA believes that minimum floor pricing runs strongly counter to the pro-competition, pro-consumer ethos underpinning competition in Australia and is a blunt, population-wide instrument which does not target at-risk drinkers.

The introduction of a minimum floor price on alcohol would represent a one-size fits all approach, which unfairly penalises responsible drinkers, despite the Government's stated intention of policy to target at-risk consumers in the community who consume alcohol at risky or high-risk levels. In particular, the introduction of a minimum price mechanism disproportionately impacts responsible drinkers from low socio-economic backgrounds.

Supporters of minimum pricing argue that the low retail price of certain products, with mid- to high alcohol strengths such as cask wine, exacerbate the health risk posed by risky alcohol consumption amongst at-risk people in the community. These low retail prices are primarily the

result of the current ad valorem WET arrangements for wine-based products, which result in a low tax burden on low-value products. However, a tax system based on a volumetric tax across all products would provide a minimum floor price for all alcohol and hence remove the need to introduce a minimum floor price (Commonwealth of Australia 2010b, p439).

DSICA notes that the PHT has recommended the development of the public interest case for a minimum floor price of alcohol to discourage harmful consumption and promote safer consumption of alcohol products (PHT 2009b). In its response, the Commonwealth Government noted this Recommendation and has indicated that it will task ANPHA to develop this concept for further consideration by Government (Commonwealth of Australia 2010c).

Since the release of the Government's response to the PHT recommendations, the Minister for Health and Ageing, the Hon. Nicola Roxon MP, has indicated that the Government is likely to consider a review of alcohol taxation and pricing arrangements at the 2011 Tax Forum (Roxon 2010). This indication from the Minister followed a motion in the Senate, in June 2010 in response to concerns about the price of alcohol being *"a significant factor in tackling alcohol abuse, especially among disadvantaged drinkers"* (Commonwealth Senate 2010). In particular, the Senate motion, tabled by Australian Greens Senator Rachel Siewert *"raises concern at the decision by Coles supermarkets to place on sale \$4 bottles of wine in Alice Springs"* (Commonwealth Senate 2010, p3766).

DSICA does not believe that a minimum floor price approach to pricing will impact on the purchasing behaviour of those who are determined to misuse alcohol.

If the intention of introducing minimum floor 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.

A minimum floor price could also have the effect of discouraging product innovation, as the capacity for manufacturers to differentiate on the basis of price will be reduced. To the extent that this reduces consumer choice, from an economic point of view, the introduction of a minimum floor price on alcohol would be socially inefficient.

DSICA acknowledges that the Scottish Parliament passed legislation in November 2010 which established a framework for setting a minimum price for alcohol beverages. Despite having the framework in place, the Scottish Parliament has not been able to agree on the actual minimum price, primarily due to concerns about the disproportionate impact of the minimum price on low-income consumers (*Alcohol etc. (Scotland) Act 2010*).

DSICA also acknowledges that the British Home Office is considering a range of measures to prevent below-cost selling of alcohol beverages. To inform their policy, the British Government has undertaken an extensive review of the evidence base on the likely impacts of increasing the alcohol price. One of the key findings in the study was that, while there is plenty of evidence for a link between alcohol pricing and consumption levels, the size of the relationship was unclear, and individual, cultural and social factors play an influential role in determining alcohol consumption levels (Hunt, Rabinovich and Baumberg 2010).

A rationalised tax system based on a volumetric tax across all products would, in effect, provide a minimum floor price on alcohol, without incurring costs to retailers to implement the scheme or harming available consumer choice. In particular, changing taxation on wine from ad valorem to volumetric would alleviate the concerns regarding very low-value wine products being available to at-risk communities, such as indigenous communities in central Australia.

DSICA supports the Government's indication that alcohol taxation will be considered as part of the 2011 Tax Forum, and believes that the Forum should focus on how reform to volumetric wine taxation would remove the need for a minimum floor price.

3.7 The case for reform: a volumetric tax on wine

It is clear from the Rudd Government's response that it is the introduction of a volumetric tax on wine which is holding back the reform of alcohol tax in Australia. This is a reform which the Henry Review has stated is **urgently** needed.

Replacing the ad valorem WET with a volumetric tax is a critical first step towards implementing the single volumetric rate recommended by the Henry Review. The WFA has vigorously opposed any reform of the WET, despite the fact that some major wine producers have spoken in favour of a debate on volumetric taxation.

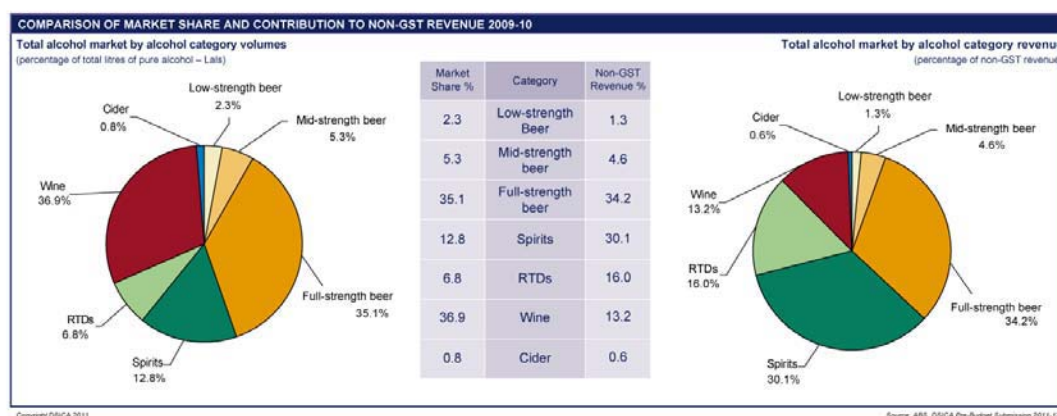
DSICA believes that a change to volumetric taxation would actually benefit the wine industry as a whole. Furthermore, DSICA has found that a number of claims which the WFA have made regarding the level of taxation on wine in Australia are not supported by the evidence as cited. DSICA has set out the facts regarding volumetric taxation and wine tax in Australia below.

As part of the campaign to oppose alcohol tax reform, the WFA have misrepresented some of the facts in claiming that wine in Australia is highly taxed compared with other OECD countries. The facts actually show that cheap cask wine in Australia is relatively **under-taxed**. It is only higher quality premium wines which are relatively highly taxed.

Current taxation arrangements are inequitable

The distortions within the current Australian alcohol tax system are highlighted below, which compares the share of alcohol consumed by beverage type with the amount of revenue collected.

Graphic 3.2: Comparison of market and revenue shares by alcohol category



It can be seen that in 2009-10, wine made up around 37 per cent of the alcohol consumed in Australia, yet tax collected from wine made up approximately 13 per cent of non-GST revenues from alcohol. On the other hand, RTDs made up just under 7 per cent of the total alcohol consumed in Australia, yet accounted for approximately 16 per cent of the alcohol revenues collected.

The distortions and anomalies identified above could be addressed by an immediate reform, changing ad valorem taxation of wine under the WET, to a system of volumetric taxation, as recommended by the Henry Review and other academics. To date, the wine industry in Australia has vigorously opposed this change, citing the wine glut as a reason why tax reform at the current time is not desirable.

However, a volumetric tax on wine would remove much of the inequality between wine and other types of alcohol beverages, as well as the inequality between wines of different prices. It would also provide the right incentives to help the industry remove uneconomic low-quality vines and restructure Australia's grape supply to end the wine glut.

Volumetric tax on all alcohol would promote the Government's preventative health goals

The Henry Review concluded that alcohol taxes should be set to address the spillover costs of alcohol abuse, and current tax arrangements are ineffective at achieving this aim (Commonwealth of Australia 2010b). It stated that a common volumetric tax would better address social harm arising from risky and high-risk alcohol consumption through closer targeting of social costs.

A switch to volumetric taxation would be consistent with the Government's preventative health goals and would promote a safer drinking culture in Australia:

- In its report from December 2009, the Government's PHT identified that there is an urgent need to reform alcohol tax and recommended a switch to volumetric taxation for all alcohol. The Taskforce also stated that such a tax change would encourage the production and consumption of lower alcohol products (PHT 2009b, p253).
- The Henry Review recommended that the 1.15 per cent abv excise-free threshold currently applying to beer apply to all beverages (Commonwealth of Australia 2010b).

Volumetric taxation would actually benefit the Australian wine industry

The wine industry stated in the *Action Agenda* of November 2009 that the way to remove the oversupply of wine is to require the industry to “restructure both to reduce capacity and to change its product mix” (WFA et al. 2009, p1). That is, the industry has made it clear that producing less wine in total, and producing a greater share of higher quality wine will not only benefit the industry but is needed for its long-term survival.

Adopting a volumetric taxation system for wine will encourage exactly this behaviour from growers and winemakers. A value-based tax system favours low quality wine and discourages production of more expensive, higher quality wines. Therefore, maintaining the ad valorem WET would continue to promote the production of high volume, low quality wine, which is directly counter to the changes the wine industry have said that they need to make. **Therefore, retaining the WET actually makes it more difficult for the wine industry to achieve its own stated goals and is holding back the pace of reform for both the wine industry and the broader alcohol industry.**

Reforming wine tax to a volumetric system will also help to place uneconomic wineries on an equal footing. At present, the Wine Producer Rebate creates a distortion in the market which allows uneconomic wineries to remain in production, exacerbating the oversupply issue and making it more difficult to objectively determine which businesses are the strongest and should remain in production, and which are the least efficient and should cut back production or be closed.

