

# **ALCOHOL, TAXATION REFORM AND PUBLIC HEALTH IN AUSTRALIA**

**A submission to the Federal Parliamentary Inquiry  
into Substance Abuse in Australian Communities**

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## EXECUTIVE SUMMARY

### *Alcohol tax reform: missed opportunities under GST*

- This submission has been prepared to inform the Committee of Inquiry into Substance Abuse in Australian Communities about the critical impact of alcohol taxation arrangements on levels of alcohol-related harm in Australia. This topic is reported to have taken up more time in Federal Cabinet discussions than most other aspects of the imminent taxation reforms. The authors are persuaded that no other single policy has the same potential to reduce the social, health and economic costs of excess alcohol use in Australia today as alcohol taxation, and have therefore focused this submission solely on this issue.
- Reform of taxation in Australia offers a significant opportunity to reduce the annual toll of more than 3,200 alcohol related deaths, the 700,000 hospital bed-days and the estimated \$4.5 billion associated with addressing the various forms of alcohol related harm. The forthcoming reforms under GST have largely missed a major opportunity to reduce death, injury and illness caused by excess alcohol use in Australia.
- The introduction of the Wine Equalisation Tax (WET) serves no policy purpose other than to protect the interests of cask wine producers (mostly large multinational companies) at the expense of Australia's premium wine producers. It is also at the expense of the health and well being of many disadvantaged communities where the price of cask wine is a primary factor influencing the amount of alcohol consumed.
- Sales taxes like WET and GST favour cheap products that are more likely to be misused. Under the GST package, there is a continuing failure to tax the alcohol content of drinks in order to maintain incentives for drinkers to choose low alcohol varieties and to create disincentives for heavy drinkers to choose cheap bulk drinks. The new arrangements will

allow a male drinker to attain the maximum daily level of alcohol intake recommended by the National Health and Medical Research Council for only \$1.40 and a female drinker to do so for just 70 cents if drinking from a 4 litre wine cask. Neither of these amounts will be sufficient to purchase one standard drink of low alcohol beer. The most curious aspect of all is the creation of *higher* excise rates on low strength beers than on medium and regular strength.

- On the plus side, the GST package has resulted in a harmonising of excise rates on alcoholic beverages with an alcohol content of less than 10% by volume. Thus no longer are ‘designer drinks’ and alcoholic sodas greatly advantaged over other drinks of exactly the same strength, particularly pre-mixed spirits and expensive beers.
- The high profile national campaign by Australia’s brewers against the change in excise fails to acknowledge that nearly all beverage varieties will rise in price by about 2% from liquor stores, and that over the bar price rises of around 8% are also shared with non-alcoholic drinks as a consequence of GST on the service component of prices. Any special arrangement for beer would, in effect, be a subsidy that other alcohol producers (winemakers, distillers) would seek to match.

***Possible solutions***

- An alcohol excise on all alcoholic drinks based solely on alcohol content in excess of 2.5% would provide clearer incentives for consumers to choose lower alcohol content products. It would also promote the production of better low alcohol products, raise the price of cheap bulk products, continue to raise high levels of government revenue, save government expenditure on alcohol related problems, and would be administratively simple to apply.

- A small increase in overall alcohol taxation would be strongly supported by the community if it were shown that the extra revenue was to be spent on prevention and treatment services. An extra cent levied for each standard drink (10g of alcohol) would raise approximately \$100 million per year. A levy of 5 cents per drink was introduced in the early 1990s in the Northern Territory and was estimated to have saved 129 lives, prevented over 2000 hospital admissions and saved \$124 million in health care costs and lost productivity.

