

NO EVIDENCE RTD TAX HIKE IS WORKING

COALITION SENATORS DISSENTING REPORT

Coalition Senators pursued this inquiry to give the Rudd government every opportunity to present the evidence that the 70% tax increase it applied to a single alcohol product category had worked to reduce alcohol abuse and related harm.

To many this measure had always been nothing more than a tax grab, which the government – for obvious political purposes – had dressed up as a health measure.

Given the measure has now been in place for nearly a year, the government had every opportunity to present at least some evidence that it was achieving its objectives. Yet, absolutely no evidence was provided by either the government or those supporting the tax increase that it had worked to reduce at risk levels of alcohol consumption or alcohol abuse related harm.

Furthermore, this legislation is a move away from what has been put forward by most of the health groups appearing before the inquiry (and the 'RTD industry'!) as their preferred approach to alcohol taxation. Those supportive of this measure to increase taxes on one product category with comparatively lower alcohol content, while at the same time calling for an approach to alcohol taxation which would result in lower levels of taxation for RTDs, were unable to explain that obvious flaw in logic.

One health expert pointed to the evidence that taxing lower alcohol content beverages at a lower rate was the *"most cost effective strategy the government could introduce"* to achieve a reduction in at risk levels of alcohol consumption¹. Dr Rosanna Capolingua, National President of the AMA told the Committee that *"the AMA would advocate volumetric taxing, where the price signal would depend on the alcohol content of a drink, and that would be across the board"*². Most health groups promoted the view that volumetric taxation of alcohol was where they wanted to go from a public health perspective. And the reason given was invariably that such a system would discourage (through financial disincentive) drinking of higher alcohol content beverages in favour of lower priced, lower alcohol content beverages, with a shift in popularity towards lower alcohol products reducing the incidence of alcohol-related harm.

In the context of statements like those it is difficult to see this legislation as anything other than a step in the wrong direction from a public health policy point of view. That is assuming of course that the government's objective was indeed to reduce at risk levels of alcohol consumption and alcohol abuse related harm rather than mere revenue raising.

On a matter of process, the government should be embarrassed that this legislation to validate a tax that has been in effect for nearly a year is being considered by the Senate with only four days to go before the final deadline. The government should be ashamed that straight forward

¹ Associate Professor Christopher Doran, National Alcohol and Drug Research Centre, University of New South Wales, *Proof Committee Hansard*, 10 March 2009, p.CA43;

² Dr Rosanna Capolingua, National President of the AMA, *Proof Committee Hansard*, 10 March 2009, p.CA36;

questions submitted to Treasury during the inquiry, like how much actual revenue has been raised as a result of this measure to date still remain unanswered.

Budgetary Context of the 'Alcopops Tax'

The 70% increase in the excise on RTDs (or 'Alcopops') was the single biggest revenue measure in the Rudd Labor Government's first budget, with an estimated revenue (then) of \$3.1 billion.

The 'Alcopops measure' has to be considered in the budgetary and political context in which it was introduced.

Labor's first budget was a high taxing high spending budget, with an estimated \$15 billion increase in net spending and an increase in revenue through new tax measures of nearly \$20 billion.

The new Labor government had won the election less than six months earlier as 'economic and fiscal conservatives' and had not yet rediscovered the 'temporary' deficit.

Labor was intent on demonstrating that in government it was able to maintain a healthy surplus, at a level similar to the \$22 billion left behind by its predecessors. In order to achieve that, the staggering increase in net spending had to be masked through a range of revenue measures, preferably aimed at some (politically) easy targets.

Whether it was this \$3.1 billion tax on Alcopops or the \$2.5 billion additional tax grab on the North West Shelf gas project in Western Australia, the government was no doubt confident that the political strategy would work. The tax on alcopops could be sold as a health measure and the tax on the North West Shelf as a tax on big (read rich) oil and gas businesses.

Who could possibly disagree with a measure aimed at preventing young people in particular from binge drinking and alcohol abuse related harm?

If the Government had indeed put an effective strategy to tackle alcohol abuse and binge drinking on the table, no doubt there would have been broad support.

But of course it had not.

What did the Rudd government actually do?

From 27 April 2008, the Government in effect abolished the category 'other excisable beverages not exceeding 10 per cent by volume of alcohol'.