In addition, DSICA notes that not all wine producers are opposed to adopting volumetric taxation in favour of the WET. Fosters Group Ltd, which is one of Australia's largest wine producers, has previously criticised the WET as being in part to blame “for the production of too much cheap wine” – a statement which goes to the very heart of the wine oversupply issue (Ahmed 2010b). Also, the chief executive of major wine producer Pernod Ricard has publicly stated that the company believes that there needs to be a volume-based tax system for wine in Australia (Maher 2010).

Academic literature supports the switch to volumetric tax on wine

The academic literature supports the proposition that volumetric taxation would benefit the Australian wine industry.

As already mentioned, the Henry Review concluded that a volumetric system should replace the WET, which discriminates against high quality, high value wines and promotes the continued production of bulk, low quality, low price grapes.

In considering the current system of taxes on alcohol in Australia, Professor John Freebairn of The University of Adelaide supported a switch to a single volumetric rate and stated that:

"The current pattern of different excise tax rates on different beverages, and then the variations for different forms of beer, and the ad valorem wine equalisation tax have no logic as a mechanism to correct for market failures" (Freebairn 2010).

Professor Sijbren Cnossen, in a paper presented as part of the Henry Review consultation process, recommended a switch to volumetric taxation on wine in Australia. Professor Cnossen said that:

"the wine equalisation tax violates basic excise tax principles and represents a retrogression to old wholesale tax practices," and that instead there should be "a specific duty on wine, by alcohol content, at the same level as the (new) duty on beer" (Cnossen 2009, p249).

In a 2009 paper, Adelaide University academic Kym Anderson concluded that only super-premium wines in Australia are relatively highly taxed in Australia, and that there is **no economic justification** for penalising consumers of high quality wine via ad valorem taxation. Anderson (2009) also notes that Australia's ad valorem WET system is an "unusual" structure for wine tax:

"... only consumers of the super-premium (i.e. above \$30 retail per bottle) product could be considered relatively highly taxed in Australia. There is no obvious economic justification for this type of penalizing of consumers of high quality wine, given the presence of tiered income tax rates that can deal adequately with any income distributional issues society may have" (Anderson 2009, p5).

Therefore, the academic evidence supports the DSICA position that there is no economic justification for retaining a wine tax which is based on value, and not on alcohol volume.

DSICA considers that wine tax reform, introduced on a phased basis as modelled by Treasury, would actually benefit both the industry and consumers. These transition arrangements are discussed further in **Section 3.9** below.

Recommendation 5: Introduce volumetric taxation for all alcohol

That the Government implement the recommendation of the Henry Review to introduce volumetric taxation on all alcohol, including wine.

3.8 Are taxes on wine in Australia high compared to other countries?

The WFA has made a number of statements in recent years which suggest that wine in Australia is subject to a high level of taxation by international standards, as part of their case for maintaining the WET. For example, in their 2010-11 Pre-budget Submission, the WFA stated that *"it is important to note that wine tax in Australia, when measured as consumer tax equivalents, is high compared with other OECD countries and the OECD average"* (WFA 2009, p10). However, the facts do not support such a claim.

The WFA appear to have based their claims on work undertaken by University of Adelaide academic, Professor Kym Anderson. In February 2010, Professor Anderson presented a comparative study completed in December 2009 of excise and import taxes on alcohol beverages around the world, titled *Excise and Import Taxes on Wine, Beer and Spirits: An International Comparison* (Anderson 2009). The paper uses this concept of 'consumer tax equivalents' and compares the level of taxes charged on beer, wine and spirits in some 46 countries around the world, including all countries in the OECD except for Israel. Because

Australia uses an ad valorem tax on wine, while some other countries have volumetric excises, Australia's ranking in terms of 'highest taxes on wine' varies by value of the product. Anderson (2009) considers three products:

- 'non-premium' wine – with a retail price of \$18.90 per 4L cask;
- 'commercial premium' wine – with a retail price of \$12 per 750mL bottle; and
- 'super premium' wine – with a retail price of just under \$32 per bottle.

Anderson concludes that, out of the 32 OECD countries studied, with respect to excise taxes on wine:

- for non-premium wine, Australia ranks 14th-highest;
- for commercial premium wine, Australia ranks 9th-highest; and
- for super premium wine, Australia ranks 5th-highest.

Some other key findings in Anderson (2009) are further detailed below.

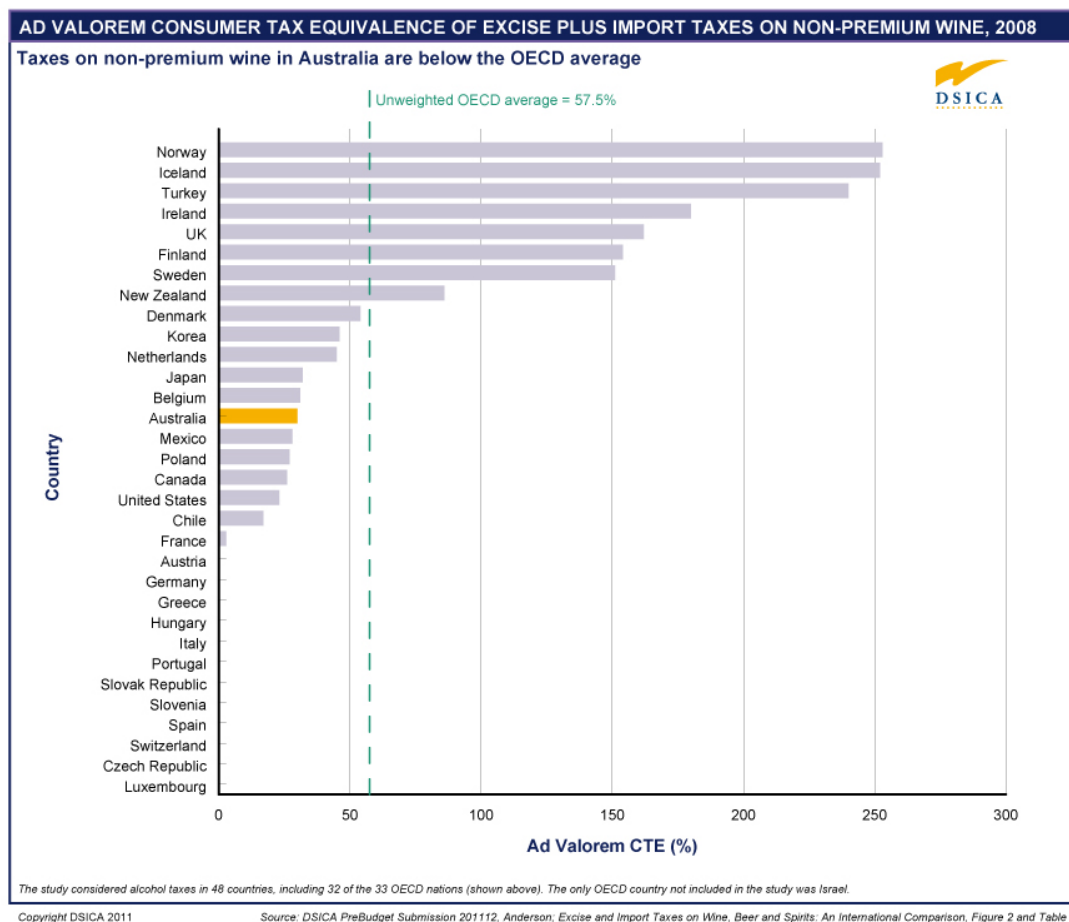
Non-premium wines are lightly taxed

Anderson (2009) confirms that Australia's WET operates to provide tax incentives to produce low-quality, low-priced bulk wine in Australia. Anderson (2009) states that non-premium wines are:

"... lightly taxed in Australia relative to other countries except the group of net exporters of wine" (Anderson 2009, p5).

Australia's wine taxation rate for non-premium wine is ranked 14th-highest in the OECD on a consumer tax equivalent basis (see below). This is **below** the unweighted OECD average.

Graphic 3.3: Consumer tax equivalent of excise plus import taxes in OECD countries on non-premium wine 2008



Low-quality wines are comparatively cheaper than beer and spirits

Anderson (2009) confirms DSICA's long-held position that low quality and low-priced bulk/cask wine is under-taxed in Australia, relative to other alcohol products:

"... the alcohol in beer and spirits is taxed more in Australia than in most other countries, so making low-quality wine an even cheaper source of alcohol relative to non-wine sources in Australia than elsewhere" (Anderson 2009, p5).

Because of the value-based nature of the WET, cask wine is available at a retail price of as little as \$2 per litre – a price which is less than for bottled water, soft drink, fruit juices and other non-alcoholic drinks. Preventative health advocates have identified the low cost of cask wine as a factor which may promote risky or high-risk drinking.

