

4 March 2009



Senator Claire Moore
Senator for Queensland
Chairperson
Community Affairs Committee
Australian Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Senator Moore,

Excise Tariff Amendment (2009 Measures No 1) Bill 2009
Customs Tariff Amendment (2009 Measures No 1) Bill 2009

Thankyou for the opportunity to respond to the Committee's Terms of Reference.

The Alcohol Education & Rehabilitation Foundation (AER) was established as an independent public company in October 2001 through a \$115 million grant from the Australian Government to address prevention, treatment, research and rehabilitation for the misuse of alcohol and licit substances, notably volatile substances such as paint, petrol and glue sniffing. This funding was allocated from the excise on draught beer in 2001 under a Funding Agreement with the then Minister for Health and Ageing.

One of AER's objectives is to ensure that the debate surrounding alcohol policy, including alcohol taxation, is informed by comprehensive knowledge and understanding of the issues and is based on credible evidence.

AER understands the above Bills introduce changes to the excise rates of 'other excisable beverages not exceeding 10% alcohol' brought about by the Excise Tariff Proposal¹ with effect from 27 April 2008, and the rate of excise equivalent duties on like imported products cleared through the customs jurisdiction. Should these Bills not pass, then all excise and excise equivalent duties which have so far been collected will be required to be refunded to the tax payers concerned, which raises issues not included in the Committee's terms of reference.

The announcement by the Government of this excise increase made it clear that it was intended to target under-age alcohol consumption, particularly the harmful levels of consumption in young females.² This adjustment corrected an anomaly introduced in July 2000 which saw the excise rate for 'other excisable beverage not exceeding 10% alcohol' - pre-mixed ready to drink

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¹ Excise Tariff Proposal (No 1) 2008, and Customs Tariff Proposal (No 1) 2008 tabled by Ms Nicola Roxon Minister for Health and Ageing on 13 May 2008

² Second Reading Speech Excise Tariff Amendment (Measures No 1) Bill 2009 , Minister for Health and Ageing 11 February 2009, Hansard

alcoholic beverages (RTDs), fall from an equivalent rate of excise paid by full strength spirits, to a rate equal to full strength beer, as part of the comprehensive reform of the New Tax System.³

AER with other public health bodies believes that the amendment of this excise is a positive first step towards deterring high consumption of RTDs amongst young people. It is consistent with other measures such as raising awareness through the Federal Government's education and social marketing campaigns and activities of organisations such as AER. As a result of the media and associated public debate, Australians are beginning to recognize the inherent dangers of risky drinking and are starting to reconsider their patterns of alcohol consumption. The excise on RTDs is making a contribution to an overall strategy to deal with this issue.

Industry sources report the decline in sales of RTDs as being of the order of 39% (initially the estimates were up to 43%).⁴ This appears to be consistent with the United Kingdom experience in which excise taxes for RTDs were increased by a similar degree to Australia and resulted in a 43% decline in sales in the 2002-2006 period.⁵ In two other countries which raised RTD excise rates above the rates in Australia and the United Kingdom there have been greater declines - Switzerland 60% and Germany 75%.⁶

AER sees taxation as just one of a number of measures in the effort to reduce harmful levels of alcohol consumption. We support the objectives of the National Alcohol Strategy and the proposed policy directions for preventing alcohol-related harm in the discussion paper released by the National Preventative Health Task Force.⁷

AER is an active partner in a joint submission on alcohol taxation "Australia's Future Tax System" Review chaired by Dr Ken Henry (Henry Review).⁸ The appendix refers to the key elements of that submission and a copy of the full submission is attached.

Responses to the Terms of Reference:

(a) the revenues raised under the alcopops tax measure

AER has reviewed Treasury estimates of the additional excise from the increase to the RTD tax rate and understands the measure will be revenue positive for the Government. Further, AER believes that revenue so raised should be utilized to promote the health of the Australian population and in particular to reduce the health and social harms from the consumption of alcohol.

AER is aware that should these Bills fail to pass, the Government will be required to refund the revenue so far raised to those taxpayers.

³ However, RTDs did not receive the excise free threshold afforded to beer, being the first 1.15% a/v, and paid an excise rate effectively higher than equivalent strength beers.

