

# **Senate Inquiry into Ready to Drink (RTD) Alcoholic Beverages**

Submission from Independent Distillers Australia



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## 1 Executive summary

Independent Distillers Australia (IDA) welcomes the opportunity to participate in the Senate Community Affairs Committee Inquiry into Ready-To-Drink Alcohol Beverages.

Australia's alcohol beverage and hospitality sector is committed to responsible drinking and reducing excessive consumption of alcohol.

As the nation's third-largest manufacturer of ready-to-drink (RTD) products, IDA accepts it has an important role to play in contributing to these worthy community aspirations. With over 94% of our business reliant on RTDs, IDA will be the company most negatively impacted in a financial sense by the introduction of the new RTD tax.

The Government's stated objective for increasing the RTD tax is to address binge drinking. There is little argument that binge drinking continues to be a serious behavioral problem in our community. It is important to note that drinking at risky levels has been decreasing over the last six years as measured by the Government's own statistics, including among young females.

IDA is keen to work with Government and stakeholders to develop targeted, cost effective and practical measures to further address this problem.

All evidence to date, including sales figures post the tax increase, indicates that the Government's revenue and health policy objectives will not be achieved. The Government's economic modeling to support the tax increase is not based on solid research - Treasury themselves acknowledge broad assumptions have been made in formulating their revenue projections.

Treasury estimated that RTD volume would decline by 4%. Current sales trends, however, indicate that Treasury estimates of the revenue from the new tax could be overstated by as much as 40%.

It would appear that there may be a shift in alcohol consumption to cheaper and in many cases, higher alcohol content products, such as full strength spirits and cask wine. There is also the distinct possibility of an increase in total alcohol consumption. A further outcome could be a net reduction in tax revenue to the Government. Overseas evidence from the UK, Germany and Sweden supports this.

Binge drinking is an industry-wide problem. IDA, together with a large number of non-government organisations, advocate that an industry wide solution is required. We believe the introduction of an alcohol taxation system based on the volume of alcohol contained (volumetric tax) will provide an industry-wide solution.

The Government's attempt to change Australia's drinking culture by substantially increasing the excise rate on RTDs, which are only 10% of the industry, will not be effective. Binge drinking is about how people drink, not what they drink and the solutions to binge drinking cannot be reduced by quick fixes. Binge drinking occurs across all forms of alcohol and therefore a solution must embrace all forms of alcohol.

IDA is committed to working with all parties to encourage the responsible use of alcohol. Provided that the Government remove the new taxes on RTDs we would willingly and proactively reengineer our business immediately and actively encourage others in our industry to do the same, incorporating, but not limited to the following initiatives:

- Maximum of two standard drinks per container
- Modifications to the rules governing advertising, media and sponsorship
- No internet or viral marketing
- Improved labelling around alcoholic content and nutrition
- No products over 9% alcohol content
- No case or carton retail promotion advertising
- In store promotion only
- Levy on all alcohol for health initiatives
- Targeted education programs developed in conjunction with health and education experts for 14-17 year olds and their parents, ensuring no product placement or advertising of any kind is included

We believe that these initiatives, combined with the introduction of a volumetric alcohol tax would have the following benefits:

- Engender positive health outcomes, in terms of levels and patterns of consumption
- Continue the current downward trend in binge drinking behaviour
- Send appropriate messages to both the alcohol industry and consumers about alcohol intake and drinking behaviour
- Receive strong support from NGOs
- Safeguard the Government's alcohol tax forward estimates
- Obtain support from the Australian public
- Place the whole alcohol industry on a fair and equitable taxation footing

We would like to thank the Senate Community Affairs Committee for considering our submission and we would welcome the opportunity to appear before the committee.

## 2 Who is Independent Distillers Australia?

Independent Distillers Australia (IDA) is a private Australasian company that predominantly manufactures ready-to-drink (RTD) products (including Vodka Cruiser, Woodstock Bourbon and Cola) with minor activity in beer and spirits. IDA is the market leader in New Zealand and have the third-largest share of the RTD market in Australia. RTDs comprise 94% of IDA's net sales and 97% of profit.

IDA uses limited advertising and sponsorship for its brands but focus all its brand support 'in store' where the company's audience are over the legal drinking age.

IDA is the company most affected by the tax changes on RTDs given other industry players are either multinational companies or one of the 3 ASX listed players Lion Nathan, Fosters or Coca Cola Amatil Australia for which beer, wine and soft drinks are their core business. IDA is particularly at risk financially from this tax change.

IDA's competitors are now at a significant advantage as RTD drinkers are switching to other forms of higher strength and / or cheaper alcohol such as spirits, wine, cider and beer. The Federal Government's excise increase on RTDs has the potential to significantly impact the company; putting 480 jobs at risk, including more than 250 jobs in Australia.

### Conclusion

IDA will be the company most negatively impacted by the RTD tax change.

### Recommendation

That the Senate Community Affairs Committee calls on IDA to present and discuss its submission at the hearing in mid June.

## 3 Addressing the Terms of Reference

### A. Effectiveness of the Government's proposed changes to the excise regime in reducing the claims of excessive consumption of RTD alcohol beverages

Treasury advice tabled by Health Minister, Nicola Roxon, on 15 May 2008 speculates that RTD consumption will decrease:

**Figure 3A**

Year	Alcohol (litres)	Bottles (million)
2007-08	-132,000	-7.0
2008-09	-800,000	-42.7
2009-10	-873,000	-46.6
2010-11	-954,000	-50.9
2011-12	-1,041,000	-55.5

It should be noted that the estimate for 2008-09 of a reduction of 42.7 million bottles of RTDs represents just 4% of total RTD sales.

However, while RTD consumption may decrease, there is clear evidence through retail sales data since the increase of the excise that there will be almost a direct substitution to beer, cider (same strength), wine (three times stronger) and spirits (seven to 10 times stronger).

IDA has obtained data from many bottle shops and liquor retailers nationally that shows RTD drinkers are simply switching to other types of alcohol. This data is from Chambers Cellars, a chain of independently owned retail liquor stores in Sydney.

Chambers Cellars has directly compared sales for RTDs, full strength spirits, beer, wine, sparkling wine and cider for the four weeks following the excise increase to the previous corresponding period last year. The key findings were:

- RTD sales fell by 44%
- Full strength spirit sales rose 21%
- Wine cask sales rose 16%
- Cider sales rose 17%
- 200-250ml sparkling wine-based RTD sales rose 71% (exempt from the tax)

It is evident from this sales data that consumers are merely switching products because of the increased excise. In most cases, consumers are switching to straight spirits with between seven and ten times the alcohol content of RTDs.

The full sales data from 28 April to 25 May 2008 can be found in Annexure 1.

### Conclusion

There is already sound evidence that the new RTD tax has simply caused a shift in consumption from RTDs to the same or potentially larger quantities of alcohol in the form of spirits, wine, cider and beer.

### Recommendation

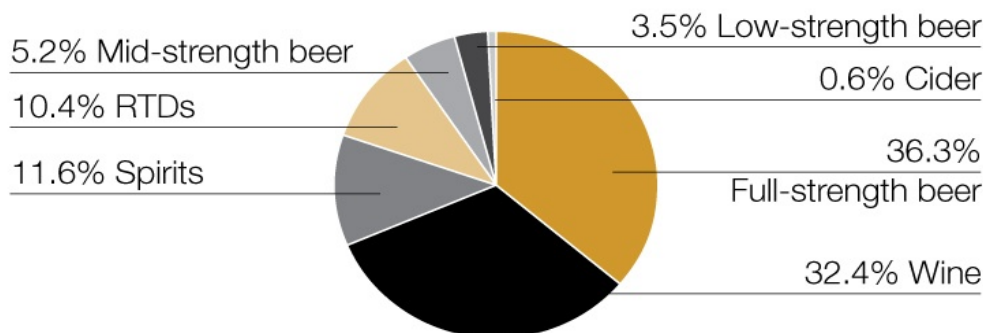
The proposed changes should be abandoned in favour of a targeted, cost effective and practical tax on all forms of alcohol based on alcohol content. All forms of alcohol contribute to the binge drinking problem, therefore all alcohol should fund the tax burden proportionately.

## B. The consumption patterns of RTD alcohol beverages by sex and age group

RTD products represent a small proportion of the Australian alcohol market. In contrast, beer of varying strengths dominates the market with a 45 % share and wine represents 32.4 % of the market.