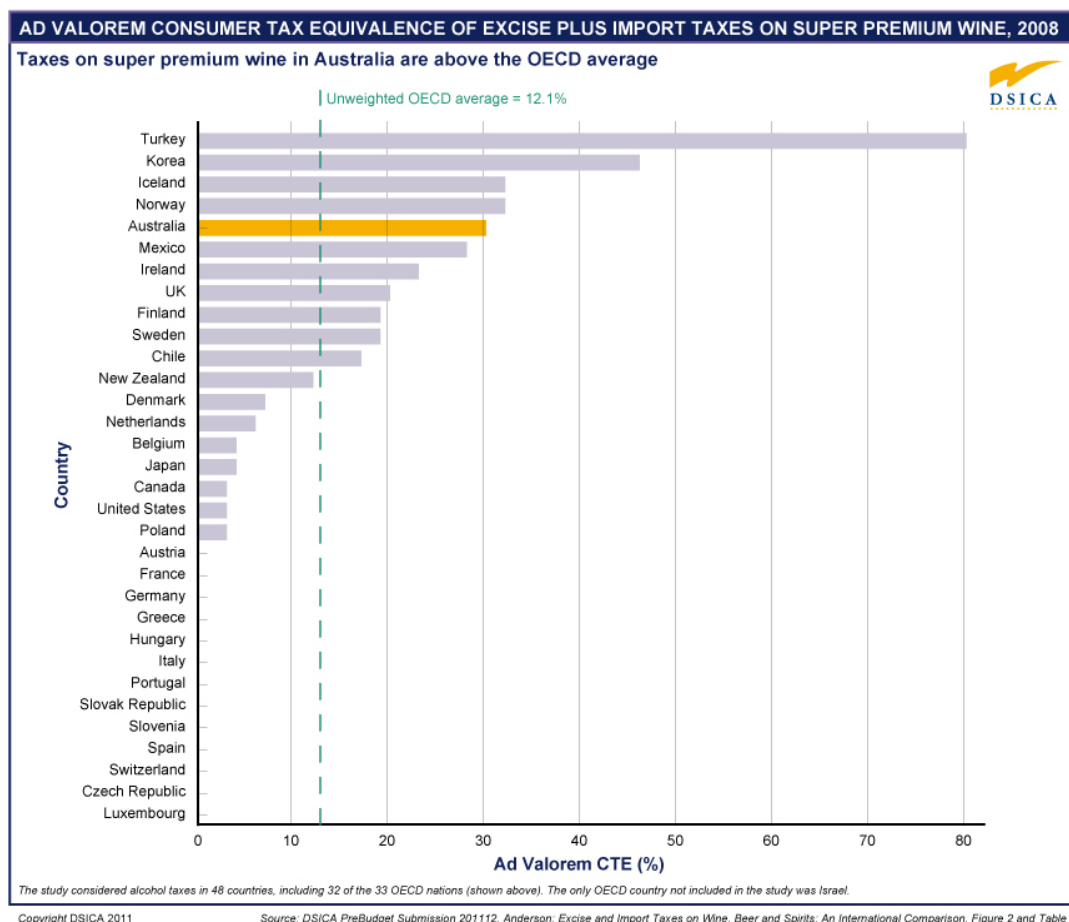
Super-premium wines are highly taxed because of no volumetric tax

Anderson (2009) confirms DSICA's position that high quality bottled wine is over-taxed in Australia under the WET, and would benefit from a volumetric tax similar to that recommended by the Henry Tax Review:

"The only group of wine consumers in Australia who could claim to be relatively highly taxed are those who buy super-premium or iconic wines. This is ironic, since they are the least likely to contribute to the social problem of binge drinking – which is not the case in other countries because they have a volumetric rather than ad valorem wine taxes" (Anderson 2009, p5).

In fact, Australia's wine taxation rate for super-premium wine is ranked 5th-highest in the OECD on a consumer tax equivalent basis (see below). The study defines 'super-premium' wine as having a retail price of \$32 per 750mL bottle and above.

Graphic 3.4: Consumer tax equivalent of excise plus import taxes in OECD countries on super premium wine 2008



3.9 The Henry Review and volumetric taxation reform

Having established the case for introducing a volumetric tax on all alcohol in Australia, two questions remain: what volumetric rate (or rates) should be set for alcohol, and how can the Government transition from the current arrangements to the new volumetric system? These two questions are addressed below.

Setting an appropriate tax rate

DSICA notes that the Henry Review concluded that alcohol taxes should be set to address the net marginal spillover costs of alcohol abuse. The Henry Review correctly identifies that responsible alcohol consumption gives rise to no spillover costs, while consumption with abuse gives rise to spillover costs that increase with the quantity of alcohol consumed in a single period.

Several studies have been undertaken that have sought to quantify the cost of harm from alcohol. However, DSICA does not believe that these accurately measure spillover costs or reflect the methodology proposed by the Henry Review. In particular, the Review noted that the 'cost of illness' methodology utilised in the Collins and Lapsley studies is not an appropriate method by which to estimate spillover costs relevant for setting rates of tax (Commonwealth of Australia 2010b, p434).

Furthermore, the estimate more recently published by the Alcohol Education and Rehabilitation Foundation (AERF 2010) has been discredited as a “poor estimate” which has “grossly overestimated” the real cost of alcohol’s harm (Access Economics 2010, pi).

DSICA recommends that the Government commission an independent review based on the *net marginal spillover cost* approach outlined in the Henry Review to accurately quantify the cost of alcohol-related harm. The findings of this study may then be used to assist in determining the appropriate alcohol taxation rate. DSICA would welcome the opportunity to work with Government to design a robust and comprehensive methodology by which to undertake this study.

Recommendation 6: Commission modelling to calculate spillover costs

That the Government commission independent modelling to calculate a robust estimate for spillover costs from alcohol, to assist in determining the appropriate destination rate of taxation for alcohol in Australia, as recommended by the Henry Review.

Transition arrangements

DSICA supports the approach explored by Treasury as part of the Henry Review process, where all beverages would be immediately moved to tax-equivalent volumetric tax rates, then gradually transitioned to a single rate. This would be achieved by freezing indexation on products above an identified target rate and accelerating indexation on products below the target rate.


Transition options costed by the Henry Review team

On 28 October 2010, the Treasurer released Treasury working papers showing the detailed analysis considered by the Henry Review panel in formulating their final recommendations. The Treasury analysed the revenue impacts of replacing “*current excises on beer and spirits, and Wine Equalisation Tax, with a common alcohol tax based on alcohol content, set by reference to the net social costs of alcohol consumption and taxation, with a low-alcohol threshold for all products*” (Treasury 2010b, p1).

Specifically, Treasury considered the case where all alcohol would ultimately be subject to a uniform rate of excise assumed to be the full-strength packaged beer rate, with the first 1.15 per cent of pure alcohol exempt from excise.

To reach this endpoint, Treasury looked at four different elements of the transition. These are set out below.

Graphic 3.5: Treasury elements for transition to a volumetric tax

TREASURY ELEMENTS FOR TRANSITION TO A VOLUMETRIC TAX	
	
Element	Description
A	Lower bound – initial volumetric wine tax at \$7.03 per litre of alcohol (light draught beer rate – price of 2L cask remains stable)
B	Upper range – initial volumetric wine tax at \$22.09 per litre of alcohol (mid strength draught beer rate — price of \$12 wine bottle remains stable)
C	Short transition — rates below full strength packaged beer rate converge to the full strength packaged beer rate in 5 years
D	Long transition — rates below full strength packaged beer rate converge to the full strength packaged beer rate in 15 years

Copyright DSICA 2011

Source: Treasury

Elements A and B refer to the starting volumetric rate for wine. As can be seen from the graphic below, the effective rate of taxation from the WET on cask wine approximately equalled the August 2009 headline volumetric rate levied on low-strength draught beer (i.e. \$7 per lal). Similarly, the effective rate of taxation on semi-premium wine at \$12 per bottle approximately equalled the August 2009 headline volumetric rate levied on mid-strength draught beer (that is, \$22 per lal). This is how Treasury formulated elements A and B.