As such RTDs, even though much lower in alcohol content, have since been taxed at the same rate as full strength spirits.

In so doing the government removed the incentive, generally promoted by health groups, to encourage the consumption of comparatively lower strength alcoholic beverages.

The legislation before the Senate seeks to validate that decision by Government.

There has been much rhetoric from the government that this measure is designed to close a 'loophole' created by the previous government.

The reality, as is quite often the case under this Labor administration, is very different from the rhetoric. To make up for the abolition of the 37% wholesale sales tax from 1 July 2000, which applied to beer and other beverages with less than 10% alcohol, the relevant excise was increased. Given that the alcohol content of RTDs was comparable to the alcohol content of full strength beers they were taxed at the same rate. This achieved tax neutrality for substitute products with similar alcohol content.

The removal of that tax neutrality by the Rudd Government has resulted in marked increases in the sale of beers since May 2008 as well as the creation of so called malternatives. According to the AC Nielsen data, relied on by most health groups appearing before the inquiry, beer sales have been higher every month compared to the same month in the previous year except August 2008 (the relevant graph presenting AC Nielsen data and supplied by the Australian Drug Foundation can be found further below).

Evidence based policy development or just political rhetoric?

Coincidentally, the Prime Minister addressed Commonwealth heads of agencies and members of the senior executive service in the Great Hall in Parliament House a couple of days after the Alcopops measure was leaked and came into effect. In what clearly were unrelated comments the Prime Minister told senior officials that the Government as part of its agenda for the public service was committed:

"...to ensure a robust, evidence-based policy making process. Policy design and policy evaluation should be driven by analysis of all the available options, and not by ideology... the government will not adopt overseas models uncritically. We're interested in facts, not fads..."³

Coalition Senators identified very clearly in their dissenting report after the first Senate inquiry into this measure⁴ that the government had not followed the Prime Ministers advice about evidence-based policy development on this occasion.

To assess whether a particular policy measure has or hasn't worked, the first thing needed is an ability to review the policy targets and performance measures that were set when it was introduced.

The problem with the increased tax on RTDs is that the government in introducing the measure did not set any targets or performance measures⁵, other than the \$3.1 billion fiscal target specified in the 2008/09 budget papers.

Since the measure was first introduced, the government continues to adjust its objectives and how public health success is to be assessed. Apparently a temporary reduction in the sale of RTDs to the whole RTD drinking population now proves success. That is irrespective of

³ Prime Minister Kevin Rudd, Address to heads of agencies and members of the Senior Executive Service, Great Hall, Parliament House, Canberra – 30 April 2008;

⁴ Community Affairs Committee, Inquiry into Ready-to-Drink Alcohol Beverages, May-June 2008;

⁵ Ms Christine Barron, General Manager, Indirect Tax Division, Department of the Treasury, *Proof Committee Hansard*, 11 March 2009, p. CA55.

whether it is a reduction among 'at risk' drinkers or responsible drinkers, and irrespective as to whether the reduction is sustainable (and expected to be sustained).

The decision to implement a tax on ready-to-drink beverages was announced in a pre-budget leak on 27 April 2008 (timed for the Sunday papers).

Attributed to 'a senior government source'⁶, the leak followed the release of the 2007 National Drug Strategy Household Survey on 26 April 2008.

The key feature of the leak was the deliberate effort to present the tax increase as a health measure. At that point the revenue 'estimate' by the unnamed source was around \$2 billion.

A few days later this is what the Treasurer Wayne Swan told David Speers on Sky News on 30 April 2008:

***TREASURER:** I can't comment on budget decisions, that's for Budget night. I just make this point about the excise increase on RTDs: that was closing a loophole that was left open some years ago, and it also relates to teenage binge drinking. So, it was a very specific initiative for very specific reasons.*

***SPEERS:** But teenagers binge drink beer and other drinks as well.*

***TREASURER:** I think the evidence is pretty clear from all of the experts that this measure will have an impact on teenage binge drinking, and it should be seen in that light, not in the light of revenue.*

Another example of the government's political rhetoric was the Prime Minister's interview with Neil Mitchell on Radio 3AW, Melbourne, 2 May 2008:

***CALLER:** But, these prices are also affecting the prices that adults, that have paid taxes like myself for 30 years, we're just an average family, and mixed drinks like Johnny Walker and cola or Jim Beam and cola have all gone up.*

***PM:** Well, we've got a real problem when it comes to teenage binge drinking. Talk to any police commissioner across the country and they'll tell you that. Difficult to deal with this. Some of the data we've got from the National Household Drugs Survey says we've now got 30-40,000 teenage girls aged 14-19 and 23,000 boys the same age, consuming alcohol at a level that puts them at high risk of long term harm. And if you look at what they're drinking, take girls for example, in the year 2000, 14 per cent of female drinkers aged 15-17 were reported drinking these ready to drink drinks — I'll just finish this one other point — and by 2004, that had increased by 60 per cent. So there is a big linkage between binge drinking on the one hand and these forms of drinks.*

David, sorry it's hurting you. It's a blunt instrument. I understand that. But, we've got a responsibility to act when it comes to young people, and police commissioners across the country are crying out for action.

However, what were the facts? What was the evidence about at risk levels of alcohol consumption and alcohol abuse related harm collected by the Australian Institute of Health and Welfare (AIHW)?

According to its submission to the May 2008 Senate inquiry, the AIHW (a more independent point of reference than either the Prime Minister or the Treasurer), concluded based on the

⁶ Darrel Giles, Political Editor, *Alcopop tax rise to battle the binge*, Sunday Mail Brisbane, 27 April 2008, p.1; Kerry-Anne Walsh, Political correspondent, *Rudd declares war on alcopops with tax rise*, Sun Herald, 27 April 2008, p.3;

same evidence regarding alcohol consumption patterns across Australia as per the 2007 National Drug Strategy Household Survey that⁷:

- The overall drinking status of the Australian population had been stable over the past two decades;
- There had been a modest increase in the apparent consumption of RTD alcohol beverages over the past five years;
- The preference for RTDs had increased slightly over the period 2001-2007, particularly in older age groups;
- There had been virtually no change in the pattern of risky drinking over the period 2001-2007, including among young Australians;
- The increased availability of RTDs did not appear to have directly contributed to an increase in risky alcohol consumption;

Critically, in its very extensive surveys in 2001, 2004 and again in 2007, the Australian Institute of Health and Welfare identified that the drink of choice for those drinking alcohol at risky or high risk levels was⁸:

- full strength beer for males (for all age groups, including 14-19 year olds);
- full strength bottled spirits and liqueurs for females (14-29 year olds);
- wine for females 30 years and older;

Obviously David Speers from Sky News was onto something. So much for evidence-based policy development!

The evidence from the AIHW released the day before the government announced its increased tax on RTDs had demonstrated that the 2007 results of its National Drug Strategy Household survey were consistent with those in the previous two surveys. The alcoholic beverage of choice among those drinking at problem levels had remained the same in each one of those surveys and they weren't RTDs. But that didn't suit the government's political strategy so that's not what the Prime Minister and the Treasurer told the Australian people.

Nearly one year on - where is the evidence at?

The Government's stated objectives were to reduce binge drinking, particularly among young people, to reduce at risk levels of alcohol consumption and alcohol abuse related harm.

The stated objective was not to reduce overall sales in RTDs (in fact the government's 2008/09 budget estimates assumed increased sales of RTDs). Nor was it to increase the sale of full strength spirits by 17% between 1 May 2008 and 31 January 2009. Nor was it to create new loopholes to be exploited by the alcohol industry. Or to raise \$1.5 billion less in revenue than what was presented as the budget estimate to Parliament in the 2008/09 budget papers.

⁷ Australian Institute of Health and Welfare submission, Senate Community Affairs Committee Inquiry into Ready-to-Drink Alcohol Beverages, May 2008;

⁸ Australian Institute of Health and Welfare, 2007 National Drug Strategy Household Survey, Detailed findings, *Table 21.9: Trends in preferences for selected alcoholic drinks, males, 2001-2007* and *Table 21.10: Trends in preferences for selected alcoholic drinks, females, 2001-2007*, pp.115-116

In relation to the \$1.5 billion reduction in revenue from this measure since it was announced in the budget, the Rudd government is taking spin to new and unprecedented levels. Incredibly, Ministers are seeking to make a virtue of the fact that as a result of not doing their homework properly they have significantly overestimated the revenue the government would raise from this measure.