***The background***

- There are many thousands of varieties of alcoholic drinks available in Australia today. Unlike the situation with tobacco, the level of taxation varies enormously across different varieties of alcohol. Expressed as tax levied per standard drink, present arrangements result in the following unfortunate anomalies: 6 cents for a standard drink of \$9 cask wine versus 26 cents for a standard drink from a \$9 bottle of wine, 28 cents for a standard drink of 2.7% low alcohol beer versus 24 cents for a standard drink of 4.8% regular strength beer. Under GST this will change very little for drinks purchased in liquor stores though taxes from sales in bars will increase marginally across the board.
  - Some varieties of alcoholic drinks are associated with different levels of alcohol-related harm. For instance, consumption of regular strength beer and cask wine is more highly associated with rates of assaults and alcohol related hospital admissions than is consumption of low alcohol beer and bottled wine.
  - Consumption of alcohol is price sensitive. One major review identified 53 studies spanning 17 countries and 120 years of price and consumption data. Only three have failed to find a negative relationship (increased price/reduced consumption) for ALL of the beverage varieties studied.
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- There is a strong consensus among social scientists based on compelling evidence that as alcohol consumption increases in any country then so does a range of serious social, health and legal consequences of alcohol misuse.
- There is good evidence that alcohol taxes are progressive in that the more income people earn, the more they spend on alcohol. The most alcohol taxes are paid by the wealthy and by heavy drinkers.
- The risk of adverse consequences from alcohol misuse, whether one's own or someone else's, exists for all Australians. Over 50% of adult Australians report having been the victim of alcohol related abuse or violence in the last 12 months. A recent study found that only 53% of all alcohol consumed in one Australian State was consumed in a low risk manner and as much as 32% was consumed in a high-risk manner. Research has also shown that most people who regularly drink alcohol exceed recommended drinking levels on at least one occasion per year.
- Surveys of public opinion from the Northern Territory, New South Wales and Western Australia show that between 75% and 90% of the electorate would support a small increase in alcohol taxation when this is channeled into prevention, education, research and treatment.

### ***Recommendations***

- Taxation on alcohol should be based on alcoholic content and strength of drinks rather than the cost of manufacture or the method used to produce the alcohol.
- Alcohol taxation and excise should continue to be collected at a level that at least maintains current government revenue on alcohol products, and at least maintains the real price of alcohol (relative to cost of living and income levels).



- A national inquiry should be held into alcohol taxation, including studies to identify the optimal alcohol taxation arrangements for Australia encompassing the perspective of public health and safety as well as administrative simplicity, social equity, government revenue and industry impact. These studies should be publicly discussed and debated as part of the inquiry process.

## **INTRODUCTION**

This paper has been prepared to inform the Committee of Inquiry into Substance Abuse in Australian communities about the likely implications of the new taxation system on both alcohol use and levels of alcohol related harm. This fundamental issue is of key relevance to all the Committee's terms of references in relation to the costs of alcohol-related harm to families, on the roads, in the health care system, in the workplace and in the criminal justice system. We believe the new system perpetuates anomalies which exacerbate alcohol-related harm in each of these areas and that the Committee should acknowledge this in their report if they are serious about addressing the impact of drugs on our community.

Given the extent of alcohol related harm in the Australian community there is an overwhelming scientific and ethical case for examining the likely impact of pricing and taxation policy on the many public health and safety problems associated with alcohol misuse.

There has been a series of debates about alcohol taxation in Australia over the last ten years. Many of these debates have focused on wine taxation and excise, and the inequities of the current alcohol taxation system. Recent debates have been triggered by the High Court of Australia's ruling on 5 August 1997 that State taxes on liquor, tobacco and petrol were illegal. That decision contributed to the establishment of a federal government Taxation Consultative Task Force to review the entire system of taxation in Australia. The Tax Reform Package developed by the Coalition government and the subsequent adoption of the GST has also brought into focus some of the more contentious aspects of alcohol pricing and taxation in Australia.

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The taxation of alcohol continues to be controversial. It is reported by government sources as having occupied more time in Federal Cabinet than any other issue during recent taxation reform discussions. Treasurer Costello said in relation to a recent campaign by Australian brewers to reverse the small increase in excise due on beer that he had spent more time discussing taxation with the brewers than any other interest group in Australia.