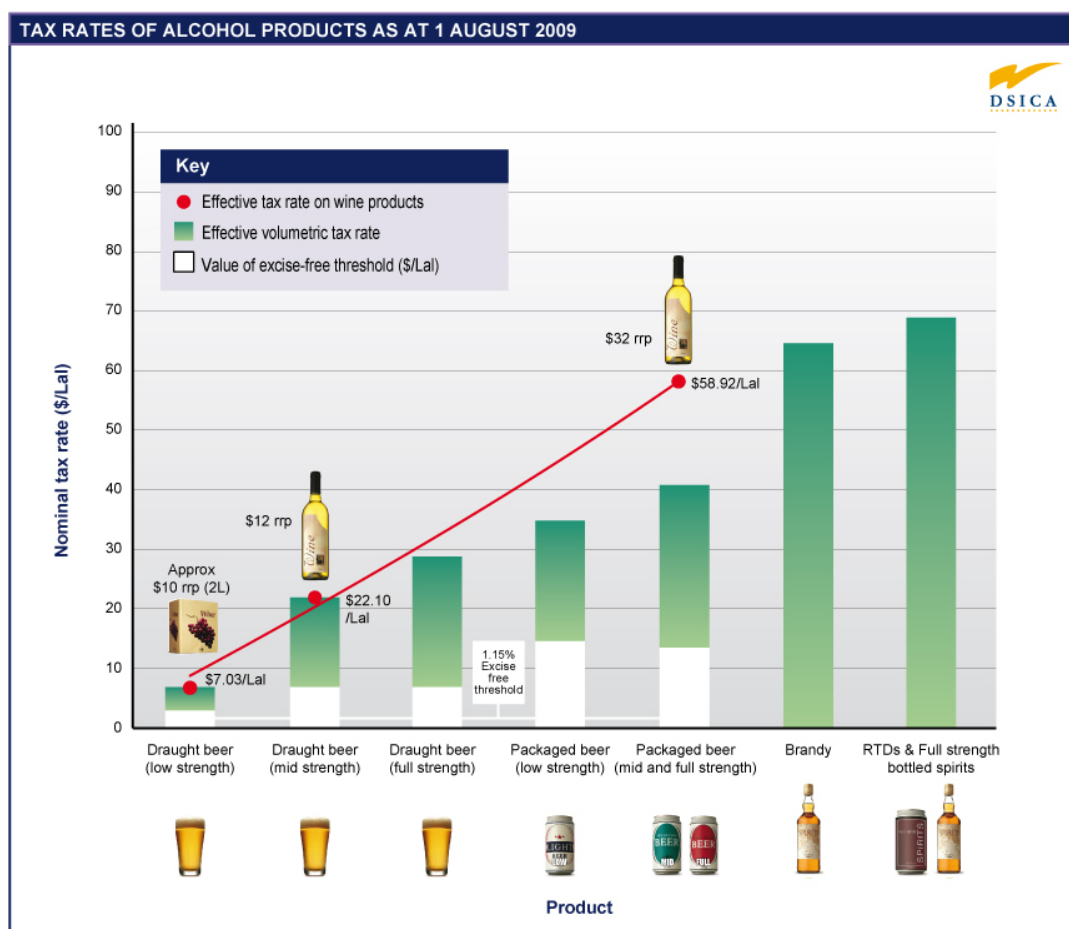
Elements C and D refer to the length of time taken for the excise rates on all beverages currently taxed below the full-strength packaged beer rate to converge to that rate.

The mechanism by which rates would converge is via the current indexation arrangements for the volumetric excise currently applying to beer and spirits, in the following manner:

- bi-annual indexation increases of the full-strength packaged beer excise rate in line with movements in the consumer price index would continue;
- bi-annual indexation increases of all excise rates below the full-strength packaged beer excise rate would be increased so that they converge with the full-strength packaged beer excise rate within a certain number of years. This includes the new wine excise; and
- indexation increases of the spirits excise rate would be suspended until such time as the full-strength packaged beer excise rate is equivalent to the spirits excise rate. Using Treasury's assumption of 2.5 per cent pa inflation the spirits excise rate would be suspended for approximately 21 years.

A summary of the August 2009 headline rates (for beer, spirits and RTDs) and effective rates (for wine) from which the starting rates of the lower bound and the upper range were made can be seen below. Several effective volumetric rates equivalent to the effect of the WET on selected wine products are included for comparison purposes. The rates as at 1 August 2009 were current when Treasury identified the available options.

Graphic 3.6: Tax rates of alcohol products as at 1 August 2009



Copyright DSICA 2011

Source: DSICA Pre-Budget Submission 2011-12

Treasury combined various elements to consider two alternative options for transitioning alcohol to a single volumetric excise rate. The first option was *low and long* (i.e. elements A and D); the second option was *high and fast* (elements B and C). Treasury did not cost other combinations of elements. DSICA believes that the Government should undertake further detailed modelling of the impact of the various reform transition pathways on the wine and other alcohol sectors.

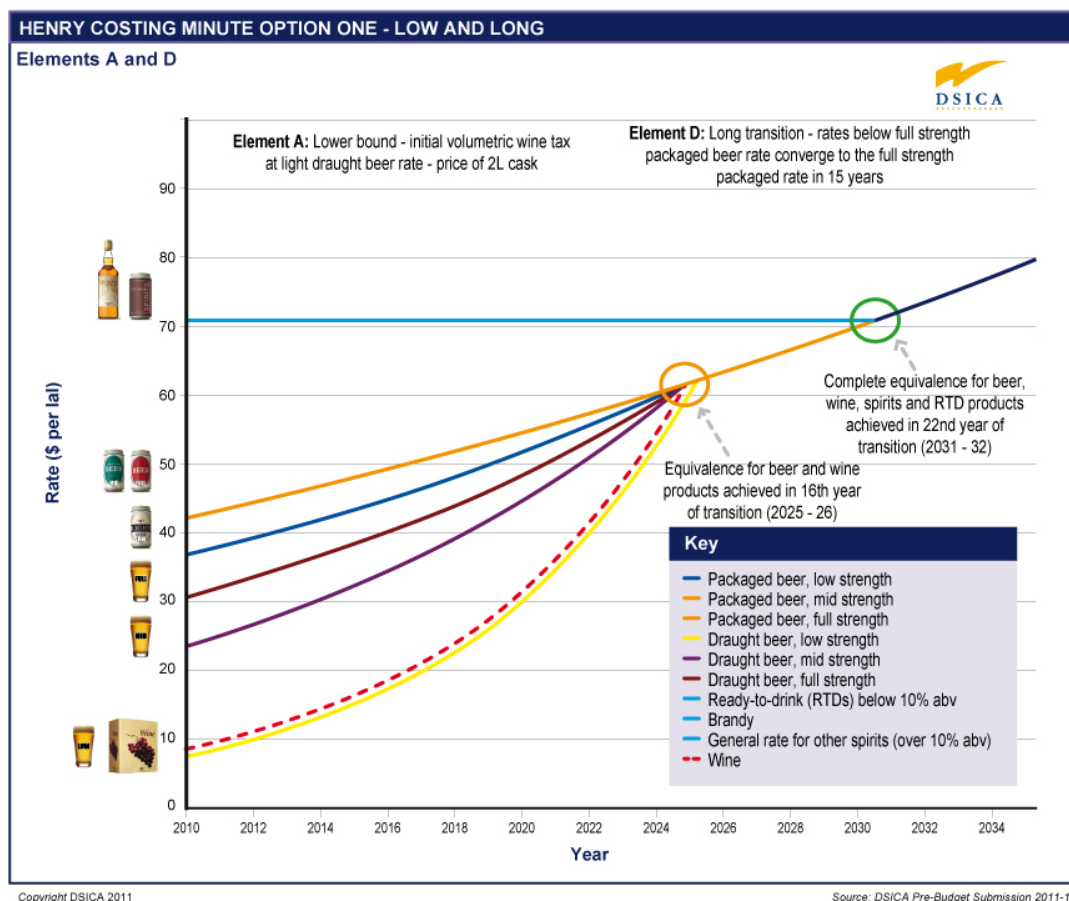
The design features of each of these options are summarised below.

Option One: low and long

- Under Option One, *low and long*, a low initial volumetric wine tax rate is set at \$7 per lal (equivalent to the then low-alcohol draught beer excise rate). There is then a first phase of transition over a 15 year period.
- The choice of the \$7 per lal starting rate would ensure that the price of a 2L cask of wine would remain stable in Year 1.
- After 15 years of the first phase, all wine and beer products will be a single rate (equivalent to the full-strength packaged beer rate in the 15th year).
- There is then a second phase of transition under which the full-strength packaged beer rate for all of those products converges to the spirits rate. The period of time it would take to move to the spirits rate would depend upon the rate of inflation after the first transition phase.

- See the graphic below which illustrates the two phases of convergence – ultimately to the frozen spirits rate (which is not subject to bi-annual indexation until the single rate rises to the spirits rate level).
- Indexation of the final converged rate would then re-commence on a bi-annual basis.

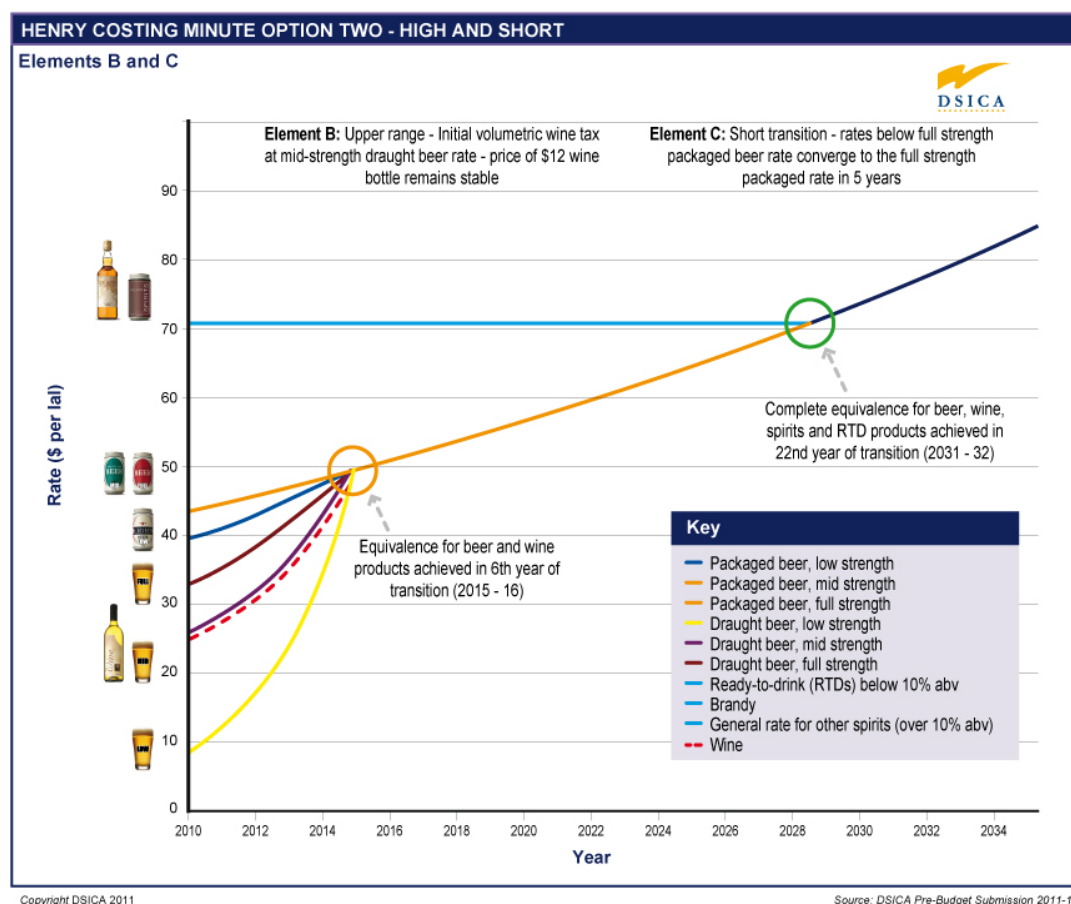
Graphic 3.7: Transition option one – low and long