Figure 3B-1

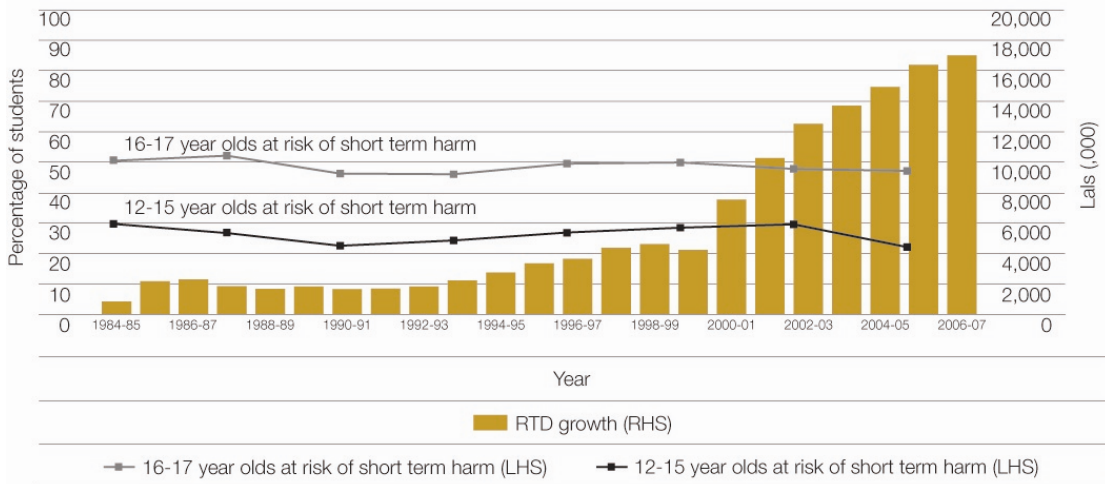
### Australia's alcohol market 2006-07



RTDs have been a part of the Australian liquor market since the UDL brand was launched in 1962. The total category has grown from approximately 600,000 cases in 1983 to 45 million cases in 2008 but is still only 10.4% of the total value of the Australian alcoholic beverages market<sup>1</sup>.

**Figure 3B-2**

Comparison of RTD market growth and underage drinkers



Analysis of the RTD category in Australia in total is complex, as consumption patterns vary enormously by category, by state, by sex and by age group. Despite the fact that RTDs have become more popular, levels of risky drinking behaviours remain largely unchanged<sup>2</sup>, despite popular misconceptions to the contrary.

It is generally accepted throughout the industry that one of the major reasons consumers choose to drink RTDs is for the sake of convenience. Even prior to the Federal Government’s decision to increase excise on RTDs, RTDs were by far the most expensive way to purchase alcohol on an alcohol by volume basis (ABV) basis<sup>3</sup>.

**RTD consumption among men and women**

It is generally agreed that there are two categories of RTDs – those which contain ‘light’ spirits like vodka, tequila and white rum and those which contain dark spirits like bourbon and dark rum.

Of the total market for RTDs in Australia (10.4% of the total liquor market<sup>4</sup>), 75% of RTD sales are dark spirits which are mainly favoured by men aged 25 years or older<sup>5</sup>. Of the remaining market for ‘light’ RTDs, approximately 29% of the volume is also consumed by males. Female RTD consumption therefore is much less significant in volume than the Federal Health Minister, Nicola Roxon, has stated.

<sup>1</sup> ABS and DSICA Pre Budget Submission 2008-09

<sup>2</sup> Australian Secondary Schools Use of Alcohol Series, Department of Health and Ageing

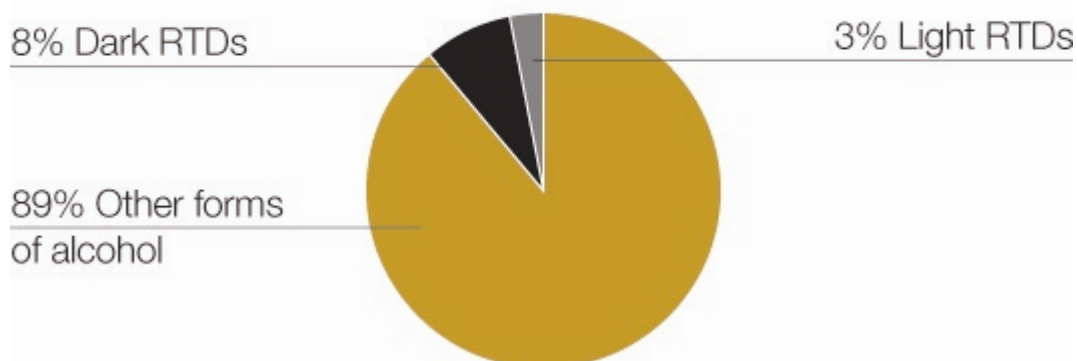
<sup>3</sup> Thompson’s Liquor Guide

<sup>4</sup> ABS and DSICA Pre Budget Submission 2008-09

<sup>5</sup> Liquor Merchants of Australia

Figure 3B-3

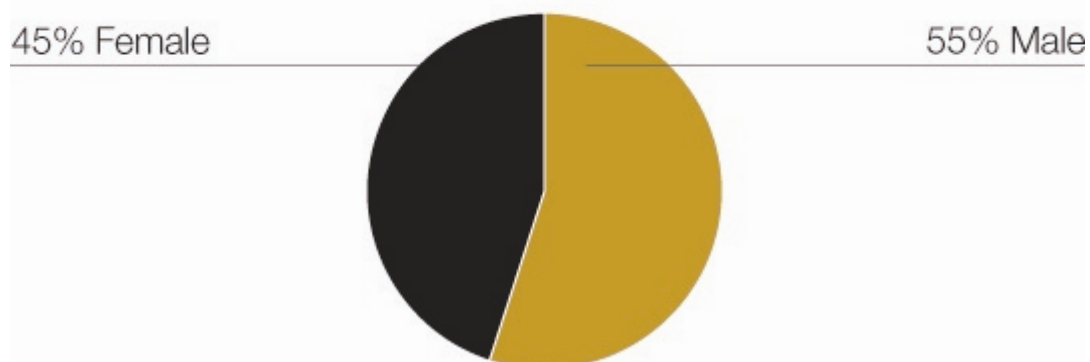
## RTDs compared to other forms of alcohol



The diagrams below illustrate the split between male and female RTD consumers and dark and light RTDs<sup>6</sup>.

Figure 3B-4

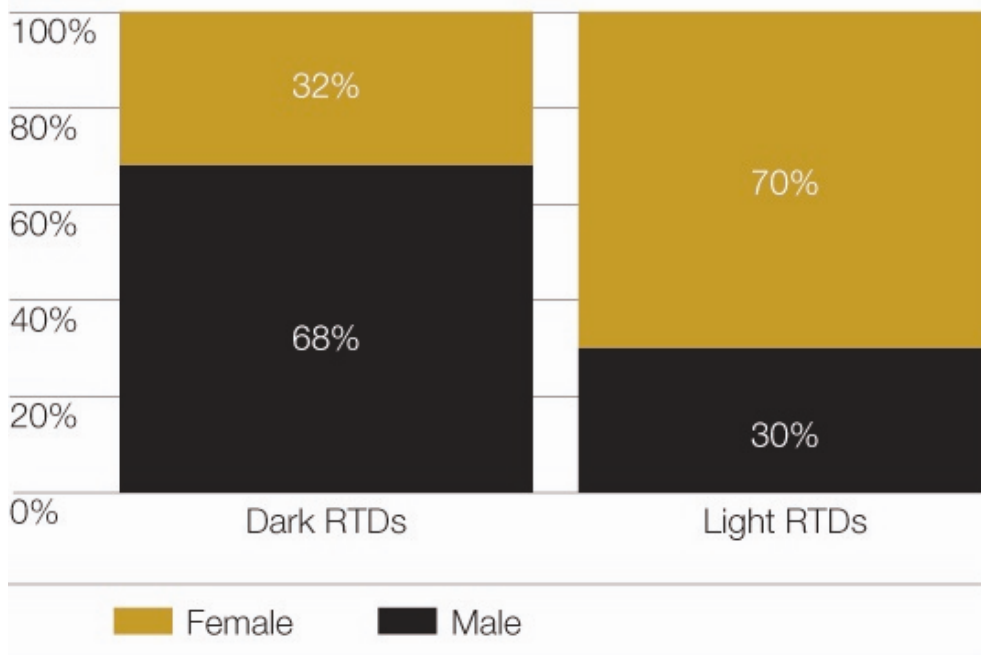
## Men consume more RTDs than women



<sup>6</sup> Roy Morgan Market Segment Survey, March 2008, n = 1451 and Liquor Merchants Association of Australia monthly market statistics

**Figure 3B-5<sup>7</sup>**

**Men consume substantially more dark RTDs which make up 75% of the market**



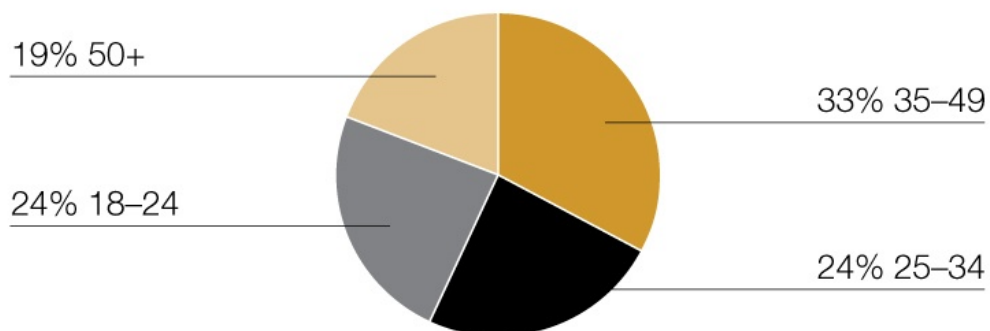
Please note Dark RTDs, principally consumed by males, represent 75% of the market and Light RTDs, principally consumed by females, represent 25% of the market.