It is important to note the context of broader discontent with the existing systems of alcohol taxation, as exemplified in the quote below from a recent submission prepared by Carlton United Breweries for a recent Senate Committee hearing. Since this submission was prepared, there have been further complications in what was already considered to be an irrational taxation system.

‘Clearly the Australian tax regime in general and the taxation of alcohol in particular, are in dire need of reform... this should be a comprehensive, well thought out reform that satisfies the three basic elements of a good taxation system: efficiency, equity and simplicity... The different tax rates which apply to different alcohol beverages are the result of a long history of policy decisions whose only consistent rationale has been to raise large amounts of revenue for successive governments. In terms of efficient resource allocation, these tax rates have very little, if any, rational basis to them.’

The High Court decision in 1997 resulted in an administratively awkward rescue package from the Commonwealth government that, for the time being, guarantees the States the \$5 billion of revenue they would otherwise be losing. Shortly after the High Court decision, Prime Minister Howard announced a review of taxation in Australia, which he indicated will pave the way for a shift from income tax to a broad-based goods and services tax. An interim arrangement for alcohol was initiated whereby the federal Wholesales Sales Tax (WST) was increased by 15% for all varieties of beverage, regardless of alcohol content. A complex compensation arrangement for retail sales of low alcohol beers was also introduced in an attempt to maintain lower prices for low strength beer. Some State and Territory governments have shown a real reluctance to maintain the subsidy for low alcohol beer as the new taxation system is introduced.

In any discussion of alcohol pricing and taxation policy, it must be emphasized that alcohol is like other products in that the level of consumption is sensitive to variations in price (Edwards et al, 1994). Alcohol is not like most other products in that its use is associated with substantial adverse health effects, economic and social costs. Different levels and types of alcohol taxation have very different impacts on price and consumption patterns, as well as distorting different segments of the alcohol market.

As will be demonstrated, the consumption of certain types of alcoholic beverage (particularly the cheap and high-in-alcohol content varieties) is more closely associated with higher levels of violence, injury and illness than others. Different tax systems will, therefore, have dramatically different impacts on public health and safety.

When determining the taxation policy in Australia, undoubtedly many powerful interests and imperatives were considered. Among these are the ease of administration, ensuring an adequate level of revenue to meet commitments, Commonwealth/State financial arrangements, industry support and social equity considerations.

The main argument in this submission is that public health and safety should be a major consideration for alcohol pricing and taxation. As the World Health Organization has argued, 'Any country which intends to take the prevention of alcohol problems seriously must ensure that in determining the level of taxation, health interests are taken into account.' (Edwards et al, 1994)

The recommendations in this paper strongly support the considered development of new taxation arrangements that will provide a more rational and equitable system of alcohol taxation in Australia, while at the same time producing health outcomes that will benefit the whole community. These recommendations have been largely ignored. As a consequence, Australia will continue to pay a high price for ad hoc changes to an already irrational system.

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## **BACKGROUND - KEY ISSUES IN ALCOHOL TAXATION POLICY**

### *Alcohol is a major public concern*

In a survey conducted for the National Symposium on Alcohol and Violence in 1995, most members of the general public selected alcohol from a list of 14 drugs, as their major drug of concern (National Symposium on Alcohol and Violence, Commonwealth of Australia, 1995).

In the last ten years, high profile drink driving campaigns, public recognition that alcohol kills more people than illicit drugs, and growing community concern about violence and public safety have all contributed to awareness of alcohol-related harm across the community.

While recent media and political attention on illicit drugs may have slightly diminished the relative importance of alcohol as a drug of concern, the reality is that most people are much more likely to suffer injury or other harms as a consequence of excessive drinking than they are as a consequence of illicit drug taking.