Option Two: high and short

- Under Option Two, *high and short*, a higher initial volumetric wine tax rate is set at \$22 per lal (equivalent to the then mid-strength draught beer excise rate). There is then a first phase of transition over a five-year period.
- Under Option Two, the concept is similar as for Option One. However, the starting wine tax rate is higher, and the period of the transition for beer and wine tax equivalence is shorter (that is, five years instead of 15 years).
- The choice of the \$22 per lal starting rate would ensure that the retail price of a \$12 bottle of wine would remain stable in Year 1. This is a similar methodology that DSICA applied in its modelling of wine tax reform options for the Henry Review.
- After five years of the first phase, all wine and beer products will be a single rate (equivalent to the full-strength packaged beer rate). There is then a second phase of transition under which the full-strength packaged beer rate for all of those products converges to the spirits rate. The period of time it would take to move to the spirits rate would depend upon the rate of inflation after the first transition phase.

Graphic 3.8: Transition option two – high and short



The DSICA 2010-11 Pre-Budget Submission (DSICA 2010a) recommended a similar approach to that outlined in the Costing Minute with two separate options identified for bottled and cask wine respectively. DSICA notes that, given the ad valorem nature of the current WET system, a change to volumetric taxation will generally mean that wine of the same or similar alcohol content below a particular price point will increase in price while those above that same price point will decrease in price (assuming changes in alcohol tax liabilities are passed on to the consumer).

DSICA proposed a volumetric wine tax rate of \$20 per lal for bottled wine in its Henry submission (DSICA 2009). This is similar to that proposed in the Treasury documents of \$22.09 per lal (the then mid-strength draught beer rate) which would ensure the price of a \$12 wine bottle remained stable during the transition period. DSICA also proposed a three-year transition period applying to cask wine.

Setting a timeframe for reform

Even if the Government does not wish to reform the tax system effective immediately, there would be nothing to prevent legislation being passed now for a future change in the tax system.

When reforming fuel taxation in response to the Energy White Paper of 2007, amongst other actions, the Howard Government passed legislative reforms in 2007 (the *Energy Grants (Cleaner Fuels) Scheme Act 2004* (Cth)) that saw excise introduced on certain alternative fuels such as ethanol and biodiesel (which are currently excise-free) commencing from 1 July 2011. This course of action gave the energy industry four years of advance warning of the tax change to come, allowing it to make the necessary structural adjustments and to make future business decisions with full knowledge of the timing of future changes.

If the Government was to adopt a similar approach to the introduction of a volumetric tax on wine in response to the Henry Review that would see such a system coming into force around 2014-15 – which would be a similar time to when the wine industry estimates the industry restructuring will be completed.

Passing legislation immediately rather than waiting until 2014-15 has two advantages. Firstly, it gives the wine industry and producers time to make more fully informed decisions now. Secondly, it gives an added incentive for the industry to progress the restructure and gives definite timing for when the restructure must be completed, thus ensuring that the industry has a strong incentive to continue to progress its industry restructure to remove the wine oversupply.

DSICA would welcome greater Government debate in this area, particularly in relation to alternative transition approaches for moving to a wholly volumetric system.

Recommendation 7: Set a timeframe for reform

That the Government consider introducing legislation during 2011 which would set out the timeframe for transition to volumetric taxation for all alcohol. DSICA also recommends that the Government adopt the transition method modelled by the Henry Review team, which would utilise existing indexation arrangements to gradually unify the different alcohol tax rates.

4 Tax administration and data collection arrangements for the alcohol industry

In this Chapter, DSICA raises several taxation administration and data collection reform issues.

4.1 Tax administration reform

DSICA recommends the following areas for reform of tax administration matters pertaining to the alcohol industry.

Further streamlining administration into a single body

- The Henry Review states that alcohol could be brought into a single regime, to ensure consistent compliance obligations between industries and to remove the administrative costs of running multiple systems for taxing alcohol (Commonwealth of Australia 2010b, p442).
- Responsibility for administering excise equivalent goods (EEGs) was consolidated into the ATO in 2009, but responsibility for legislation relating to EEGs remains with the Australian Customs and Border Protection Service (Customs). This means that at present, there is no clear responsibility for policy in relation to EEGs.

Recommendation 8: Policy and legislative responsibility for excise equivalent goods

DSICA recommends that the Government transfer responsibility for policy and legislation of excise equivalent goods to the Treasury portfolio.

Method of collecting duty payments

- The Henry Review recommends that small businesses could be protected by a range of measures, including allowing them to pay alcohol tax on their Business Activity Statements (BAS) (Commonwealth of Australia 2010b, p442). DSICA strongly supports this recommendation.
- WET is payable on the BAS in the normal cycle under which a particular entity is required to make payments. There is no reason why such an arrangement could not be extended to brewers and distillers.

Recommendation 9: Duty payments recorded on the Business Activity Statement

DSICA recommends that excise duties on alcohol be reported and remitted on the Business Activity Statement (BAS).

Licensing arrangements

- The current customs and excise duty licensing arrangements involve duplication across Government agencies and therefore result in unnecessary compliance costs.
- Generic government licensing issued by the ATO could replace multiple licences now required by both the ATO and Customs.
- Entity licensing could be introduced where a single licence is sufficient for an entire distribution network.

Recommendation 10: Single licensing arrangements

DSICA recommends that licensing arrangements for alcohol manufacturers be streamlined to allow for single licences.

Regulator engagement with Industry

- Some of DSICA's members have recently been actively engaged with Customs in a process designed to streamline certain administrative arrangements associated with the importation of alcohol under the Australian Quarantine and Inspection Service's Imported Food Inspection Program.
- DSICA has also appreciated the highly professional consultative process which the ATO followed in implementing the Government's decision to introduce a single administration for EEGs. This was very effective implementation.
- DSICA strongly supports this type of direct collaboration between Government and industry and urges the Government to seek out opportunities to consult with industry on ways to reduce the administrative burden for both importers and exporters.

4.2 Improvements needed in collection of alcohol market data, alcohol consumption surveys, and data reporting

Alcohol market data

- DSICA acknowledges it is critical that good quality alcohol consumption data at the national level is required to frame and monitor effective alcohol policies and initiatives.
- DSICA values highly the ABS publication *Apparent Consumption of Alcohol, Australia* (ABS 2010a) and commends the ABS for the consultative manner in which it prepares this publication. In particular, DSICA notes the recent revision to wine and beer abv levels during 2010 and 2011 to reflect contemporary alcohol content of these products. However, DSICA does reserve comment for now on whether revised abv figures for wine products applied in the most recent release are appropriate. This is a very significant development as it changes the aggregate alcohol consumption result.
- DSICA understands that the current *Apparent Consumption of Alcohol, Australia* data series does not contain data pertaining to cider consumption. DSICA notes that cider is the fastest-growing alcohol beverage category with a rapidly increasing market share. The omission of this product category impacts on the data series' ability to provide an accurate picture of alcohol volumes and per capita consumption.
- DSICA also notes that while revisions have been made to wine and beer abv levels, the *Apparent Consumption of Alcohol, Australia* series does not contain any guidance on the abv level applied to full-strength spirits and RTD products. This omission impacts on the clarity and transparency of the methodology used to calculate per capita consumption of full-strength bottled spirits and RTD products and findings pertaining to per capita alcohol consumption of these product categories.

Recommendation 11: *Apparent Consumption of Alcohol, Australia* series amendments

DSICA recommends that cider consumption data be included in the ABS *Apparent Consumption of Alcohol, Australia* data series.

DSICA recommends that representative abv strengths used to calculate spirits and RTD product consumption levels be made publicly available.

DSICA also recommends that the ABS should continue to produce its *Apparent Consumption of Alcohol, Australia* data series and that it be prepared and released on a more timely basis.