⁴ LMA as quoted in "The Australian" 26 February 2009 state a fall in RTD sales of 43% bourbon based RTDs, DSICA press release 29 May 2008 initial month RTD sales fell 39%

⁵ http://www.marininstitute.org/alcopops/alcopops_taxreport.htm

⁶ http://www.marininstitute.org/alcopops/alcopops_taxreport.htm

⁷ National Preventative Task Force, Technical paper No 3, Preventing Alcohol-related Harm in Australia – a window of opportunity, Commonwealth of Australia, 2008.

⁸ On 13 May 2008, the Government announced a review into the future of Australia's tax system, full terms of reference can be found on the Treasury website <http://taxreview.treasury.gov.au>

AER notes that the distilled spirits industry has suggested the funds should be used to fund programs dealing with the harms of alcohol in the community.⁹

AER recently commissioned Galaxy Research to conduct a survey of the views in the general population. (See attached report) The survey indicated that 43% of Australians believe that insufficient funds are allocated by the Australian Government to support alcohol related programs.

Furthermore the survey respondents said the funds collected by the Australian Government from the 'alcopops' tax should be spent on programs specifically aimed at reducing the social impact of alcohol on the community.

They identified the following priority areas:

- Babies and young children affected by alcohol (90%)
- Rehabilitation for victims of alcohol related accidents or violence (88%);
- Young people who required alcohol rehabilitation (87%)
- Alcohol related mental health services (86%)
- Education campaigns about the effects of risky drinking (85%)
- People of any age who required alcohol rehabilitation (84%)

(b) substitution effects flowing from the alcopops measure:

If the consumer subpopulations being targeted by the Government are deterred in their consumption of RTDs an unintended adverse consequence would be an increased pattern of consumption of cheaper alcohol alternatives with equal or greater aggregate harm.

Such an example would be: for the same price of 4 x 250ml of 5% a/v of an RTD product 2 litres of 12% a/v cask wine could be substituted, that is for the same price 5 standard drinks of alcohol are being substituted by 24 standard drinks of alcohol.

An editorial in the Medical Journal of Australia which compares standard drinks consumed between May and July 2007 with the same period in 2008 (as recorded by the AC Nielsen Liquor Services Group), periods which span the introduction of the RTD tax, shows a percentage decline in RTD standard drinks of 26.1 % and an increase in beer of 1.5 % and an increase of spirits of 11.2 %. The authors concluded, as AER does, that the introduction of the RTD tax is a step in the right direction.¹⁰

During 2003-04, AER funded a research program by the Alcohol & Other Drugs Council of Australia (ADCA) to analyse the relationship between taxation and the growth of the low strength alcohol market, a project which included the construction of an economic model to 'test' the impact of various alcohol tax policy proposals on consumption. AER has commissioned an update of the model to reflect the relevant changes to the Australian alcohol market since 2004, and this updated model will inform AER's policy in the overall review of alcohol taxation. See the attached joint submission to the Henry Review.

⁹ DSCIA press release 29 August 2008 "Alcohol Tax Refund Not Wanted By Industry"

¹⁰ Chikritzhs TN, Dietze PM, Allsop SJ, Daube MM, Hall WD and Kypri K, The "alcopops" tax heading the right direction, Editorial, *Medical Journal of Australia*, 2 March 2009, p 29s

(c) changes in consumption patterns of RTD beverages by sex and age group following the introduction of the alcopops tax

Apart from the observations above, AER has no evidence to present in response to this reference.

(d) changes in consumption patterns of all alcoholic beverages by sex and age group following the introduction of the alcopops tax

As stated above, there are some early indications of declines in RTD consumption and some 'compensatory' take up of beer and spirit consumption. The editorial in the Medical Journal of Australia argues that the consumption of alcohol by young people is elastic and that young people will alter their drinking patterns in response to price changes.¹¹

Since sweetened alcoholic drinks have been marketed to attract naïve alcohol consumers and young people in particular, it would be expected that a significant impact of the increase in the price of RTDs would be to reduce the level of alcohol consumption in young people.