**Consumption of RTDs by age group**

RTD consumption is split fairly evenly between age groups surveyed by Roy Morgan. About 48% of RTDs are consumed by customers under the age of 35<sup>8</sup>.

**Figure 3B-6**

**Percentage of overall RTD market by age group**



Roy Morgan data is included in table form in Annexure 2

<sup>7</sup>

<sup>8</sup> Roy Morgan Market Segment Survey, March 2008, n = 1451



## RTD consumption and risky drinking behaviour

The basis for the Federal Government's singling-out of RTD products for the excise increase is not backed up by research. There is limited published Australian research or data on the role of specific alcoholic products on risky drinking behaviours and none of it, that IDA is aware of, specifically nominates RTDs as the root cause of binge drinking.

Minister Roxon has previously pointed to data in the 2007 National Drug Strategy Household Survey data about increased consumption of RTDs in young people. Ironically, this survey also shows that drinking to risky levels has decreased in young people.

While detailed data on preferred alcoholic beverages by age and sex group is yet to be released as part of the 2007 National Drug Strategy Household Survey, the same report published in 2004 showed that beer, wine and spirits were all listed as being consumed in risky or high risk quantities, but very significantly, highlight RTDs were not. See table below<sup>9</sup>.

**Figure 3B-7**

Type of alcohol usually consumed, recent drinkers aged 14 years and older, by long-term risk status, Australia, 2004

Age group	Long-term risk	
	Low risk	Risky or high risk
<b>Males</b>		
14-19	Premixed Spirits in a Can (58.1%)	Regular Strength Beer (76.8%)
20-29	Regular Strength Beer (66.4%)	Regular Strength Beer (84.3%)
30-39	Regular Strength Beer (55.8%)	Regular Strength Beer (71.1%)
40+	Bottled Wine (53.2%)	Regular Strength Beer (56.3%)
<b>Females</b>		
14-19	Premixed Spirits in a Can (53.9%)	Bottled Spirits and Liqueurs (84.8%)
20-29	Bottled Spirits and Liqueurs (60.1%)	Bottled Spirits and Liqueurs (67.5%)
30-39	Bottled Wine (64.0%)	Bottled Wine (59.8%)
40+	Bottled Wine (69.3%)	Bottled Wine (66.4%)

It is important to note that published data in the 2007 National Drug Strategy Household Survey does not measure the relationship between specific alcoholic products and risky drinking behaviours.

Anecdotal evidence suggests that RTDs may actually act to reduce risky situations associated with drinking for the following reasons:

- Most RTD products on the market (about 85%) have an alcohol content of about 5%. RTD products can contain up to 9% alcohol – still significantly less than wine (11-15%), spirits (37-50%) and liqueurs (15-50%).
- Because RTDs are pre-mixed, the alcohol content is standardised as opposed to spirit drinks which are often loosely mixed at home or in a bar. Many consumers choose to drink RTDs because it is easier to monitor and measure levels of consumption.
- Many drinkers, especially female, feel more comfortable with a sealed, packaged drink and also believe that RTD packaging leaves them less exposed to drink spiking than an open glass.

In this context it is IDA's view that the inequitable excise increase the Federal Government has proposed actually has the potential to set Australia back in terms of its progress on binge drinking and alcohol abuse.

<sup>9</sup> 2004 AIHW National Drug Strategy Household Survey

## Conclusion

RTDs form a very small part of the overall liquor market and have not been directly linked to risky drinking behaviour. To the contrary, there is anecdotal evidence, from sources including parents, to suggest that RTDs could actually have contributed to the reduction in binge drinking by 14 to 19 year olds in the past six years.

## Recommendation

The Federal Government should abandon the increased tax on RTDs and re-proportion it across all alcohol to address this industry-wide problem. The Federal Government also needs to work more closely with the Department of Health and Ageing, the AIHW and industry in order to better understand what role RTDs and other alcoholic products play in drinking behaviours across both sexes and all age groups.

## C. Consumption patterns of all alcohol by sex and age group

Australia ranks well down the list of comparable developed OECD countries when it comes to total alcohol consumption. The World Drink Trends 2004<sup>10</sup> shows that from 1999 to 2002 Australia's alcohol consumption ranking fell from 19th to 23rd in the world. In 2002, Australia ranked 36th in the world for spirit consumption, 9th for beer consumption and 17th for wine consumption.

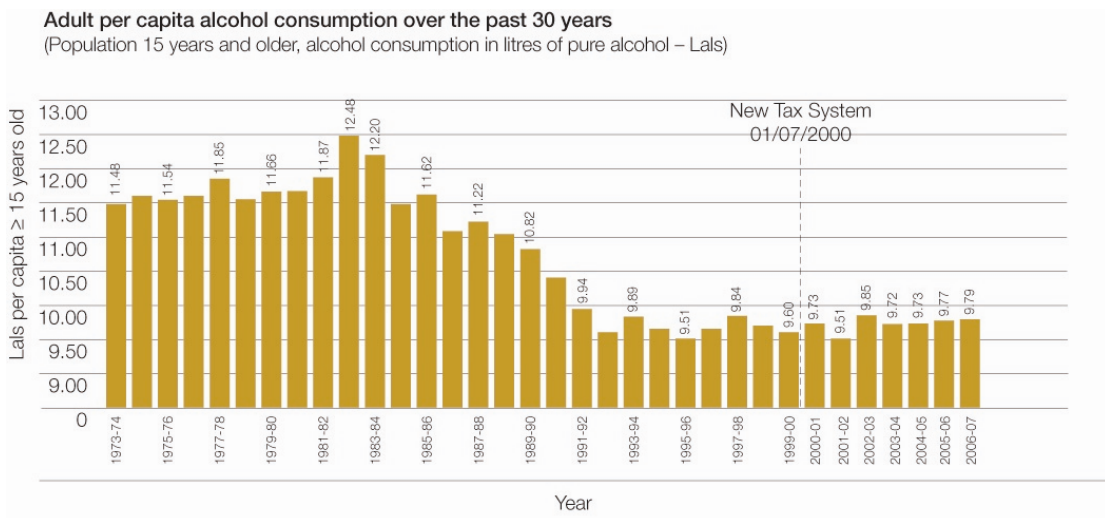
Australia's alcohol consumption fell 12.6% during the 1990s, the greatest decline of consumption for any region of the world (PBGD 2004, p.19). From an alcohol consumption peak in the early 1980s, current consumption rates have fallen to levels of consumption not seen since the 1960s.

It is estimated that alcohol consumption for 2006-2007 in Australia will be 9.79 litres of pure alcohol (LALS) per capita. This is in line with 9.77 LALS per capita in 2005-2006.

Alcohol consumption per adult per capita is now below 1970s levels<sup>11</sup>. There has been no significant increase in adult per capita alcohol consumption since the RTD tax reform of 1 July 2000.

While there appears to be a slight upward trend in alcohol consumption in Australia over the past four years led by the growth of premium and imported beers, examination over a 10-year period shows alcohol consumption per capita to be mainly flat<sup>12</sup>.

**Figure 3C-1**



<sup>10</sup> Productshap Voor Gedistilleerde Dranken (Commission for Distilled Spirits) 2004, World Drink Trends, WARC

<sup>11</sup> ABS data and DSICA Pre Budget Submission 2008-09

<sup>12</sup> DSICA Pre Budget Submission 2008-09, page 18

### Changes in categories within the Australian alcohol market

While alcohol consumption remains relatively flat across the board, the market for alcoholic beverages continues to change and evolve.

Beer consumption in Australia has been in long-term decline from a peak in 1972. Wine continues to grow although its growth rate has recently flattened. Full strength spirit consumption is gradually declining, and RTDs have been growing at approximately 10% per annum<sup>13</sup> over the last 20 years.

The full strength bottled spirit market has declined by 4% in the period 1999/2000 to 2006/2007. Full strength bottled spirits currently comprise 11.6% of the total alcohol market down from 13.8% in 1999/2000. It can therefore be concluded that a significant proportion of the growth in RTDs has come at the expense of full strength spirits.