### *Alcohol causes significant problems in the community*

A number of internationally acclaimed studies have quantified some of the social and health costs of alcohol misuse in Australia. These studies show that alcohol misuse has a major impact on crime, violence, accidents, family function, and productivity, not to mention the loss of human life and human potential. The following statistics are taken from recent reports into alcohol misuse:

- A report commissioned by the Commonwealth Department of Health and Family Services estimated that alcohol is associated with: 44% of fire injuries, 34% of falls and drowning, 30% of car accidents, 50% of assaults, 16% of child abuse, 12% of suicides, and 10% of machine accidents (English et al, 1995). These estimates are based on a comprehensive and rigorous review of thousands of well-conducted studies from many countries.
- A later study commissioned by the Commonwealth Department of Health and Aged Care reported that in 1997 alone, the misuse of alcohol resulted in 63,164 person-years of life lost (before 70 years), a total of approximately 3,290 premature deaths and over 400,000 hospital bed days (Chikritzhs et al, 1999a).

- A study conducted for the National Drug Strategy (1999) found that over 50% of adult Australians report that they have been the victims of alcohol-related anti-social behaviour in the last 12 months.
- A NSW study found that 73% of assaults, 40% of domestic violence cases and 58% of malicious damage incidents reported to the police were directly related to alcohol misuse (Ireland & Thommeny, 1993).
- In a series of extensive consultations conducted as part of a youth alcohol campaign, young women identified unwanted and unsafe sex as one of the problems they experience when drinking. Young men identify increased violence and accidents (Australian Drug Foundation, 1992.; Elliot and Shanahan, Research Report for the National Youth Alcohol Campaign, Department of Health and Family Services, 1999).

***Alcohol misuse has a significant economic impact on Australia***

A study by Collins and Lapsley (1996) found that alcohol misuse cost the Australian community \$4.5 billion in 1992. This estimate allows for the revenue generated from alcohol, and primarily comprises a range of drug-related harms including premature death, lost productivity, increased hospital and other health costs, road accidents, increased law enforcement costs, etc. It does not include the many costs associated with crime, violence and other anti-social behaviour that takes place as a consequence of alcohol misuse.

***Alcohol is a legitimate and accepted source of tax revenue***

Since Australia's early settlers first celebrated the arrival of rum shipments, alcohol taxation has been a legitimate avenue for the collection of revenue. In the late 1800's, 30% of government income was generated from alcohol taxation (rum tax). In the early 1900's alcohol taxation still raised over 10% of government revenue. Currently alcohol taxes contribute only about 2% of all government revenue (including Commonwealth and State revenue).

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Studies into consumer spending also consistently indicate that alcohol taxes are progressive in that higher income groups spend more on alcohol and therefore contribute more to taxation revenue (Ashton et al, 1989).

In almost every other country in the world, alcohol taxation is an accepted form of raising government revenue.

Formal studies of public opinion in Australia regarding increased taxation on alcohol have found substantial support for this, providing the proceeds are directed towards treatment, prevention and research on alcohol-related harm (Lang et al, 1995). There is a long tradition of linking alcohol taxation arrangements with concerns over public health and safety issues. In Australia this concern has been notably expressed in a number of ways, including:

- The creation of tax advantages for low alcohol beers in both Federal and State tax arrangements. There is now empirical evidence to support the common-sense view that this has led to a dramatic increase in the consumption of lower strength beers and contributed to the decline in road crashes in the 1990s (Gruenewald et al, 1999).
- The creation of the Living With Alcohol levy by the Northern Territory government in April 1992 on all alcoholic drinks with an alcohol content in excess of 3% by volume. The proceeds of about \$5 million per year were used to fund treatment and prevention programs.
- The recommendation of the National Inquiry into the Wine Industry (1995) that an additional tax be created based on absolute alcohol content to compensate for the “external costs” associated with wine consumption. This recommendation was supported, if in different forms, by both the chairman and the industry representatives on the committee of inquiry.

### ***Alcohol pricing impacts on consumption***

It is a well-documented economic principle is that as the price of any item rises, consumption of that item falls. The degree to which price has to increase to reduce consumption is

expressed in terms of price elasticity. Although there is some discussion about the precise degree of price elasticity exhibited by alcohol products, it is universally agreed that in the lower price ranges, product preferences are significantly influenced by price. As a consequence, most experts in the health field are opposed to any move that would see a real reduction in the price of lower priced alcohol products because of the established connection between price of alcohol and consumption patterns.