The Minister for Health and Ageing has been arguing with a straight face that the reduction in revenue was in fact evidence the measure was working because sales had been dropping faster and further than the government had anticipated.

This is after the government had refused Opposition requests to release information about how much revenue had been raised as a result of this tax increase for months. If the significant downward revisions in revenue forecasts from the increased tax on RTDs were such good news, why did the government not share it with us earlier? Does anyone really believe that the government would have sat for months on 'evidence' that its controversial tax slug on RTDs was 'working', and so much better than expected at that?

Government still expecting Alcopops sales to grow into the future

The reality is that even with its revised revenue estimate of \$1.6 billion the government continues to expect sales (and thus consumption) of RTDs to increase in the years ahead. So even by the government's latest measure of success (reduced sales of RTDs), the government does not expect its increased tax on RTDs to work. The graph below out of the MYEFO 2008/09 was provided by Treasury at the end of February 2009 in answer to a question about volume growth rates assumed by Treasury moving forward. It shows that for the years 2009/10 to 2011/12 the government expects RTD sales (and consumption) to grow by a compounded 7.8% each year from 2009/10 onwards.

	2008-09 Per cent	2009-10 Per cent	2010-11 Per cent	2011-12 Per cent
Spirits	6.6	1.4	2.9	2.8
Other excisable beverages*	-15.3	7.8	7.8	7.8

*RTDs are only specifically modelled for excise as nearly all RTDs are produced domestically. A very small amount is imported, but the revenue raised is estimated along with other spirits.

Either this revised estimate is now accurate and the government's rhetoric about seeking to achieve reduced sales is just that – rhetoric, or the 7.8% estimated growth for RTD sales is still exaggerated. If it is the latter then the loss in revenue will be much more than what has been conceded by the government to this point.

The government's assumption of increased sales in alcohol products after an initial drop off is of course consistent with the international evidence, which was widely canvassed in the first Coalition Senators Dissenting Report last year. There it was noted for example that total teenage alcohol consumption in Germany increased between 2004 and 2007 after a 2004 tax increase⁹.

Since then it has also come to light that the (then) New Zealand Labor Government considered and rejected an increased tax on RTDs because *"there is no evidence*

⁹ Standing Committee on Community Affairs, Ready-to-Drink Alcohol Beverages, Coalition Senators Dissenting Report, p.68

internationally in support of targeted taxes on RTDs leading to a reduction in alcohol-related harm" and "overseas experience has shown that where there is a reduction in RTD consumption, this has led to an increase in the consumption of other liquor"¹⁰.

Is there any evidence of reduced consumption among problem drinkers?

The stated objective was to reduce consumption by those drinking at risky levels and to reduce alcohol abuse related harm. Is there any evidence that the measure is working given the government's originally stated objectives?

The short answer is no.

While there is evidence of a significant drop in sales of RTDs, nobody can say who is drinking less. Is the responsible consumer drinking less, with the risky drinker substituting RTDs with full strength spirits? Or is there reduced consumption across the whole 'drinking population'? Nobody knows, because nobody has collected the evidence.

The government by its own admission did not even try to get the evidence to demonstrate whether or not the measure had reduced at risk levels of alcohol consumption or alcohol abuse related harm.

In answers extracted from Treasury as a result of an Order of the Senate¹¹ the Government admitted that beyond the 2007 National Drug Strategy Household Survey (before the measure was introduced) it had:

"not collected any additional national consumption data on the reduction of risky or high risk and/or at risk behaviour since the introduction of the RTD excise increase in April 2008"

Given the public interest in this tax measure, and given the significant question marks over whether this measure would be effective this lack of effort by the government is at least surprising. At worst the government did not want to look for evidence which may not have fitted within its political (and high taxing, high spending) agenda.

Below is a representative sample of comments made by witnesses before the inquiry about the question of evidence whether the increased tax on RTDs had helped achieve a reduction in at risk levels of alcohol consumption or alcohol abuse related harm:

Professor Tanya Chikritzhs from the National Drug Research Institute:

Senator CORMANN—You talk about the close correlation between sales data and consumption data. Are you aware of any evidence, like looking at sales data that would indicate whether there has been a reduction in sales to risky drinkers—binge drinkers, people exposed to harm from at-risk levels of drinking?