No hypothecation of alcohol taxation revenues

DSICA has long held the position that revenues collected from alcohol should not be hypothecated to particular purposes. Hypothecation is an inefficient policy instrument that:

- distorts Government funding priorities and leads to inflexibility;

- reduces the level of accountability and scrutiny of funds in the budgetary cycle; and
- requires a higher degree of monitoring and review, and imposes higher administrative costs.

Rather than hypothecation, DSICA strongly supports prevention initiatives being funded from general government revenue. The Government currently collects a large and growing revenue stream from alcohol products which exceeds \$7b, including GST. The GST collected on alcohol sales contributes to the significant amounts of Federal Government revenue already provided to the State and Territory Governments (who have primary responsibility for the delivery of health treatment services) through the allocation of all GST revenues.

Consistent approach needed in data collection

- A number of Federal Government agencies collect statistics and/or forecast the quantity of alcohol produced/consumed and revenue derived from the Australian alcohol market.
- These publications are issued by various Government agencies including:
 - ⇒ the Australian Bureau of Statistics (ABS);
 - ⇒ the Australian Institute of Health and Welfare (AIHW);
 - ⇒ the Department of Health and Ageing;
 - ⇒ the Treasury; and
 - ⇒ the Australian Taxation Office (ATO).
- However, there is a degree of inconsistency between the publications in their methodology and reporting approach.
- Customs does not publish any relevant data even though it collects valuable data on imported alcohol and Australian exports of alcohol. It is extremely regrettable that Customs does not make this information publicly available.

Recommendation 12: Consistent approach to data collection

DSICA recommends that the Federal Government agencies which collect statistics on the production and consumption of alcohol should collaborate, with industry involvement, to establish a defined and consistent methodology for collection and reporting of alcohol-related data.

DSICA also recommends that Customs be instructed to regularly (at least annually) release data regarding customs duty collections on imported alcohol products.

National Drug Strategy Household Survey series

- With the assistance of a leading academic, Professor Ian McAllister of the Australian National University Research School of Social Sciences, DSICA has identified the AIHW's *NDSHS* series as the most robust and reliable national survey of alcohol consumption patterns in Australia.
- While DSICA highly values the *NDSHS*, we believe it is necessary that the survey be conducted more regularly, and more importantly, that the data be made available on a much more timely basis.

Recommendation 13: National Drug Strategy Household Survey series amendments

DSICA recommends the Australian Institute of Health and Welfare be directed to conduct more regular *National Drug Strategy Household Surveys* (say every two years rather than every three) and that results be reported on a more timely basis.

Budget Papers – no reporting of spirits excise duty

DSICA notes with concern that *Budget Paper No 1 2009-10* (May 2009) and subsequent Budget Papers have not reported a separate figure for excise duty collections on potable spirits. Previously, this figure had been separately reported in Budget Paper No 1.

While DSICA understands that Treasury may have made this decision in an attempt to protect the confidentiality of information relating to those paying excise on some categories of petroleum products, DSICA regards the change as a step backwards in data availability and transparency.

Recommendation 14: Budget Papers to report spirits excise duty revenue

DSICA recommends that Treasury examine alternative approaches that would allow reporting of spirits excise duty revenue, while at the same time being able to maintain confidentiality of excise duty payments in other areas.

5 Alcohol consumption patterns in Australia

Introduction

Policy development and program implementation aimed at achieving targets to reduce harmful alcohol consumption must be based on the best available evidence. To measure the effectiveness of policies, stakeholders must have access to accurate and timely data which is able to assess changing levels and patterns of alcohol consumption.

In this section, DSICA outlines the three major publications used to monitor and evaluate alcohol consumption patterns in Australia and the findings from the most recent surveys.

5.1 Data sources

The essential starting point for assessing evidence regarding alcohol consumption is determining which existing surveys are the most accurate and robust. DSICA strongly concurs with the Report of the PHT that good quality and robust alcohol consumption data must be available at a national level to frame and monitor policies and initiatives (PHT 2009b).

DSICA lists below the three major national publications that it believes provide the most reliable data on alcohol consumption:

- **Australian Institute of Health and Welfare – National Drug Strategy Household Survey** (most recent findings released in 2008; anticipated release of updated findings in 2011) (AIHW 2008a and AIHW 2008b);
- **Department of Health and Ageing – Australian secondary school students' alcohol and drug survey** (most recent findings released in 2011) (White and Smith 2009a and White and Smith 2009b); and
- **Australian Bureau of Statistics – Apparent Consumption of Alcohol, Australia** series (most recent data series released in 2010 and revised in 2011) (ABS 2010a and ABS 2011).

Australian Institute of Health and Welfare – National Drug Strategy Household Survey

- With the assistance of a leading academic, Professor Ian McAllister of the Australian National University School of Social Sciences, DSICA has identified the *NDSHS* as the most robust and reliable national survey of alcohol consumption patterns in Australia. Accordingly, DSICA refers to the *NDSHS* as the *Gold Standard*.
- The *NDSHS* uses a large sample size (over 23,000 in 2008), a common set of questions and a cross-time component enabling the examination of attitudes and behaviours over time.
- DSICA also commends the recent AIHW release *Drinking patterns in Australia, 2001-2007* which uses the three most recent *NDSHS* releases (2001, 2004 and 2007) to identify trends in alcohol consumption, alcohol-related harm, alcohol beverage of choice and under-age drinking (AIHW 2010c). This report provides a concise summary of these *NDSHS* results and allows for easy comparison and trend analysis.

Department of Health and Ageing – Australian secondary school students' alcohol and drug survey

- The Australian secondary school students' alcohol and drug surveys are designed to report on prevalence and patterns of use of alcohol among Australian secondary school students (White and Smith 2009a).
- There have been nine surveys in this series (tri-annually from 1984 onwards), making it the most reliable guide on levels and frequency of underage alcohol consumption in Australia.

Australian Bureau of Statistics – *Apparent Consumption of Alcohol, Australia series*

- DSICA highly values the *Apparent Consumption of Alcohol, Australia series* and commends the ABS for the consultative manner in which it prepares this publication.
- DSICA notes the recent revision to wine and beer abv levels to reflect contemporary alcohol content of these products (ABS 2010c) and notes that in the case of wine consumption, the entire data series has been back-dated to 1944-45 to reflect a gradual increase in abv levels of fortified, sparkling and carbonated, red and white table wine, vermouth and 'other' wine categories thereby providing a more accurate and robust data series (ABS 2011).
- While we value this data series, DSICA has outlined a number of recommendations in **Chapter 4** for improvements that should be made to this report.

5.2 Alcohol consumption patterns in Australia

Using the three data sources outlined above, reliable alcohol consumption patterns, behaviours and trends can be identified.

In summary, these reports indicate that:

- the majority of Australians drink responsibly, at levels below the risk of long-term harm (AIHW 2008a);
- adult per capita alcohol consumption in Australia has fallen over 20 per cent below 1980s levels (ABS 2010a); and
- risky drinking amongst all students aged 12 to 17 has continued to exhibit a positive downward trend since 2002 (White and Smith 2009a).

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 to others.

Even the PHT acknowledges the role of alcohol in Australian society:

"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" (PHT 2009b, p23).

In 2007, over 70 per cent of the Australian population (aged 14 years and older) drank alcohol at low risk levels, while approximately 17 per cent were recorded as 'abstainers' (those who had not consumed alcohol in the previous 12 months) (AIHW 2008a, p23). Therefore, if low risk drinkers are combined with abstainers, nearly 90 per cent of the population consume alcohol in a way that is not considered harmful in the long-term.

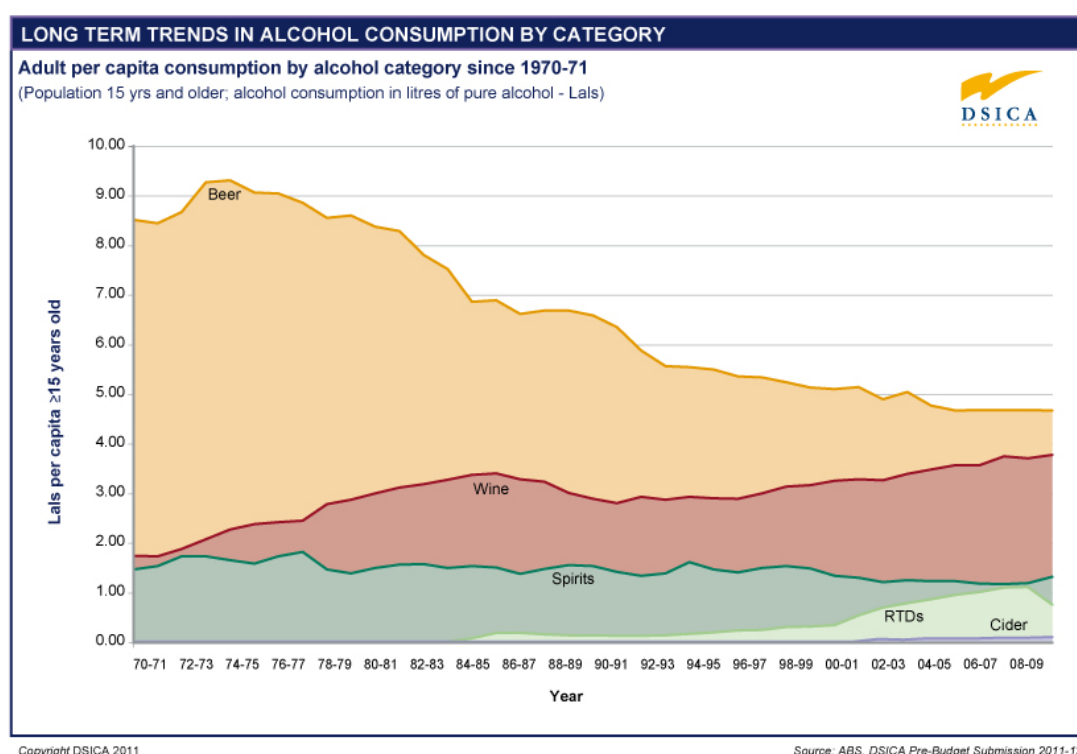
Alcohol consumption levels

DSICA estimates alcohol consumption for 2009-10 in Australia at 10.47 lals per capita (adults aged 15 years and older). This is down from 10.62 lals per capita in 2008-09. These figures are primarily derived from the ABS *Apparent Consumption of Alcohol, Australia series* and supplemented from industry sources on cider as cider is not included in ABS data collection.