Studies of consumption patterns in Australia, New Zealand, Canada, Finland, Ireland, Norway, Sweden, the United Kingdom, and the United States have consistently shown that when other factors remain unchanged, a rise in alcohol prices has generally led to a drop in the consumption of alcohol (Collins and Lapsley, 1996; Osterberg, 1992). There is clear evidence that this basic economic theory of price influencing demand is applicable to the demand for alcohol beverages, despite their dependence-inducing capability (Chaloupka, 1993).

A major review of the international evidence on the price sensitivity of alcohol consumption was conducted under the auspices of the World Health Organisation as part of a wider review of alcohol control policies (Edwards et al, 1994). The review panel comprised 17 leading scientists drawn from 13 countries. They identified 53 adequate studies spanning 17 countries which examined data spanning the years of 1870 to 1991. All of these studies found a negative correlation between consumption and price for wine, all but one did so for spirits and all but three for beer.

Some critics have suggested that price does not impact on heavy drinkers. However, it has been demonstrated that increasing the price significantly will lead to a decrease in consumption of those who drink excessively (Hawks, 1993). One classic study found that during an economic recession, it was the 'heavier' drinkers who reduced their consumption of alcohol the most (Kendell et al, 1983).

***Alcohol taxes can improve public health and safety***

In 1992, the Northern Territory introduced a harm reduction levy on all drinks with a strength in excess of 3% alcohol by volume which raised an additional \$4 to \$5 million per year for alcohol prevention and treatment. The Northern Territory has the highest proportion of

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Aboriginal residents of any Australian jurisdiction and has had a per capita alcohol consumption ranging from 22 litres per person to 15 over the past two decades. A recent evaluation of the impact of this levy identified a 22% reduction in per capita consumption in the first four years, reductions in hazardous drinking patterns and significant reductions in alcohol related morbidity and mortality (Chikritzhs et al, 1999b).

The Northern Territory government also introduced a special levy on cask wine in April 1995 in recognition of its association with high risk drinking and in order to raise funds for prevention and law enforcement initiatives. An evaluation of levels of consumption of cask wine in the Territory demonstrated significant reductions during the brief period of its implementation (Gray et al, 1999). A survey of retail prices conducted by the NT Health Department (O'Reilly, 1998) confirmed that once this levy was lifted, retail prices of cask wine declined by over \$2 per cask – and that the price differential between low and full strength beers decreased.

### **CONSEQUENCES OF CURRENT ALCOHOL TAXATION POLICY**

While there are evident benefits of the past arrangement whereby low alcohol beers have been taxed less by the States than have regular strength beers, there have been several other consequences of our taxation system which, from a public health and safety point of view, make no sense. These unfortunate consequences have been exacerbated by the introduction of the WET and the GST as outlined below:

- A standard drink of 10g of low alcohol beer will be taxed at a slightly higher rate than a standard drink of regular beer. (Over 75% of all beer sales are off-premise so off-premise prices have been used to inform these figures.)
- The WET means there is no excise on wine (only a price based sales tax). Cask wine is produced very cheaply. Consequently, the tax per standard drink of (\$10 four litre) cask wine will be less than 20% the tax paid for a standard drink of low alcohol beer.



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- Bottled wine is not produced cheaply and given that wine tax is based on price, almost all bottled wine will pay substantial tax, usually equal to or higher than the tax per standard drink of beer.