¹⁰ Minutes of the New Zealand Ministerial Committee on Drug Policy Meeting, Hon Jim Anderton's Office, Level 7 Executive Wing, Parliament Buildings, Wellington, 2 September 2008;

¹¹ Orders of the Senate, No 30, Taxation - Alcohol – Order for Production of Documents, Motion of Senator Cormann agreed to on 4 February 2009;

Prof. Chikritzhs—Directly answering that question the answer is no. The sales data that we currently have addresses the overall population, so we are unable to determine exactly who is not doing the drinking of those RTDs, those alcopops, anymore.

Senator CORMANN—I am sorry; if I could just pin you down, because I am running out of time. Very specifically, this measure is a 70 per cent increase in the tax, in the excise on RTDs. How do we know that in Australia it has actually achieved a reduction in at-risk levels of binge drinking and alcohol abuse related harm?

Prof. Chikritzhs—The answer to that question is that we cannot be certain about who is drinking less and about whether they are in a high risk group.

Associate Professor Anthony Shakeshaft from the National Drug and Alcohol Research Centre at the University of New South Wales:

Prof. Shakeshaft—... 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.

Dr Rosanna Capolingua, National President of the AMA

Senator CORMANN—...what I am focused on at this point is evidence that consumption has reduced among those that the government tells us they were targeting—binge drinkers, particularly young Australians drinking at risky levels that are exposed to harm from alcohol abuse. Are you aware of any evidence about that category of Australians rather than those that are consuming alcohol, including RTDs, responsibly?

Dr Capolingua—The AMA advocates that data collection to obtain that evidence is required.

Mr David Templeman, CEO, Alcohol and Other Drugs Council of Australia

Senator CORMANN—Focussing very specifically on the type of target group, if I can call it that, such as those Australians dinking at risky or high risk levels and binge drinkers, are you aware of any evidence that would demonstrate that there has been a reduction in consumption in those target groups?

Mr Templeman—No, we are not.

Professor Ian Webster, Chair, Alcohol Education and Rehabilitation Foundation¹²:

Senator CORMANN—What evidence are you aware of that the incidence of alcohol abuse and of binge drinking has reduced as a result and since the introduction of the 70 per cent tax increase on RTDs?

Prof. Webster—None. I am a physician. I work with people with drug and alcohol problems. I think it is too early to make a judgment like that. In any case, I suppose the sorts of problems one sees in service are well-advanced problems in any case. I have not seen any evidence which has shown a decline in alcohol problems in the community since it was introduced. It would require very, very focused and very structured studies to define that. I probably do not need to elaborate on that, but even just collecting data from the emergency department.

Mr Geoff Munro, National Policy Manager, Australian Drug Foundation:

Senator CORMANN—But do you know whether the demand of the proportion who drink at dangerous levels has reduced as a result of the increase in the tax on alcopops, and have you got some data for that?

¹² Prof Ian Webster, Chair, Alcohol Education and Rehabilitation Foundation, *Proof Committee Hansard*, 10 March 2009, p. CA56.

Mr Munro—I do not think anyone has that data because it is simply too early to have collected it. That data will take some time to collect. As we have said in our submission, we cannot expect to have definitive data for some time. As I have tried to point out today, the evidence that we have so far indicates that alcopops have taken a huge hit—

Senator CORMANN—In terms of overall sales.

Mr Munro—Yes—and presumably some young people who drink alcopops will be affected.

Ms Lynne Pezzullo, Director, Access Economics:

Senator CORMANN—Are you aware of any evidence that harmful excessive alcohol consumption has reduced since the introduction of RTDs? You have told us that, in relation to alcohol related hospital use, there has been no change. But are you aware of any evidence that there has been a reduction in harm from alcohol related—

Ms Pezzullo—No, we are aware of no evidence of any reduction in harm.

Mr Hamish Arthur, National Corporate Affairs Manager for the Australian Hotels Association:

Senator CORMANN—Mr Arthur, are you aware of any evidence that the incidence of alcohol abuse or binge drinking has reduced as a result and since the introduction of the 70 per cent tax hike on RTDs?