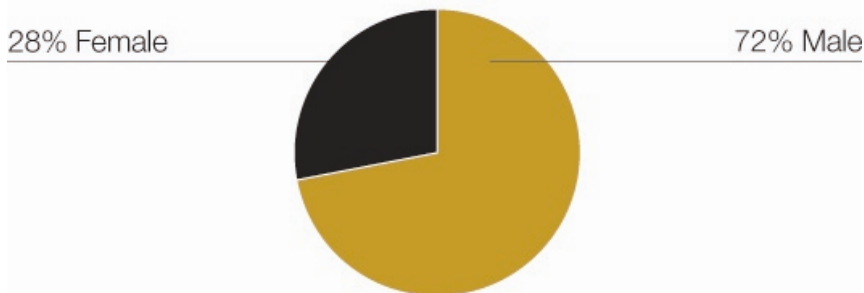
It is, however, worth observing that the growth rate of RTDs has slowed significantly and is forecast (pre RTD tax hike) to be 4% in 2007/2008<sup>14</sup>.

### Alcohol consumption among men and women

According to research conducted by Roy Morgan as recently as March this year<sup>15</sup> men consume 72% of alcohol in Australia. See Figure 3C-2 below.

**Figure 3C-2**

Men consume significantly more alcohol than women

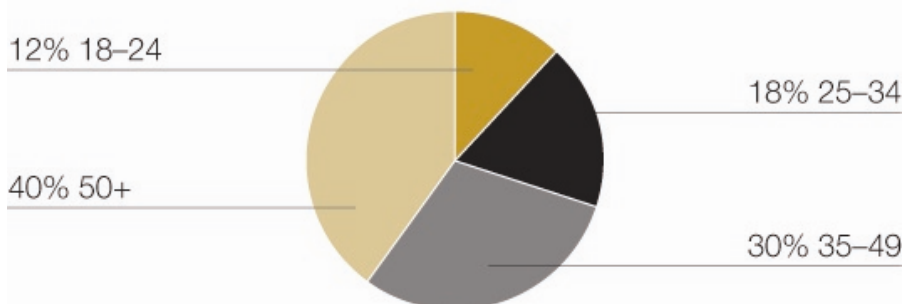


### Alcohol consumption by age group

Drinkers aged 35 and above account for approximately 70% of the market according to Roy Morgan's research.

**Figure 3C-3**

Percentage of overall alcohol consumption by age group



<sup>13</sup> Compound annual growth rate (CAGR)

<sup>14</sup> DSICA Pre Budget Submission 2008-09

<sup>15</sup> Roy Morgan Market Segment Survey, March 2008, n = 1451

## **Conclusion**

Total alcohol consumption has remained relatively static in the past ten years. Consumers have been changing their drinking repertoire and now are drinking different categories by occasion with RTDs taking volume growth from higher alcohol products such as wine and spirits, and also from beer which generally has the same ABV.

## **Recommendation**

The Federal Government needs to work with the Department of Health and Ageing, AIHW and industry to better understand patterns of alcohol consumption by sex and age, before singling out one small section of the industry and disproportionately increasing RTDs share of the tax burden.

## **D. The impact of these changes on patterns of overall full strength spirit consumption, including any increased consumption of standard drinks of alcohol**

Experience from comparable overseas liquor markets in which alcohol taxation has been used in an attempt to modify drinking behaviour has shown that the most likely outcome is simply a shift in consumption to other lower-taxed forms of alcohol.

Historically, changes in prices and taxation have not led to a reduction in drinking but rather a substitution (especially by younger drinkers) to more 'economical' products – often spirits or cheap cask wine which have a higher ABV per litre.

### **Impact of increased RTD excise in Australia to date**

We have some early data from liquor retailers in Australia which confirms this trend of substitution is already emerging. Sales data from a leading NSW independent liquor retailer<sup>16</sup> with 20 stores spread across the whole of Sydney shows the following trends:

- RTD sales are down 44% following the excise increase
- Full strength spirit sales are up by 21%
- Wine cask sales up 16%
- Sales of wine based 200 and 250ml "pseudo RTDs" are up by 71%
- Cider sales are up 17%

While the RTD tax increase has been explained by the Government as targeting young female drinkers, the product most favoured by young males – dark spirit RTDs – has been the most negatively affected by the tax change. As further evidence of the switch to full strength spirits, it has been widely reported in the media that sales of Coca-Cola have increased significantly following the excise increase. Coca-Cola is typically used to mix full strength rum, bourbon and whisky.

It is IDAs view that by causing a shift in consumption of alcohol from one product to another, the RTD excise is failing to address the very health issues with which the Government purports to be concerned.

In particular, a shift from RTDs to straight spirits is likely to result in higher alcohol consumption. RTDs provide a safe, recognised spirits-based beverage containing anywhere from 3.5 to 9% alcohol per serve. Most RTD products on the market are actually at the lower end of the scale at about the same strength as beer and provide a safer alternative than straight or home-mixed spirits.

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<sup>16</sup> Scan data provided by Chambers Cellars Retail Liquor Group for the four weeks from 28 April 2008 to 25 May 2008 and compared to the previous corresponding period in 2007

## Facebook survey

IDA recently conducted a survey via popular internet forums to capture some basic behavioural data on patterns of alcohol consumption and the impact of the Federal Government's excise increase.

Based on responses from 500 people, IDA identified the following interesting facts:

94% of respondents do not think the excise increase will effectively combat binge drinking. They suggested alternate solutions such as:

- Education programs – 66.3%
- Better enforced responsible alcohol services at bars and pubs – 60.8%
- Government advertising to make people more aware of the risks – 48.7%

In total, 63% of RTD drinkers have changed their preferred drink in response to the excise increase. This includes:

- 47.3 % of female RTD drinkers switching to spirits
- 51 % of male RTD drinkers switching to spirits
- 67 % of underage RTD drinkers switching to spirits

71.8 % of drinkers who prefer RTDs drink only two or less times per week. This compares to 46.2 % of beer drinkers and 45.7 % of wine drinkers who drink two or less times per week.

Drinkers aged over 30 years drink more often than younger drinkers. 37.4% of respondents aged over 30 years drink 4 or more times per week compared with 17% of respondents aged 14-29.

Complete survey results can be found in Annexure 2.

## Conclusion

Most tax changes will alter consumer behaviour. However, evidence in Australia since the RTD tax change (supported by overseas case studies) is that tax itself will not reduce consumption overall. Data to date shows that total alcohol consumption may even increase as consumers shift consumption to cheaper and in most cases higher strength alcoholic products.

## Recommendation

Excise increases (particularly when targeted at one small section of the market) are not an effective tool in decreasing risky drinking behaviours. IDA recommends a more holistic approach stemming from a better understanding of drinking behaviours and including education, information sessions for parents, role modelling and more effective enforcement. Measures should be targeted, cost effective and practical.

## E. The evidence underpinning the claims of significant public health benefit in the increase of excise on this category of alcohol

The Budget shows the RTD tax changes are expected to raise \$3.1 billion. Despite the increased revenue from the excise increase, Budget papers reveal the National Binge Drinking Strategy will not receive any of this. Instead, 2008-09 Budget Papers say the Strategy will be "met from within the existing resourcing of the Department of Health and Ageing"<sup>17</sup>.

<sup>17</sup> [http://www.budget.gov.au/2008-09/content/bp1/downloads/bp1\\_bst5.pdf](http://www.budget.gov.au/2008-09/content/bp1/downloads/bp1_bst5.pdf) pg 10

The Budget papers also reveal that revenue from the tax would increase each year over the forward budget estimates<sup>18</sup>, further casting doubt on the Government's claim that the tax would curb consumption of RTDs.

Minister Roxon has said that a proportion of the \$3.1 billion revenue will be directed to general preventative health programs. The Government has not outlined how much constitutes a "proportion" or if alcohol strategies or programs will benefit.

### Conclusion

The Government has provided no specific plans to invest any of the additional tax in public health or alcohol abuse initiatives – the pretext for the tax increase.

### Recommendation

The Federal Government should reveal the proportion of funding from the excise increase that it is willing to commit to targeted, cost effective and practical preventative health and alcohol initiatives.

## F. Applicability of incentives to encourage production and consumption of lower alcohol content beverages

It is IDA's view that manufacturers should be incentivised to provide lower strength alcohol products to the market. However, the Government's changes to the excise system achieve the opposite by taxing spirit-based RTDs with an average 5% alcohol (and up to a maximum of 9% alcohol) at the same rate as full strength spirits with up to 50% alcohol content.

For example RTDs with 5% alcohol content are now taxed 14 times more than cask wine which has an average alcohol content of 13%.

Currently, consumers are incentivised by the tax system to purchase higher alcohol products.

**Figure 3F-1**

Size	ABV% & alcohol	Type	Price	Standard drinks per unit	Price per standard drink
375ml	5% RTD	Bundy, JW	\$4.50	1.5	\$3.00
700ml	40% Spirit	Bundy, JW	\$33.99	22	\$1.54
750ml	11% Wine	Yalumba Sav B	\$9.99	8.0	\$1.25
375ml	5% Beer	VB	\$1.50	1.4	\$1.07
4 litres	11% Wine	Cask Wine	\$10.00	32	\$0.31

The complexity of 12 different excise rates in addition to a separate Wine Equalisation Tax (WET) for wine does not encourage or support the development of lower alcohol products by industry.