<b>Product</b>	<b>Current price per standard drink (10 grams of alcohol)</b>	<b>Post GST price per standard drink</b>
Cask Wine (\$10 four litre)	\$0.30	\$0.30
Bottled Wine (\$10)	\$1.30	\$1.30
Full strength beer (VB)	\$0.73	\$0.76
Light beer (Light Ice)	\$1.13	\$1.15
Pre Mixed Spirit (Bundy and Cola)	\$2.61	\$2.23

Data from Western Australia (Stockwell et al, 1998) has shown that local rates of per capita consumption of cask wine and high strength beer are most highly associated with local rates of violent incidents and alcohol-related hospital admissions. This was a comprehensive study of all liquor sales, violent incidents and alcohol-related hospital admissions for the whole state over one year. By comparison, rates of consumption of bottled wine and low strength beer are weakly or not at all related to local rates of these problems.

It would appear, therefore, that current and projected taxation levels for different beverage types are set so as to favour those beverages which are most frequently misused compared with beverages which are least associated with serious harm.

Throughout Australian history both spirits and beer have been the traditional alcoholic beverage of many Australians. The effect of excise and sales taxes on alcoholic beverages has been to favour the consumption of wine and discourage the consumption of beer and spirits. In more recent times however, wine and fortified wine has increased in quality and popularity to the extent that it has become an equal competitor with beer and spirits in the Australian market. Wine is now the main preference of women over the age of 25, is second preference to spirits for females under 25 years of age, and has a roughly equal proportion of the market for men over 30 (Jones, 1993).

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The current levels of taxation and excise on alcohol represents an obvious anomaly that has developed partly through the changes in consumption patterns of alcohol, and partly through strong and effective political lobbying from the large multinational wine producers.

At present, bulk wine and packaged beer comprise most alcohol sales. Over 65% of all wine sold is bulk wine, a product which attracts no excise and will pay minimal WET and GST. Beer and bulk wine (which are very cheap in comparison with other countries) often cost less than equivalent volumes of soft drinks. Packaged beer accounts for around 75% of all beer sales. Competition and an increase in the number of large chain licensed retailers have driven alcohol prices down to the point where many alcohol retailers support the introduction of a minimum pricing policy for all alcoholic beverages (Liquor Stop Conference, 1994).

If alcohol is taxed at a higher rate than other products, in part to recoup some of the external costs associated with its misuse (alcohol-related harm), the current taxation levels on different alcohol products do not reflect this policy.

If alcohol is taxed to encourage local industries and growth into potential export markets, why is cask wine afforded such a privileged taxation position? Surely bottled wine is the future of the Australian wine industry?

## **PRINCIPLES FOR ALCOHOL TAXATION REFORM**

We recommend that the following principles are employed to guide the future reform of alcohol taxation so as to reduce future alcohol related death, injury and illness:

*(i) Shift the balance of taxation from sales tax to excise as far as possible.*

Most of the anomalies resulting from the present system and described above would be removed if alcohol taxes were based almost entirely on excise and as little as possible on sales-based taxes such as WET or GST.

*(ii) Base alcohol excise on exact alcohol content on a graduated scale*

The present alcohol excise is based on exact alcohol content with different rates for beer, brandy and other spirits and with no excise at all on wine. We recommend that this system is only modified by way of introducing two new categories and increasing the tax free threshold to 1.5% alcohol by volume. This increase in tax free threshold will provide increased incentive to produce quality low alcohol products. The two new categories should be:

- a new rate for all wines and all drinks (e.g. designer drinks) with alcohol content of less than 15% set at the same rate as that for full strength beer;
- a new rate for fortified wines and liqueurs at a rate between the new rate for wines and the existing rate for spirits.

It is worth noting that most industry groups stand to gain from this arrangement: the brewers by reduced tax on low strength beers, the distillers by reduced rates on UDL cans (spirits with mixers) and the makers of bottled wine. Only the makers of cask and fortified wine would suffer significantly increased levels of taxation. These products are not important in the export market and are made mostly by a small number of multinational companies.