Mr Arthur—Not specifically, no. We have not seen a measurable change. It has only been 11 months since it came in. It goes back to my point about major cultural change in that we think there are far more effective measures of bringing about cultural change when it comes to responsible consumption of alcohol than the tax increase. So the answer to that is no.

Adjunct Professor Michael Moore, CEO of the Public Health Association:

"There has been a significant debate over evidence. We like to base our policy as far as possible on evidence...it is difficult because one of the things that the industry seems to be demanding is that a causal link be established between a taxation measure and a health outcome. Whilst you can look at evidence, to then also work towards a causal link is difficult."

Ms Melanie WALKER, Health Policy Officer, Public Health Association:

Ms Walker—An important distinction Michael was making in his comments is that while at this early stage, given that we have had less than a year of the legislation, it might be difficult to measure outcomes as such in terms of overall reductions of binge drinking or reductions within particular age groups, there are some indicators in the data that has been collected in terms of outputs: reductions in sales.

What about alcohol abuse related hospital use?

One of the measures identified by a number of witnesses as a performance measure to assess whether the increased tax on RTDs had been effective in helping to reduce alcohol abuse related harm was the analysis of alcohol related hospital use.

Access Economics conducted analysis on behalf of DSICA of available information on trends in hospital use – admissions to both public and private hospitals as well as visits to

emergency departments¹³. Its conclusion was that there was "little change to alcohol-related hospitalisations for young people following the introduction of the new tax"¹⁴.

The Secretary of the Department of Health and Ageing went for a stinging and unwarranted attack on the analysis conducted by Access Economics describing the original report during Senate Additional Estimates as "one of the shoddiest pieces of work" she had ever seen¹⁵. That would seem like very inappropriate and disparaging language from the Secretary of a major Commonwealth Department. Particularly given Access Economics evidence that the data had been compiled in the same way as it would have been if the work had been commissioned by the Department for Health and Ageing.

Furthermore, the Access Economics conclusions and the Department of Health and Ageing conclusions about whether or not the increased tax on RTDs had any effect on alcohol abuse related hospitalisations so far are very similar (if not the same).

Indeed, in his opening statement to the inquiry, Mr David Kalisch, Deputy Secretary of the Department of Health and Ageing had to say this about alcohol abuse related ED presentations¹⁶:

"The other aspect that I would also draw to your attention is that anecdotal evidence we have received from ED departments suggests that there has been no change to ED presentations since the change in the excise." (emphasis added).

That sounds very similar to the Access Economics findings indeed.

¹³ Executive Summary, *Alcohol related hospital use: analysis of newly available months of data*, Report by Access Economics Pty Ltd for Distilled Spirits Industry Council of Australia, 10 March 2009;

¹⁴ Same Access Economics Report Executive Summary;

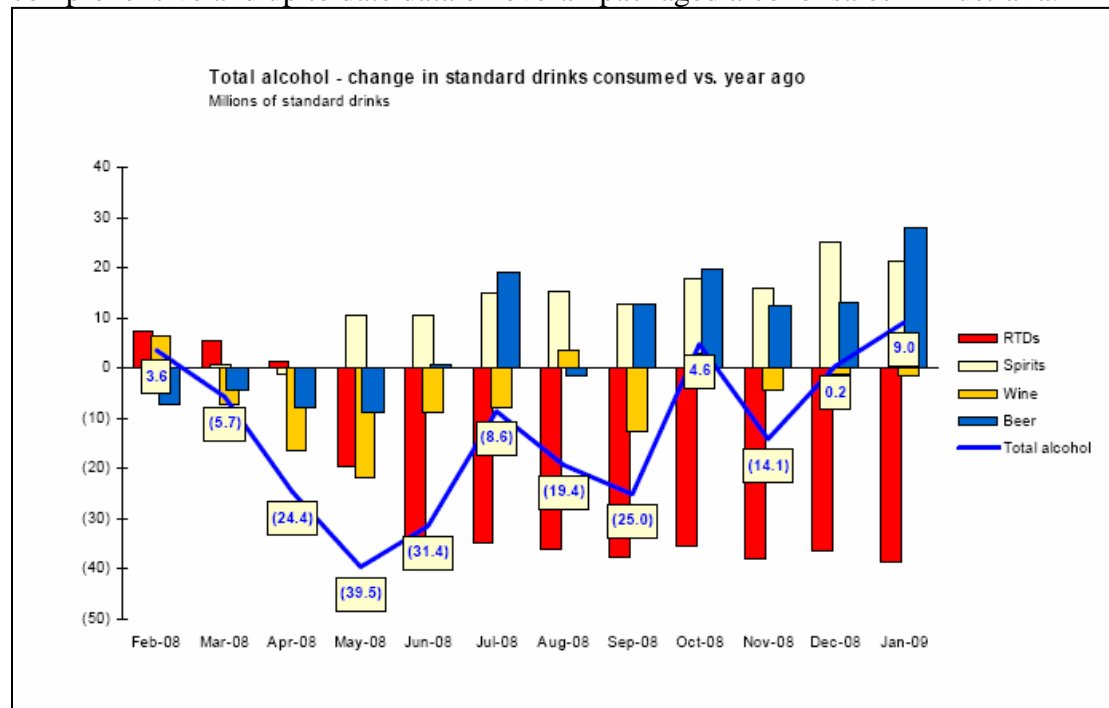
¹⁵ Ms Jane Halton, Secretary, Department of Health and Ageing, *Senate Estimates, Proof Committee Hansard*, 25 February 2009, p.C15;