For example, wine-based RTDs pay less excise and so are currently more attractive to manufacture and sell than spirit based RTDs. At between 8% and 22% alcohol by volume (ABV)<sup>19</sup>, by law these wine-based products are arguably more likely to lead to 'risky' drinking behaviour because of their higher alcohol content. However these products are much cheaper for consumers to purchase based on the current excise system.

Excise has evolved over time in response to a mix of revenue, health and political agendas. The taxation system today sends confusing signals to both the manufacturer and the consumer and with the antiquated 12 tier tax system, is very expensive to administer.

<sup>18</sup> [http://www.budget.gov.au/2008-09/content/bp1/downloads/bp1\\_bst5.pdf](http://www.budget.gov.au/2008-09/content/bp1/downloads/bp1_bst5.pdf) pg 10

<sup>19</sup> Thompson's Liquor Guide

## Volumetric Tax System

There is the potential for the Government to use liquor excise to actually encourage the production and consumption of lower alcohol products by using a volumetric tax system. At the end of the day, alcohol is alcohol is alcohol. By taxing products on the volume of pure alcohol, products with the highest alcoholic content would become the most expensive to produce and consume. This would achieve a more positive health outcome and would minimise binge drinking across all forms of alcohol.

## Conclusion

The current alcohol tax system is already complex and expensive to administer and subsidises high alcohol products such as wine by low alcohol products such as RTDs. A major alcohol tax system overhaul is overdue.

## Recommendation

A major alcohol tax system overhaul is way overdue and has the universal support of the senate through the recent motion put to the Senate by Senator Andrew Murray. As part of this inquiry, the Senate and Government should investigate the merits of volumetric tax as part of the recently-announced Government review of the taxation system.

## G. Modelling underpinning the Government's revenue estimates

Treasury expects revenue from the RTD tax to continue to grow faster than inflation, despite forecasting a drop in consumption forecast to be about 43 million bottles in 2008-09 (or about 4% of the RTD category).

Total revenues from the tax measure on RTDs over the forward estimates are expected to be \$3.1 billion. As outlined in section 4a) of this Submission, the RTD sales data captured over the past four weeks (if maintained over time) would throw Treasury's modelling into serious question. If current trends continue, Treasury's estimates in the change in RTD sales, and therefore the tax revenue collected, will be overestimated by 40%.

In advice tabled in parliament by the Minister for Health, Nicola Roxon, Treasury estimates RTDs have price elasticity of -0.4 – that is, a 4% decline in sales for every 10% increase in price.

In the same advice Treasury more or less admitted its modelling was based on guesswork, and contained an admission that consumers who choose to no longer consume RTDs because of price considerations, are quite likely to consume other more affordable forms of alcohol.

*“The relatively new existence of RTDs within the market place makes it difficult to determine precisely the sensitivity of the volume sales of RTDs relative to changes in their prices. Conceptually, changing the price of RTDs can have two effects. The first is an own price elasticity which is the change in the consumption of RTDs due to the change in the price of RTDs. The second possibility is a re-direction of alcohol consumption to other products as a result of the change in price of RTDs.”*

IDA believes the decision taken by the Government to increase the excise on RTDs by 70% was a knee-jerk response that gave no consideration to the substitution effect the measure would have.

Furthermore, the fact the forward estimates forecast revenues from the excise increase to top \$3 billion, we believe the Government was primarily motivated by the revenue it would receive from this tax measure, not any health considerations. The fact that Minister Roxon has not nominated any preventative health programs reinforces this perception.

## Conclusion

The modelling supporting the introduction of the new RTD tax is thin on detail and underpinned by assumptions that Treasury acknowledges are based on guesswork. Early estimates of the actual revenue effect of the tax indicate that it could be overstated by as much as 40%.

## Recommendation

Treasury has admitted it cannot accurately forecast what impact the tax will have. Treasury, Department of Health and Ageing and AIHW should consult with industry to gain a better understanding of alcohol consumption patterns.

## H. The effectiveness of excise increases as a tool in reducing the levels of alcohol related harm

### RTD excise not an effective deterrent to drinking

The Government's decision to tackle the issue of binge drinking through tax increases disregards the influence of factors other than price on drinking behaviour.

*While we know what, when, where and how much people drink, this approach largely overlooks the social, political, economic and, importantly, the cultural contexts in which such behaviour takes place and the interactions between these influences*<sup>20</sup>

One element that requires further discussion is the role parents play in supplying alcohol to underage drinkers. A recent New Zealand study shows that 64% of parents of 14-17 year olds provided their teenager with alcohol. 50% of those parents had supplied their children with 5 or more servings on the last occasion their child drank.<sup>21</sup> There is limited research of this nature in Australia, however, the 2004 AIHW Household Survey showed that almost 70% of 14 to 19 year olds had consumed alcohol at private parties and almost 60% said they had recently consumed alcohol at home.<sup>22</sup>

Tens of thousands of comments from young voters who believe the RTD excise is flawed and fails to address the issue of binge drinking can be found in forums online<sup>23</sup>:

*"I work in a bottle shop and this is the best example I can find as to why this tax is a really dumb idea: 1 carton of JD cans = \$119; A 4pack of JD = \$22; 1 700mL bottle of JD = \$33. This means you can almost buy 4 bottles for the price of 1 carton. I know which option I'll choose."*

*"Now people will find it more affordable to buy the bottle and most likely knock it back in one night. Who's Binge drinking now? I know I am. Cheers."*

*"Mr. Kevin Rudd, it is now officially CHEAPER for me to take ILLEGAL drugs than to drink legally. Good One."*

*"So a 6 pack of Smirnoff double blacks is now \$30, and a bottle of vodka is around \$30... three times the amount of alcohol for the same price, I'm smashing myself on a bottle of vodka!"*

As discussed in Section F, there is no evidence to prove that excise increases or price increases are an effective deterrent to risky drinking behaviours – particularly when applied to only one small category of alcohol when substitution can take place.

<sup>20</sup> National Centre for Education and Training on Addiction (NCETA) (2008) Young People and Alcohol, p13

<sup>21</sup> Research New Zealand (April 2007) The sale and supply of alcohol to under 18 year olds in New Zealand

<sup>22</sup> 2004 AIHW National Drug Strategy Household Survey

<sup>23</sup> Facebook, 16 May 2008



In addition, there are a number of global examples where tax changes have been implemented with the intention of deterring 'binge drinking' and failed.

### **The UK Experience**

In 2002, the Blair Government substantially increased the tax on RTDs which simply led to a major increase in consumption of beer and cider. Beer and cider paid less tax and therefore provided a cheaper alternative for consumers. This substitution also led to a reduction in the additional revenue forecasts the Blair Government had made<sup>24</sup>.

Another consequence of the increased RTD tax in the UK was the transfer of alcohol purchases to other parts of Europe. Consumers began purchasing RTDs in other countries and bringing them home tax free.

### **The German Experience**

In 2004, the German Government dramatically increased the tax on RTDs with the intention of reducing underage drinking and binge drinking.

In 2005, the percentage of teenagers who drank spirit based RTDs at least once a month decreased, however there has since been a dramatic increase in the quantity of total alcohol consumed per capita amongst 12 to 17 year olds. Evidence indicates that the overall increase is due to the increased consumption of beer, RTDs made from malt-based alcohol, wine and full strength spirits.<sup>25</sup>

Disturbingly, this is especially significant among boys aged 16 to 17. The total alcohol intake for this demographic has increased by almost 50% in the period since the RTD tax was introduced in 2004<sup>26</sup>.

### **The Swedish Experience**

In Sweden, the Government heavily regulates the supply of alcohol through access. That is, consumers can only purchase alcohol through Government-controlled stores and no one under the age of 20 is allowed to purchase alcohol despite the legal drinking age being 18.

Even this tight level of regulation has failed to address the issue for binge drinking as Swedes simply purchase their alcohol in less regulated adjacent markets. The Scandinavian ferries regularly sell alcohol on board with no limit.<sup>27</sup>

*"Teenagers drink that which is cheapest. If taxes were increased on alcopops and there were other stronger intoxicants available then the proposal could have negative effects, such as an increase in alcohol poisoning."*

Thomas Hvitfeldt, CAN (alcohol research unit), quoted in Swedish daily paper Esmerk

### **Conclusion**

The attempt by the Government to positively change Australia's drinking culture by dramatically escalating the tax on 10% of the industry is, at best, naïve and completely disregards all overseas experience on this issue. Binge drinking is about how people drink, not what people drink. It is a problem that cannot be reduced by simplistic, hastily thrown together changes to one tax rate in a tax structure with 12 rates, plus WET. Binge drinking occurs across all forms of alcohol and the solution needs to embrace all forms of alcohol.