A time series of adult per capita alcohol consumption from 1970-71 to 2008-09 is set out below. DSICA highlights the following observations and insights in relation to this time series:

- adult per capita consumption has fallen below levels in the 1970s;
- adult per capita consumption is now more than 20 per cent below its 30-year high reached in 1982-83;
- there has been no significant increase in adult per capita alcohol consumption since the NTS reforms of 1 July 2000, which included a reduction in tax for RTDs; and
- while the reduction in RTD volumes after the RTD tax increase on 27 April 2008 was entirely offset by substitution to full-strength bottled spirits and beer, growth in alcohol volumes has been outpaced by population growth. As a result per capita consumption has declined in both 2007-08 and 2008-09.

Graphic 5.1: Adult per capita alcohol consumption in Australia since 1970-71



This stable trend in per capita alcohol consumption is supported by the AIHW, which notes:

"Between 1991 and 2007, for Australians aged 14 years or older, alcohol consumption patterns remained largely unchanged" (AIHW 2008a, p18).

This reinforces DSICA's view that there has not been a dramatic change in overall alcohol consumption trends in the last 10 to 15 years that would justify the term 'binge drinking epidemic'.

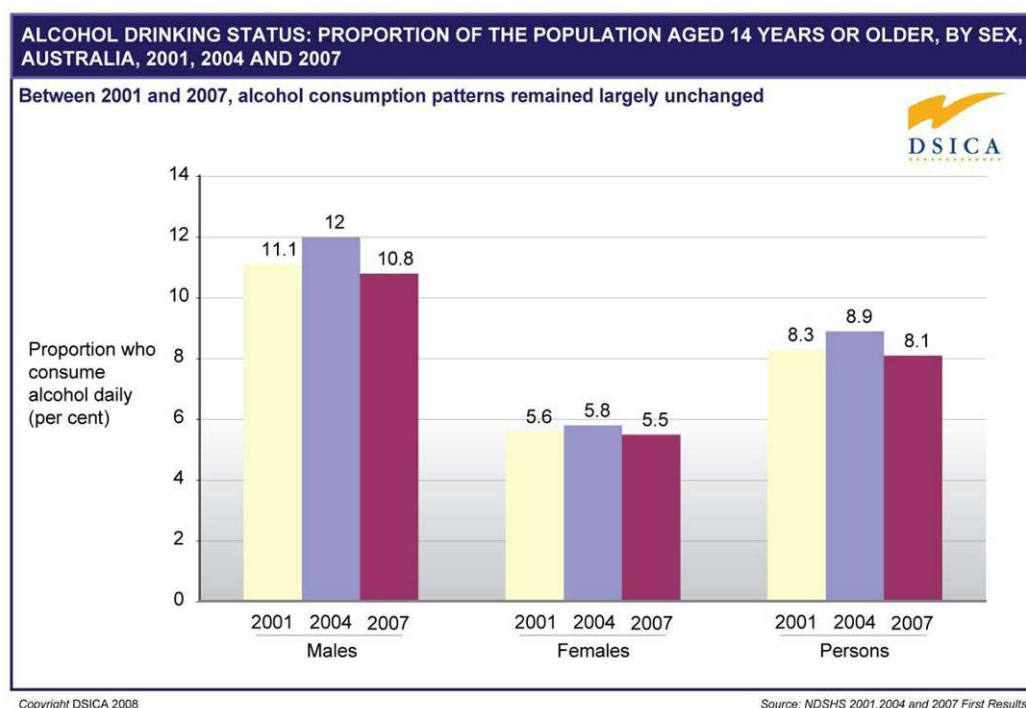
Alcohol use by gender

The NDSHS provides the most recent data (2007) on the consumption patterns of Australian males and females aged 14 years and older and indicates (AIHW 2008a):

- the proportion of the males, females and total persons drinking daily all declined between 2004 and 2007 (see below);
- there has been no statistically significant change in the proportion of males, females and total persons drinking weekly or less than weekly between 2004 and 2007; and

- the proportion of Australians abstaining from alcohol increased significantly between 2004 and 2007, with a greater change seen among males than females (see below).

Graphic 5.2: Alcohol drinking status: proportion of the population aged 14 years and older, by gender (Australia: 2001, 2004 and 2007)



The ASSSAD survey provides the most recent data (2008) on the consumption patterns of male and female secondary school students (12 to 17 years) and indicates (White and Smith 2009a):

- there is broad equivalence in consumption patterns between males and females, however males are generally more likely to have consumed alcohol in the past week, month and year; and
- females are more likely to drink at risky or high-risk levels than males.

Alcohol use by age

The NDSHS provides the most recent data (2007) on alcohol use by age for Australians 14 years and older and indicates (AIHW 2008a):

- in 2007 a greater proportion of males than females drank daily for all age groups. The proportion of males was twice or more than that for females for all age groups except 20-29 year olds.

The ASSSAD survey provides the most recent data (2008) on alcohol use amongst secondary school students (12 to 17 years) and indicates (White and Smith 2009a):

- the proportion of male and female students who have never consumed alcohol decreases with age, with 34.5 per cent of 12 year olds having never consumed alcohol decreasing to 7.5 per cent of 17 year olds;
- the proportion of male and female students who have never consumed alcohol is increasing, with 14 per cent in the 12-17 year age group in 2005 increasing to approximately 18 per cent in 2008; and

- while approximately 85 per cent of 17 year old male and female students have consumed alcohol in the past year, only 41 per cent are described as 'current drinkers' (i.e. consumed alcohol in the past week).

Alcohol beverage preferences

The *NDSHS* asks survey participants who consumed alcohol in the last 12 months what type of alcohol beverage they usually consumed. The *NDSHS Detailed Findings* report on the type of alcohol consumed by Australians aged 14 years and older at low-risk, risky and high-risk levels and indicates (AIHW 2008b):

- for males in all age groups consuming alcohol at risky or high-risk levels (for long-term risk status), the beverage of choice was regular-strength beer;
- for females consuming alcohol at risky or high-risk levels the beverage of choice was bottled spirits and liqueurs for 14-19 year olds and 20-29 year olds, while bottled wine for 30-39 year olds and those 40 years and older;
- RTDs did not feature as the beverage of choice for any age or gender category consuming alcohol at risky or high-risk levels; and
- the alcohol beverage categories preferred by drinkers who are drinking at risky and high-risk levels have not changed between 2004 and 2007.

Further analysis on the type of alcohol consumed by Australians aged 14 years and older was undertaken by the AIHW in its *Submission to Senate Community Affairs Committee Inquiry into Ready-to-Drink Alcohol Beverages* (AIHW 2008c), which found:

- over the period 2001-07, the dominant preference for young males (18-29 years) was regular-strength beer, while young females have a roughly equal preference for RTDs and bottled spirits;
- for older males and females there was a consistent preference for bottled wine;
- for males under 18, there had been a fairly even preference between regular-strength beer and RTDs, while for females under 18 there has been a similar split between RTDs and bottled spirits; and
- across all male age groups, there has been an increase in preference for RTDs, but there is no clear trend for RTDs among young males and females in the period 2001-07.

The above analyses led the AIHW to draw the following conclusion on the relationship (or lack thereof) between trends in risky and high-risk alcohol consumption and beverage choice, particularly in relation to RTDs:

"...it is reasonable to conclude that, given the stable or declining prevalence of risky drinking, and the lack of any clear trend regarding preferences for RTDs, the increased availability of RTDs does not appear to have led inexorably to an increase in risky consumption" (AIHW 2008c, p8).

The *ASSAD* survey provides the most recent data (2008) on alcohol beverage preferences amongst secondary school students (12 to 17 years) and indicates (White and Smith 2009a):

- there has been a decline in spirits consumption from 2005 to 2008 for males and females in all age categories; and
- among older current drinkers there was no change in the proportions consuming spirits, beer or RTDs between 2005 and 2008 or between 2002 and 2008.

Patterns of risky and high-risk drinking

The *NDSHS* reports on the patterns of low-risk, risky and high-risk drinking by Australians aged 14 years and over and indicates (AIHW 2008b):

- the total number of abstainers aged 14 years and older has increased from 16.4 per cent in 2004 to 17.1 per cent in 2007;
- the total number of risky drinkers (in the long-term) aged 14 years and older has decreased from seven per cent in 2001 and 2004 to 6.9 per cent in 2007; and
- the total number of risky drinkers (in the short-term) aged 14 years and older has decreased from 10.5 per cent in 2001 to 9.9 per cent in 2007, a welcoming trend.