¹⁶ Mr David Kalisch, Deputy Secretary, Department of Health and Ageing, *Proof Committee Hansard*, 11 March 2009, p. CA54.

Are Australians drinking less?

The answer to that question is that Australians overall have consumed less alcohol in 2008 than they have the year before. As previously stated, the AC Nielsen data does not identify how that reduced consumption is spread across responsible and problem drinkers.

The AC Nielsen data presented by the Aust Drug Foundation (ADF) is the most comprehensive and up to date data on overall packaged alcohol sales in Australia.



This data shows that the substitution into beer and full strength spirits is now accelerating. This has resulted in a net increase in total alcohol consumed in both Dec, and Jan (compared to the previous year). This is consistent with the international experience, for example in Germany.

According to the AC Nielsen data overall sales of alcohol were trending down for the first four months of 2008, with May 2008 (the month the RTD tax increase came into effect) the lowest overall alcohol sales/consumption for the year. Since May it is obvious that the sale of RTDs has dropped significantly. However it is also obvious that the sale of beers and spirits has increased. Importantly, the blue line indicating overall alcohol sales has been persistently trending up ever since May 2008.

As this data compares every month with the same month in the previous year, seasonal variations can not be said to be significantly at play.

It is clear that within eight months, the AC Nielsen data is indicating that overall alcohol sales are higher than what they were at the same time in the previous year.

The relevant point is that if there has been no reduction in ED presentations in the first 8-10 months since the tax increase, then there is no likelihood that there will ever be such a reduction. This is because total alcohol consumption is now in a net increase phase (month vs month of the previous year) after the initial net decrease response.

What should happen to the revenue collected so far?

Coalition Senators are of the view that increasing the tax on a single alcohol product category in isolation is not an effective way to reduce at risk levels of alcohol consumption and alcohol abuse related harm.

It is the role of the Senate to examine policy changes such that the increased tax on RTDs, and if it deems that tax to have been ill-considered, to reject those changes.

However, it is not practical, nor is it desirable to return all the revenue collected as a result of the increased tax on RTDs to the distributors of RTD products.

Whilst the current circumstances are by no means ideal, they are of the governments own making. The Senate can move to correct this mistake, and there is some historical precedent to draw from.

During the process of negotiating *A New Tax System* through Parliament in 2000 the Howard government introduced the *Excise Tariff Proposal No.2* (2000), which was designed to offset the repeal of the sales tax legislation on alcoholic beverages.

The legislation enacting the proposed excise rate – *Customs Amendment (Alcoholic Beverages) Bill 2000* – was defeated in the Senate – in part because it was considered that it went against an election promise not to increase ‘ordinary beer’ taxes by more than 1.9 per cent.