### **Recommendation**

Education and behavioural programs directed towards 'at risk' drinkers are needed to address this complicated problem in a targeted and practical way.

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<sup>24</sup> International Wine and Spirit Review, March Edition, 2008, p18

<sup>25</sup> German Federal Centre for Health Education, 2004-2007

<sup>26</sup> German Federal Centre for Health Education, 2004-2007

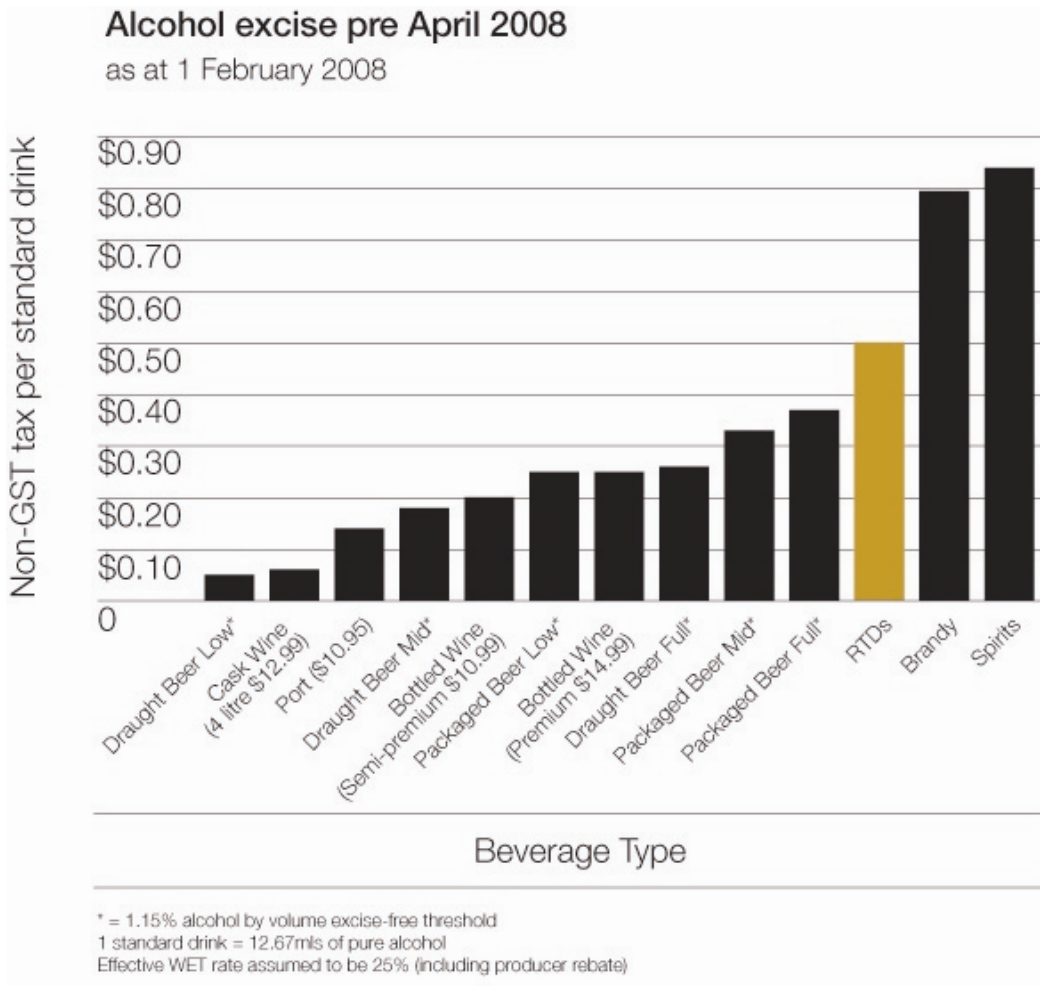
<sup>27</sup> A Shanahan (The Australian), *Nanny can't end binge drinking*, 3 May 2008

## I. Empirical evidence on which the Government's decision to increase the excise on Ready-to-Drink alcohol beverages was based

### Alcohol excise pre April 2008

Changes to the taxation system in 2000 set out new rates of excise for alcoholic beverages. These changes ensured alcoholic products were taxed according to alcoholic content.

Figure 3I-1



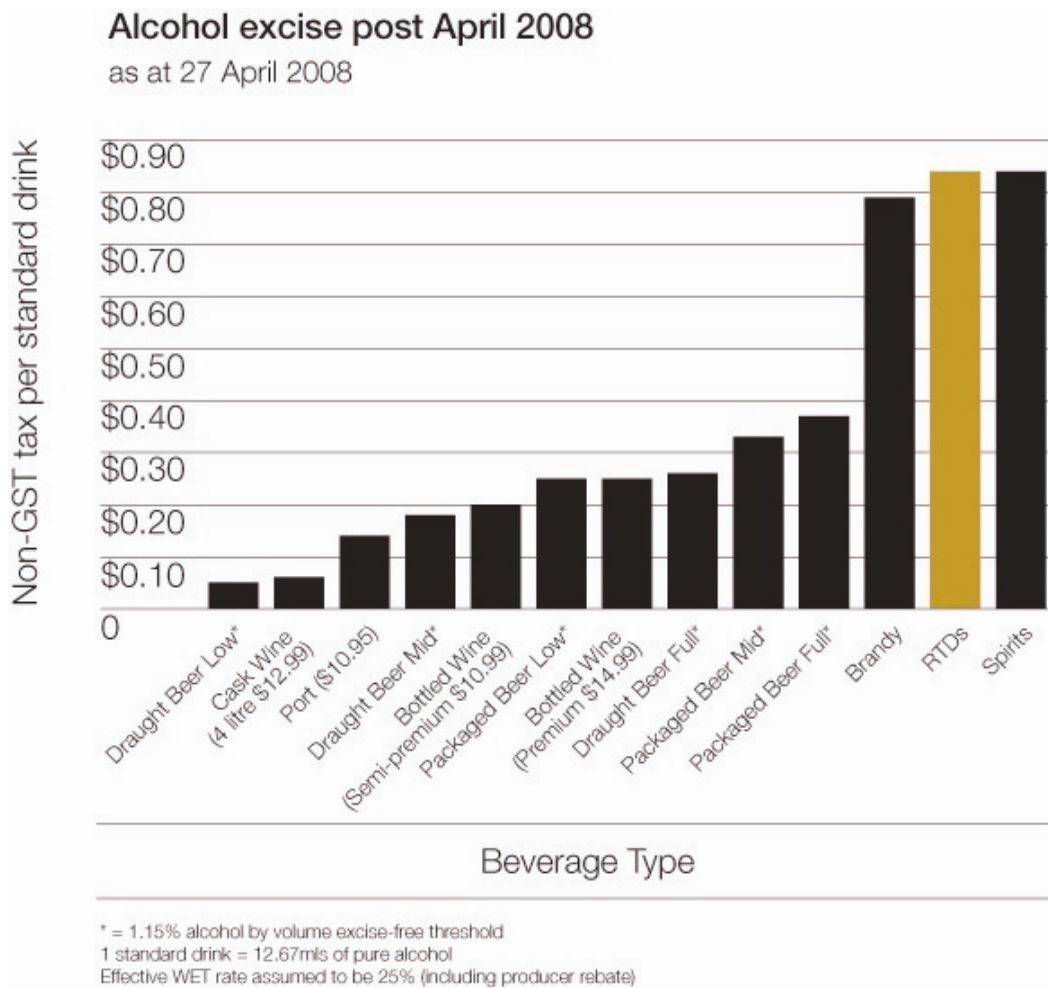
### Alcohol excise post April 2008

These arrangements remained in place until 27 April 2008 when the Federal Government increased the excise on 'other excisable beverages not exceeding 10 % by volume of alcohol' by 70 %, from \$39.36 to \$66.67 per litre alcohol. The excise increase almost exclusively affects RTD beverages.

The current Federal Government has said that their recent increase in excise on RTDs "closes a loophole" with regard to liquor excise.

It is important to recognise that the previous arrangements sought to place RTDs on a similar excise base as full strength beer on the basis that RTDs and beer are about the same alcohol strength. The recent increase in RTD excise is a backwards step with regard to creating a fair system of liquor taxation in Australia. This has created a large anomaly within the excise arrangements for alcohol, as seen in the chart below.

Figure 3I-2



### Lack of evidence to support excise change

The Government has publicly relied on the findings of the 2007 National Drug Strategy Household Survey, undertaken by the Australian Institute of Health and Welfare (AIHW), to justify the increased excise on ready-to-drink alcohol beverages. The Government says the study showed an 'explosion' of binge drinking amongst teenage girls.

The Government has misinterpreted the findings of this report and mistakenly endeavoured to correlate growth in popularity of RTDs with binge drinking. We are yet to see any evidence to support this assertion.

It is the view of IDA that there is no tenable reason for the Government's decision to raise RTD excise and that the rationale is not sound.