While DSICA acknowledges that the AIHW figures are cause for concern in that the number of those who are a short- and long-term risk are too high, it is encouraging that the trends are not deteriorating.

The *ASSAD* survey provides the most recent data (2008) on current and risky alcohol consumption amongst secondary school students (12 to 17 years) and indicates (White and Smith 2009a):

- the proportion of current drinkers in the male and female 12-15 and 16-17 age groups began to decrease after 2002 and this decrease has continued into 2008; and
- there has been a significant decrease in risky drinking among male and female 16-17 year olds, from 20.1 per cent in 2005 to 15.1 per cent in 2008, and in male and female 12-15 year olds, from 4.6 per cent in 2005 to 3.2 per cent in 2008.

DSICA notes these encouraging trends.

Setting targets – helping those at risk of harm

Notwithstanding the positive and encouraging statistics outlined in the preceding sections, DSICA acknowledges that there are certain groups in the population who are at an increased risk of harm.

DSICA supports the reduction in harmful drinking amongst at-risk group, including young people, and the population as a whole. DSICA has for some time recommended setting targets to reduce the proportion of young people (aged 12 to 17) drinking at high-risk levels (DSICA 2008a).

DSICA notes that there already exists a downward trend in levels of harmful consumption across the Strategy's three target categories. Indeed, the recent *ASSAD* release indicates that the figure of 28.7 per cent of 12-17 year old current drinkers drinking at risky levels is 1.5 per cent lower than the interim target set by the PHT (White and Smith 2009a), suggesting that should current trends continue the final target of 21.7 per cent should be met prior to the 2020 end date. DSICA awaits the release of the 2010 *NDSHS* results to determine whether current strategies are effective enough to meet the remaining two targets set by the PHT.

Conclusion

We conclude this section by recapping that:

- the majority of Australians drink in moderation and do so responsibly;
- there is a long-term declining trend in alcohol consumption in Australia, with current figures indicating that consumption levels have fallen over 20 per cent below 1980s levels; and
- in order to effectively monitor alcohol consumption trends and behaviours, robust, accurate and timely data is needed for sound policy formation and evaluation.

Conclusion

It is widely acknowledged that the alcohol taxation system in Australia is complex, causes production and consumption distortions, and leads to less than optimal health and economic outcomes. The Henry Review also concluded that there is an urgent need for alcohol taxation reform and that this necessarily involves a shift to a volumetric system of taxation for all beverages, including wine.

DSICA strongly urges the Government to adopt the recommendations of the Henry Review and to set an agenda and timeframe for volumetric taxation reform to provide certainty for the industry, and to launch a reform process that will achieve better social and economic outcomes. A volumetric tax system for wine is widely supported throughout the Australian community, including by some of the major wine producers.

In the immediate term, DSICA has recommended that the Government take steps in this forthcoming Budget to address three inequities within the current system by: eliminating abuse of the Wine Producer Rebate, providing tax equivalence for low- and mid-strength RTDs, and removing the discriminatory ad valorem tariff on imported spirits and RTDs.

January 2011

Appendix A Australia's alcohol market and Ready-to-Drink alcohol product facts

Introduction

Alcohol plays an important role in Australian society and is legally accepted in our culture as a relaxing way of socialising with friends and family. The majority of Australians drink alcohol in a responsible manner without harm to themselves or others.

There are a number of myths/popular assertions which thrive in relation to the alcohol market, particularly in relation to RTDs which are not supported by the facts. In an effort to ensure that alcohol policy is based on the best available evidence, DSICA believes it is vital to consider the facts which lie behind some popular assertions that are often expressed by the media and some in the community.

Popular Assertion 1: The growth of Ready-to-Drink alcohol products in the last 10 years means people are drinking more

Fact: While there has been substitution between beverages over time, total alcohol consumption in Australia has remained stable for the last 10 years. Adult per capita consumption of alcohol has been stable at approximately 10 to 11 litres of alcohol since 1999-2000.

- Beer consumption has decreased from 4.63 lals per capita in 2007-08 to 4.62 lals per capita in 2008-09.
- Full-strength bottled spirits consumption has increased from 1.17 lals per capita in 2007-08 to 1.30 lals per capita in 2008-09.
- RTD consumption has decreased from 1.09 lals per capita in 2007-08 to 0.74 lals per capita in 2008-09.

Fact: Adult per capita consumption of RTDs has fallen dramatically since the RTD tax change in 2008 which has corresponded with a simultaneous and noticeable increase in per capita consumption of beer and full-strength bottled spirits as consumers have substituted into these beverages.

Popular Assertion 2: All Ready-to-Drink alcohol products are stronger than beer

Fact: RTDs have approximately the same alcohol content as full-strength beer.

- Most RTDs are approximately 4.8 per cent alcohol by volume (abv) while full-strength beer is generally between 4.6 and 5.0 per cent abv.
- Mid-strength RTDs have approximately the same alcohol content as mid-strength beer, for example *Bundaberg Rum and Cola Mid* is a 3.5 per cent abv RTD comprising Bundaberg Rum and Cola.

Fact: There is unequal taxation of RTDs compared with beer.

- RTDs are subject to the same excise rate as full-strength spirits, even though they are a substitute for and competitor for beer:
 - ⇒ beer has the tax advantage of the 1.15 per cent abv excise-free threshold and RTDs do not

- ⇒ this results in a situation where the amount of excise payable on a mid-strength RTD far exceeds the excise on an equivalent quantity of full-strength beer.
- This removes the ability of mid-strength RTDs to be price competitive with mid-strength beer, and has hindered the development and uptake in the market.

Popular Assertion 3: Ready-to-Drink alcohol products dominate the alcohol market

Fact: RTDs comprise only 6.8 per cent of the alcohol market in Australia.

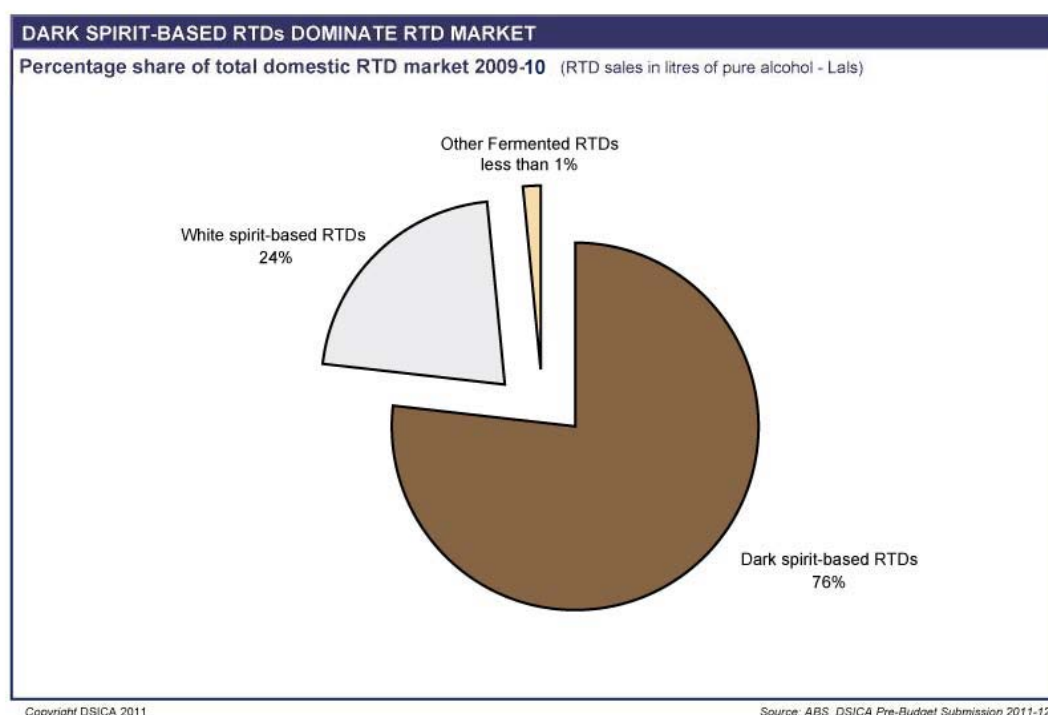
- By comparison, beer comprised 42.7 per cent of the market and wine comprised 36.9 per cent of the market in 2009-10.

Popular Assertion 4: Almost all Ready-to-Drink alcohol products are white spirit-based and sweetly-flavoured to encourage teenage drinking

Fact: 76 per cent of RTDs are dark spirit-based and are preferred by males 24 years and older.

- Approximately 76 per cent of total RTDs consumed in Australia are dark spirit-based, which are typically dark coloured products (e.g. bourbon, rum and scotch whisky-based products).
- Industry product research and taste testing research indicates that the colour and flavour profile of these products are preferred by males 24 years and older.
- The industry cannot produce products of varying colours and flavours that only appeal to consumers over the legal drinking age (e.g. 18-24 year olds, 24-29 year olds, 29-35 year olds) without some underage people also finding the products attractive.

Graphic A.1: Australia's RTD market by alcohol base (lals) (2009-10)



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