Following negotiations in the Senate, an agreement was reached with the Australian Democrats for a lower rate, which was introduced from 4 April 2001 through the *Excise Tariff Amendment Act (No. 1) 2001*. As a part of this agreement, the revenue collected in excess of this lower rate was directed as indicated in the Bills Digest (pp.2-3)¹⁷:

Alcohol Education and Rehabilitation Foundation to be established

On 3 April 2001, in the midst of prolonged debate in the Senate over the Excise Tariff Amendment Bill (No 1) 2001, the Government announced it had reached agreement with the Democrats to prospectively reduce the excise rate on draught beer to no more than a 1.9 per cent increase. The Democrats agreed to legislation that would validate the excise collected on draught beer from 1 July 2000 to 3 April 2001, and allocate most of the amount collected in excess of the new reduced excise rate to establish a new independent foundation, the Alcohol Education and Rehabilitation Foundation (the Foundation). Five million dollars from the excise surplus would be allocated to the Historic Hotels initiative, which provides dollar-for-dollar grants to preserve historic hotels in regional and country areas which do not have gaming machines.

According to the Memorandum of Understanding signed by the Government and the Democrats, the objectives of the Foundation will be to:

- *prevent alcohol and other licit substance abuse, including petrol sniffing, particularly among vulnerable population groups such as indigenous Australians and youth*
- *support evidence-based alcohol and other licit substance abuse treatment, rehabilitation, research and prevention programs*
- *promote community education encouraging responsible consumption of alcohol and highlighting the dangers of licit substance abuse*
- *provide funding grants to organisations with appropriate community linkages to deliver the above-mentioned services on behalf of the Foundation, and*
- *promote public awareness of the work of the Foundation and raise funds from the private sector for the ongoing work of the Foundation.*

This series of events clearly demonstrates that if it is the will of the Senate, the current impasse of an ineffective tax not having been validated by the Parliament but been collected

¹⁷ Bills Digest No. 171 2000–01, *Alcohol Education and Rehabilitation Account Bill 2001*, pp.2-3.

by government for nearly a year can be resolved. That is without the tax collected being returned to the distributors or retailers of RTDs.

This was confirmed by Ms Christine Barron, General Manager, Indirect Tax Division, Department of the Treasury:

Senator CORMANN— ...parliament could validate funds collected up until this point and make a decision as to how those funds ought to be allocated. That would technically be possible and surely then the government would have to act according to that instruction—or that legislation and the way it is passed; is that right?

Ms Barron—The Senate would need to make a request to the House, yes, and if the House agreed it could come back to the Senate, yes.

Senator CORMANN—If the parliament as a whole supported that approach, the government would not be returning funds to alcohol suppliers, they would actually be allocating it according to the instructions of parliament; is that right?

Ms Barron—Yes, that is correct, because parliament would have agreed to the increase, yes.

It should also be noted that the Alcohol Education and Rehabilitation Foundation has funded a series of research initiatives, including those undertaken by NDARC, NDRI, ADCA, and many other groups working in the field of substance abuse.

Conclusion

Coalition Senators were always suspicious that this measure was nothing more than a tax dressed up as a health measure. The evidence heard during the most recent inquiry confirmed that.

During two days of evidence into the tax grab on RTDs not one witness was able to point to any evidence that it had been successful in reducing alcohol consumption by binge drinkers or others consuming alcohol at risky levels.

Nobody was able to point to any evidence that there had been a reduction in alcohol abuse related harm since the tax increase was implemented last year.

Officials had to admit that contrary to best practice the Government never put any performance measures in place to ensure the effectiveness of the increased tax could be properly assessed from a public health point of view.

Furthermore, there is clear evidence (acknowledged by Treasury) that there has been substitution of RTDs with other alcohol products (including more lethal ones). The trend in the AC Nielsen survey data shows that substitution is increasing, with levels of overall alcohol sales (and consumption) higher in both December 2008 and January 2009 than the same month in the previous year.

This is an ad hoc measure, with the Government already scrambling to close a number of loopholes, when what we need is a comprehensive and strategic approach to the serious problem of alcohol abuse.

Coalition Senators recommend that:

- 1) The increased tax on RTDs not be supported moving forward;
- 2) The revenue collected from 27 April 2008 until Royal Assent of the Bill be validated by the Parliament;
- 3) That all the revenue collected by the Federal Government since 27 April 2008 as a result of the increased tax on RTDs be invested in an alcohol abuse prevention, research, education and treatment package.

Senator Gary Humphries

Senator Mathias Cormann

Senator Simon Birmingham