This is a very similar tax arrangement to that adopted by Sweden in July 1992. A recent and very precise evaluation of the impact of this radical realignment from a more sales tax based system was reported in the journal *Addiction* (Ponicki et al, 1997). It was found that, predictably, the spectra of prices of both wine and spirits narrowed significantly after the change - e.g. cheap wine got more expensive, expensive wines became cheaper. Mean unit prices actually fell because of the large falls in the prices of the more expensive products compared with the small increases in the cheaper ones. However, the system was actually revenue neutral and the mean overall per capita consumption in terms of absolute alcohol of these beverages did not change significantly. In fact, consumption of cheaper products declined but this was more than compensated for by a significant increase in the more expensive brands. The impact on beer prices and sales was quite different but this was harder to interpret for a number of reasons of little interest here.

It should be noted that Sweden does not have the peculiar Australian situation of inordinately cheap cask wine and also had a markedly lower tax rate on low alcohol beer before this tax

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change. The implication of this research, however, is that a revenue neutral system based entirely on alcohol content may not depress overall consumption. It will only improve public health and safety if in fact it is the cheaper products which tend to be misused. The increase in the consumption of expensive drinks may have been caused by more frequent moderate drinking resulting in few additional problems and possibly even some health benefits. While further research is needed to confirm this, it is plausible to suggest that in the Australian situation even a revenue neutral tax arrangement based on alcohol content could have significant benefits for public health and safety.

There may be some who would argue that this would be a regressive taxation system that would inflict most of the 'pain' on those in society who are least well off. It should be borne in mind, however, that the persons who pay the most alcohol taxes are a) those in higher income brackets and b) those who drink the most alcohol.

*(iii) Maintain the real price of alcohol relative to disposable income*

Another consideration is the extent to which income tax will be reduced when the GST is introduced. From a public health and safety point of view it would be desirable that there was no 'real' reduction in the price of alcohol achieved by retail prices remaining relatively static while disposable incomes increased. This would mean an overall increase in total revenue collected from alcoholic drinks.

From a public health and safety point of view it would also be desirable to peg levels of alcohol taxation to some appropriate economic indicator to prevent the price of alcohol lagging behind incomes.

*(iv) Increase overall level of taxation and simultaneously increase expenditure on treatment and prevention programs*

As outlined previously, while increasing alcohol taxes as a means of reducing alcohol consumption and problems is an unpopular option with the electorate, increasing taxes by a small amount to fund treatment and prevention programs attracts wide community support. The costs of alcohol misuse are immense in terms of lost productivity, health care and policing. Prevention funds could be directed not just to educational campaigns but also to

assist police services to fund drink-driving enforcement, liquor licensing authorities to run server training programs for barstaff and the Commonwealth government to fund a national system for monitoring levels of alcohol consumption and related problems.

While hypothecated taxes are not favoured by most governments (though most allow some exceptions to this rule) formal hypothecation would not be necessary so long as the increased expenditure was announced as linked to, and enabled by, the increase in taxation.

## RECOMMENDATIONS

1. The federal government should take account of the fact that both the present and the new taxation arrangements have adverse effects on public health, safety and order.
2. Taxation on alcohol should be based on the alcohol content of drinks rather than the cost of manufacture or the method used to produce the alcohol.
3. Alcohol taxation and excise should continue to be collected at a level that at least maintains current government revenue on alcoholic products.
4. Alcohol taxation should be increased in the event of income tax being reduced so as to maintain the real price of alcohol and prevent an increase in alcohol related death, injury and illness.
5. An urgent national inquiry into alcohol taxation is required including research and public discussion of the following points in order to determine an optimal alcohol taxation system:
  - the revenue implications and the market implications of major variations in alcohol taxation and pricing as suggested in this paper
  - the likely impacts of different alcohol taxation and pricing arrangements on public health, safety and order in Australia
  - stakeholder opinion on different forms of alcohol taxation and pricing including the options outlined in this paper
  - public opinion regarding the relative acceptability of different levels, types and purposes of alcohol taxation.

As part of the National Inquiry, findings of the above research should be used to inform the development of a set of recommendations through the National Expert Advisory Committee on Alcohol (a national committee with representation from alcohol retailers, alcohol producers, health experts, community groups and senior government officials).



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