The Government claims that RTDs were being taxed at "an inappropriately low rate" under the previous Coalition Government.

RTDs vary in alcohol content but most (some 85% of products on the market<sup>28</sup>) have an alcohol content of about 5%. About 7% of RTDs on the market have an alcohol content of between 5% and 9% - still less than wine. About 8% of RTDs on the market have an alcohol content of below 5%.

<sup>28</sup> Thompson's Liquor Guide

The excise on RTDs has never been inappropriately low. Prior to the changes announced by the Rudd Government, RTD excise was in line with other single-serve products of a similar nature and of a similar alcohol content. This system was much more appropriate than what is currently being proposed, where RTDs with 5% alcohol are taxed at the same rate of spirits with up to 50% alcohol.

### No proven link between RTDs and risky drinking

2007 National Drug Strategy Household Survey, on which the Government based its decision-making, does not provide any research or analysis on types of alcohol or alcoholic products preferred by respondents. That is, there is no differentiation in the Survey between RTDs, beer, wine or spirits.

What the survey does say is that:

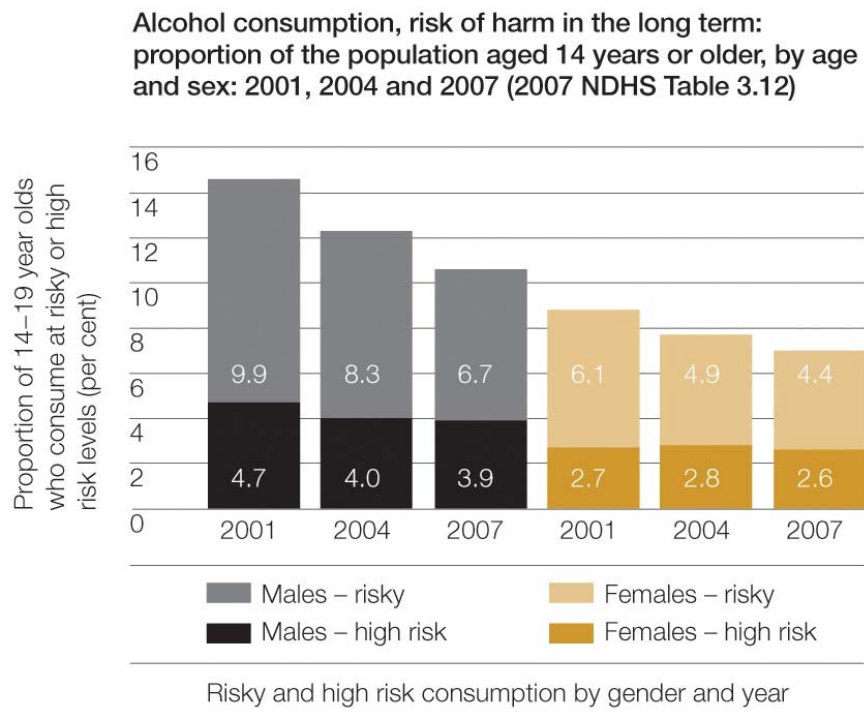
*“The proportion of the population drinking daily fell significantly (from 8.9% to 8.1%) between 2004 and 2007 whereas the average age at which people had their first serve of alcohol (17 years of age) remained stable.”<sup>29</sup>*

And also:

*“The proportions of Australians aged 14 years or older abstaining from alcohol (never has a full serve of alcohol) has increased significantly between 2004 (9.3%) and 2007 (10.1%).”<sup>30</sup>*

The National Drug Strategy Household Survey is conducted every three years. Using data from the survey itself, it is evident that, since 2001, drinking at levels considered “risky” and “high risk” among the 14-19 year old age group has declined.

**Figure 3I-2**



<sup>29</sup> 2007 National Drug Strategy Household Survey, page xi

<sup>30</sup> 2007 National Drug Strategy Household Survey, page 19

Binge drinking and alcohol abuse are complex issues that require detailed research to determine the most effective deterrents. It is not only about what people drink, but how, where and why they drink. Increasing taxes and driving prices up on one small segment of the market is not likely to reduce drinking levels and – at best – might encourage drinkers to switch to other products. Educational and behavioural programs are required to address what is effectively a social problem.

### **No funding for alcohol initiatives from the excise**

As of the date of this report, not a single new dollar raised from the tax has been earmarked for anti-binge drinking measures<sup>31</sup>. The “proportion” of revenues originally promised to fund preventative health have not been identified or disclosed by the Government.

The Government has said that revenue from the RTD tax will increase every year, despite increased prices discouraging young people from buying RTDs.<sup>32</sup>

The Budget papers reveal the tax on RTDs has been implemented to offset declining overall revenues from alcohol and tobacco products, not for health reasons.

*“Estimated revenue from other excisable goods (other excise) is expected to increase by \$380 mil in 2007-08 and by \$620mil in 2008-09. This reflects a general trend towards declining volumes of consumption of both tobacco and alcohol being more than offset by the policy decision to increase the excise rate on pre-mixed alcoholic beverages.”<sup>33</sup>*

### **Conclusion**

Whilst we acknowledge that RTDs are part of the overall binge drinking problem, we can find no evidence proving that RTDs are the primary cause of binge drinking. On this basis the attempt by the government to significantly change Australia’s drinking culture by increasing tax on RTDs cannot work.

### **Recommendation**

As all alcohol is involved in the binge drinking problem, based on the Government’s own research, all alcohol should be involved in the solution. A volumetric tax on alcohol is the fairest, simplest and most logical solution, and has the support of a broad range of politicians, NGO’s and industry commentators.

## **J. Alternative means of limiting excessive alcohol consumption**

### **Recommendations**

IDA would be willing to commit to the following initiatives and would suggest that these initiatives might also form a good starting point for other RTD manufacturers:

- Maximum of two standard drinks per bottle
- Modifications to the rules governing advertising, media and sponsorship
- No internet or viral marketing
- Improved labelling around alcoholic content and nutrition
- No products over 10% alcohol content
- No case or carton retail promotion advertising
- In store promotion only
- Levy on all alcohol for health initiatives
- Targeted education programs for 14-17 year olds and their parents

<sup>31</sup> Budget Paper No. 2, Health and Ageing

<sup>32</sup> Budget Paper No. 1, Statement 5, pg 10

<sup>33</sup> Budget Paper No 1, Statement 5, pg 28

Minister Roxon claims that the increase in RTD taxes will protect about 20,000 young females who are she says are “at risk”. The clear implication of this is that the vast majority of Australia’s RTD drinkers are being unfairly penalised at the expense of a tiny minority.

Minister Roxon’s 20,000 (at risk) female drinkers could be much more cost effectively targeted through a dedicated education campaign rather than a blanket excise impost on the vast majority of Australia’s four to five million RTD drinkers.

While IDA does not specifically know how to solve the complex problem of binge drinking, we are committed to working with all parties to encourage the responsible use of alcohol. We would also seek to be involved in developing a more comprehensive approach to alcohol related issues across Government, law enforcement and licensing agencies, NGO’s, local communities, parents, and young people.

It is IDA’s view that the opinions of these many stakeholder groups need to be harnessed in order to begin addressing the real issues associated with binge drinking, rather than resorting to the blunt instrument of taxation, which has been proven to be totally ineffective when it has been used in comparable overseas countries.

# Annexure 1

## Sales data from Chambers Cellars

### Impact of RTD tax across all sales categories

Category	Four Weeks' Sales 28/4-25/5/08		Four Weeks' Sales 28/4-25/5/07		Variance	
	9 litre cases	\$ value	9 litre cases	\$ value	9 litre cases	\$ value
<b>RTD</b>						
Dark Spirits	1436	\$138,499	2687	\$184,092	-1251	-\$45,593
White Spirits	361	\$31,644	572	\$39,051	-211	-\$7,407
Energy RTDs	39	\$4,143	45.8	\$3,855	-6.8	\$288
<b>Total</b>	<b>1836</b>	<b>\$174,286</b>	<b>3304.8</b>	<b>\$226,998</b>	<b>-1468.8</b>	<b>-\$52,712</b>
<b>Full Strength Spirits</b>						
Dark Spirits	949	\$315,744	767	\$249,922	182	\$65,822
White Spirits	124	\$41,889	94	\$32,253	30	\$9,636
Liqueurs	110	\$29,148	118	\$30,275	-8	-\$1,127
<b>Total</b>	<b>1183</b>	<b>\$386,781</b>	<b>979</b>	<b>\$312,450</b>	<b>204</b>	<b>\$74,331</b>
<b>Total Wine Casks</b>	<b>1990</b>	<b>\$103,427</b>	<b>1716</b>	<b>\$91,186</b>	<b>274</b>	<b>\$12,241</b>
<b>Total Flagons</b>	<b>34</b>	<b>\$2,686</b>	<b>37</b>	<b>\$2,654</b>	<b>-3</b>	<b>\$32</b>
<b>Sparkling Wine</b>						
750ml	1182	\$123,151	1260	\$135,678	-78	-\$12,527
200/250ml	9.2	\$970	5.8	\$573	3.4	\$397
<b>Total</b>	<b>1191.2</b>	<b>\$124,121</b>	<b>1265.8</b>	<b>\$136,251</b>	<b>-74.6</b>	<b>-\$12,130</b>
<b>Beer</b>						
Full Strength	18470	\$771,123	18810	\$753,676	-340	\$17,447
Mid Strength	385	\$13,883	289	\$9,268	96	\$4,615
Light	940	\$31,176	1299	\$37,588	-359	-\$6,412
<b>Total Beer</b>	<b>19795</b>	<b>\$816,182</b>	<b>20398</b>	<b>\$800,532</b>	<b>-603</b>	<b>\$15,650</b>
<b>Total Cider</b>	<b>159</b>	<b>\$7,747</b>	<b>136</b>	<b>\$6,708</b>	<b>23</b>	<b>\$1,039</b>
<b>Total Alcoholic Beverage Sales</b>	<b>26188.2</b>	<b>\$1,615,230</b>	<b>27836.6</b>	<b>\$1,576,779</b>	<b>-1648.4</b>	<b>\$38,451</b>