(e) any unintended consequences from the introduction of the alcopops tax eg malternatives (beer based RTDs)

AER believes the recent creation of the 'malternative' product 'Smirnoff Black' is a consequence of Government's decision to increase the excise on RTDs. This product innovation has parallels to the products such as the of spirit based "Lemon Ruski" and "Sub-zero"¹² which were produced in the lead up to the excise reforms of a New Tax System in 2000.

It is highly likely that manufacturers will respond with product innovation to exploit changes in the differential tax rates on alcohol products. Examples of such innovation are the "wine based cocktails" which are taxed at a lower level but are marketed as spirits and liqueurs.¹³

(f) evidence of the effectiveness of the Government's changes to the alcohol excise regime in reducing the claims of excessive consumption of RTD beverages

Apart from the observations above AER, has no evidence to present in response to this reference.

(g) any evidence of changes to at risk behaviour or health impacts (positive or negative) as a result of the introduction of the alcopops tax

Apart from the observations above, AER has no evidence to present in response to this reference.

¹¹ Op.cit.

¹² Lemon Ruski contained a proportion of wine in the alcohol base as wine was not subject to excise, and Sub-zero manufactured on a fermented sugar base also sat outside the excise system, both products instead subject to sales tax.

¹³ The Food Standard Codes permit 'wine cocktails and wine creams' which are re-fortified wines stripped of all characteristics (except alcohol) to which are added colours, flavours and / or cream. Many such colours and flavours, combined with retail packaging are designed to give the appearance that the product is a liqueur or spirit. E.g. Bombora Coconut and Rum Flavour, Wipeout Coconut and Rum flavour, Erin Cream, Father O'Learys Cream, etc

(h) comparison of the predicted effects of the introduction of alcopops tax with the data of actual effects, with particular focus on evidence (or lack thereof) collected by the relevant department

Apart from the observations above, AER has no evidence to present in response to this reference.

(i) the value of evidence based decision making in the taxation of alcoholic products

All public health policy must be based on the best evidence. All new policies should be monitored and evaluated to assess whether they have had their intended outcomes. In the case of the RTD tax changes, the patterns of consumption will need to be followed over several annual cycles before definitive conclusions can be reached about the impact of the policy.

There will need to be specifically focused studies on the harmful levels of consumption and in particular measures of actual harm to properly assess the impact on young drinkers of these measures.

It has been established in repeated international studies and that increases in price through taxation is an effective way to reduce overall alcohol consumption in a population. Thus applying such policies in Australia would be expected to have similar outcomes.

AER's policy is to support evidenced-based programs and to fund research which will support this evidence-base.

Yours sincerely,



Ian W Webster

Chair, Alcohol Education and Rehabilitation Foundation



Scott Wilson

Deputy Chair, Alcohol Education and Rehabilitation Foundation

Appendix:

Key points in the submission to the Henry Review “Australia’s Future Tax System”

- Consumer products containing alcohol warrant specific taxation in addition to the taxation applying generally to consumer products and services;
- Optimal taxation design requires a taxation system to be simple, efficient and equitable: the alcohol taxation system should be no different;
- Taxation revenue from alcohol should recognise the real costs (particularly but not only health and social costs)¹⁴ arising from the harmful consumption of alcohol.
- A limited measure of hypothecation is warranted by the nature of alcohol products.
- Using tax as a behavioural tool requires rate-setting to be evidence-based.
- Alcohol should be taxed as alcohol regardless of its type or category;
- A premium above the standard rate of excise per unit of alcohol is sometimes warranted;
- The tax regime should encourage less harmful consumption by taxing alcohol content progressively; and
- The current value of alcohol taxes should be maintained and not erode over time, to ensure that the real price effect of taxation remains constant.

¹⁴ http://ec.europa.eu/health-eu/doc/alcoholineu_summary_en.pdf - page 4 - *Apart from being a drug of dependence, alcohol is a cause of some 60 different types of diseases and conditions, including injuries, mental and behavioural disorders, gastrointestinal conditions, cancers, cardiovascular diseases, immunological disorders, lung diseases, skeletal and muscular diseases, reproductive disorders and pre-natal harm, including an increased risk of prematurity and low birth weight*