## Annexure 2

### Roy Morgan Market Segment Survey, March 2008

CATEGORIES – DRUNK LAST 4 WEEKS	TOTAL VOLUME	SEX OF DRINKERS		VOL CONSUMED		AGE OF DRINKERS			
		MALE	FEMALE	MALE	FEMALE	18-24	25-34	35-49	+50
<b>BEER</b>	54%	72%	28%	86%	14%	12%	20%	31%	37%
<b>CIDER</b>	1%	49%	51%	54%	46%	16%	15%	33%	36%
<b>WINE</b>									
TOTAL TABLE WINE	20%	49%	51%	53%	47%	8%	16%	30%	46%
CHAMPAGNE OR SPARKLING WINE (red or white)	2%	38%	62%	34%	66%	8%	18%	33%	41%
FORTIFIED WINE	1%	62%	38%	69%	31%	5%	15%	28%	51%
TOTAL WINE (incl. Sparkling & Fortified)	23%	48%	52%	52%	48%	8%	16%	30%	46%
<b>RTD</b>									
DARK RTD	8%	62%	38%	68%	32%	24%	24%	34%	18%
LIGHT RTD	3%	29%	71%	30%	70%	31%	23%	29%	17%
TOTAL	11%	48%	52%	55%	45%	24%	24%	33%	19%
<b>SPIRITS</b>									
DARK SPIRITS	7%	63%	37%	69%	31%	14%	19%	30%	38%
WHITE SPIRITS	3%	42%	58%	43%	57%	26%	22%	26%	25%
TOTAL	10%	55%	45%	61%	39%	17%	20%	29%	34%
<b>LIQUEURS</b>	1%	41%	59%	40%	60%	19%	19%	30%	32%
<b>TOTAL ALCOHOL last 4 weeks</b>	100%	52%	48%	72%	28%	12%	18%	30%	40%



**Australian RTD consumption by sex and age**

CATEGORY	PERCENT OF *1 CATEGORY OF TOTAL RTDs	SEX OF DRINKERS *2		VOL CONSUMED *2		AGE OF DRINKERS *2			
		MALE	FEMALE	MALE	FEMALE	18-24	25-34	35-49	+50
<b>DARK</b>									
BOURBON	45%	62%	38%	67%	33%	27%	26%	33%	14%
DARK RUM	17%	65%	35%	69%	31%	23%	26%	32%	19%
SCOTCH	12%	63%	37%	67%	33%	22%	22%	32%	25%
BRANDY	1%	50%	50%	60%	40%	5%	15%	50%	30%
TOTAL	75%	62%	38%	68%	32%	24%	24%	34%	18%
<b>LIGHT</b>									
VODKA	18%	29%	71%	30%	70%	37%	22%	28%	13%
GIN	1%	32%	68%	36%	64%	8%	13%	32%	47%
WHITE RUM	3%	23%	77%	26%	74%	37%	24%	22%	17%
TEQUILA	1%	60%	40%	70%	30%	35%	40%	20%	5%
LIQUEURS	2%	19%	81%	30%	70%	30%	21%	28%	20%
TOTAL	25%	29%	71%	55%	45%	24%	24%	33%	19%

SOURCES: \*1 Liquor Merchants of Australia  
 \*2 Roy Morgan Market Segment Data sources specifically for this project

## ANNEXURE 3

### Facebook survey on alcohol and RTD consumption, 22-28 May 2008

#### Methodology

A web-based survey was constructed and a link to the survey was posted on several "Facebook Groups". Groups that had with an opinion on the Federal Government's RTD excise increase were identified and a message with the weblink to the survey was posted on their 'discussion board'. The survey was open from 22 to 28 May. 504 responses were received.

#### Overall results

1. What sex are you?

Male	51%
Female	49%

2. How old are you?

14-17 years	2.8%
18-23 years	49.6%
24-29 years	29.6%
30-39 years	13.5%
40-49 years	3.6%
50+ years	1%

3. On average, how many days per week do you drink alcohol?

0	5%
1	28.2%
2	27.6%
3	18.7%
4	9.5%
5	6.5%
6	2.2%
7	2.4%

4. On average, how many standard drinks would you consume in a week?

0	4.6%
1-5	26.8%
6-10	25.6%
11-15	17.5%
16-20	13.7%
21-30	6.5%
31-40	3%
40+	2.4%

5. What is your preferred alcoholic drink?

White Spirit RTD (vodka cruiser, bacardi breezer etc)	23.4%
Dark Spirit RTD (rum and coke, Woodstock etc)	21.6%
Beer	23.6%
Wine/Champagne	18.7%
Spirits	12.7%

6. Has the Rudd Government's tax increase on ready-to-drink/alcopops made you change your preferred drink?

Yes	39.1%
No	60.9%

7. How/ how not?

Change from RTDs to straight spirits	29%
Change from RTDs to beer	6.5%
Change from RTDs to wine	6.2%
Change from RTDs to other	2.6%
Will never stop drinking RTDs	20%
Didn't drink RTDs to begin with	35.7%

8. Do you think the tax increases on RTDs are an effective way to stop binge drinking?

Yes	6%
No	94%

9. How do you think binge drinking should be tackled? Choose as many as you like:

Education programs	66.7%
Government advertising to make people more aware of the risks	47.2%
Increase legal drinking age to 21	16.7%
Ban alcohol advertising / sports sponsorships	23.2%
Peer support programs / good role models	30%
Close pubs / bars earlier	9.3%
Better enforced responsible alcohol service at pubs / bars	60.1%
Binge drinking is here to stay	37.5%

10. Will the Rudd / Swan decision to increase RTD taxes make you less likely to vote Labor at the next election?

Yes	66.5%
No	33.5%

## Results for RTD drinkers

1. What sex are you?

Male	43.2%
Female	56.8%

2. How old are you?

14-17 years	2.6%
18-23 years	59%
24-29 years	25.1%
30-39 years	9.3%
40-49 years	3.1%
50+ years	0.9%

3. On average, how many days per week do you drink alcohol?

0	5.3%
1	34.8%
2	31.7%
3	14.1%
4	7%
5	4.4%
6	0.9%
7	1.8%

4. On average, how many standard drinks would you consume in a week?

0	4.4%
1-5	28.2 %
6-10	26.4%
11-15	15.4%
16-20	14.5%
21-30	6.6%
31-40	2.6%
40+	1.8%

5. What is your preferred alcoholic drink?

White Spirit RTD (vodka cruiser, bacardi breezer etc)	52%
Dark Spirit RTD (rum and coke, Woodstock etc)	48%
Beer	0%
Wine/Champagne	0%
Spirits	0%

6. Has the Rudd Government's tax increase on ready-to-drink/alcopops made you change your preferred drink?

Yes	63%
No	37%

7. How/ how not?

Change from RTDs to straight spirits	48.9%
Change from RTDs to beer	7.9%
Change from RTDs to wine	8.8%
Change from RTDs to other	3.5%
Will never stop drinking RTDs	29.1%
Didn't drink RTDs to begin with	0%

8. Do you think the tax increases on RTDs are an effective way to stop binge drinking?

Yes	2.2%
No	97.8%

9. How do you think binge drinking should be tackled? Choose as many as you like:

Education programs	66.1%
Government advertising to make people more aware of the risks	51.1%
Increase legal drinking age to 21	18.9%
Ban alcohol advertising / sports sponsorships	25.1%
Peer support programs / good role models	31.3%
Close pubs / bars earlier	7.9%
Better enforced responsible alcohol service at pubs / bars	59.9%
Binge drinking is here to stay	39.2%

10. Will the Rudd / Swan decision to increase RTD taxes make you less likely to vote Labor at the next election?

Yes	79.7%
No	20.3%