

# Ready-to-Drink Alcoholic Beverages Inquiry

## Dissenting report by Liberal Senators

### Introduction

Liberal senators acknowledge that the abuse of alcohol, especially by the young, is a major social, health and economic challenge confronting all Australians. Accordingly governments at all levels must be prepared for tough, comprehensive measures to address this challenge and to empower communities and individuals to wind back what witnesses called the “write-off culture” of drinking in our society. As the community’s focus on this issue sharpens, it is critical that government set an example of good policy setting and evidence-based action. Initiatives which are poorly thought through, which appear opportunistic or which alienate the very cohorts whose behaviour they are designed to modify are likely to fail. Public cynicism about the motives of governments, particularly where measures involve the raising of taxes, can seriously undermine the objectives these measures pursue.

The increase in the tax rate applying to ready-to-drink alcohol beverages (RTDs) will impose a \$3.1 billion tax burden on Australian consumers. Even assuming positive health implications from this increase, there are certainly potential downsides in terms of employment in the alcohol and hospitality industries, unanticipated deleterious behavioural changes by those who abuse alcohol and greater financial pressures on those who consume alcohol responsibly.

**For this reason Liberal senators believe that an onus must fall on the Federal Government’s shoulders to demonstrate that a step of this magnitude is likely to achieve overall positive outcomes in the fight against alcohol abuse.** We reject the notion that “doing something” about alcohol abuse is a sufficient justification for a measure which carries such serious potential downsides as does this excise increase. Evidence of a net benefit should be clear and unambiguous.

Liberal senators however believe that the evidence before the inquiry was indeed ambiguous. On the test suggested above, therefore, since the evidence is not conclusive or clear, the case for the tax is not made out.

Further, much of the support for the tax from the public health sector was conditional on the Government implementing a broad suite of policies relating to alcohol, a suite which it is clear does not presently exist and the resourcing for which has not yet been allocated.

In this dissenting report we outline a number of areas where the case supporting the tax is either weak or at best marginal.

## Lack of evidence that consumption is increasing

One of the key points made by the Australian Institute of Health and Welfare (AIHW) on their analysis of the National Drug Strategy Household Survey data was that the overall drinking status of the Australian population has been stable over the past two decades (see Table 1 below).

**Table 1–Alcohol Drinking Status: proportion of the population aged 14 years or older, Australia, 1991 to 2007.**<sup>1</sup>

Drinking status	1991	1993	1995	1998	2001	2004	2007
	(per cent)						
Daily	10.2	8.5	8.8	8.5	8.3	8.9	8.1 #
Weekly	41.0	39.9	35.2	40.1	39.5	41.2	41.3
Less than weekly	30.4	29.5	34.3	31.9	34.6	33.5	33.5
Ex-drinker <sup>(a)</sup>	12.0	9.0	9.5	10.0	8.0	7.1	7.0
Never a full serve of alcohol	6.5	13.0	12.2	9.4	9.6	9.3	10.1 #

(a) Has consumed at least a full serve of alcohol, but not in the previous 12 months.

# Difference between 2004 result and 2007 result is statistically significantly (2-tailed  $\alpha = 0.05$ ).

In support of this finding the Distilled Spirits Industry Council of Australia (DSICA) made the following points:

- Australia's per capita global alcohol consumption ranking has been falling;
- On a per capita basis, alcohol consumption in Australia has fallen by over 20 per cent since a 30 year peak reached in the early 1980s; and
- Alcohol consumption on a per capital basis has not increased significantly since the tax reforms in 2000 which included the tax on RTDs.<sup>2</sup>

DSICA provided a table to demonstrate that the growth in popularity of RTDs must be set against a decline in overall alcohol consumption (see Figure 1).

Independent Distillers Australia (IDA) also commented that:

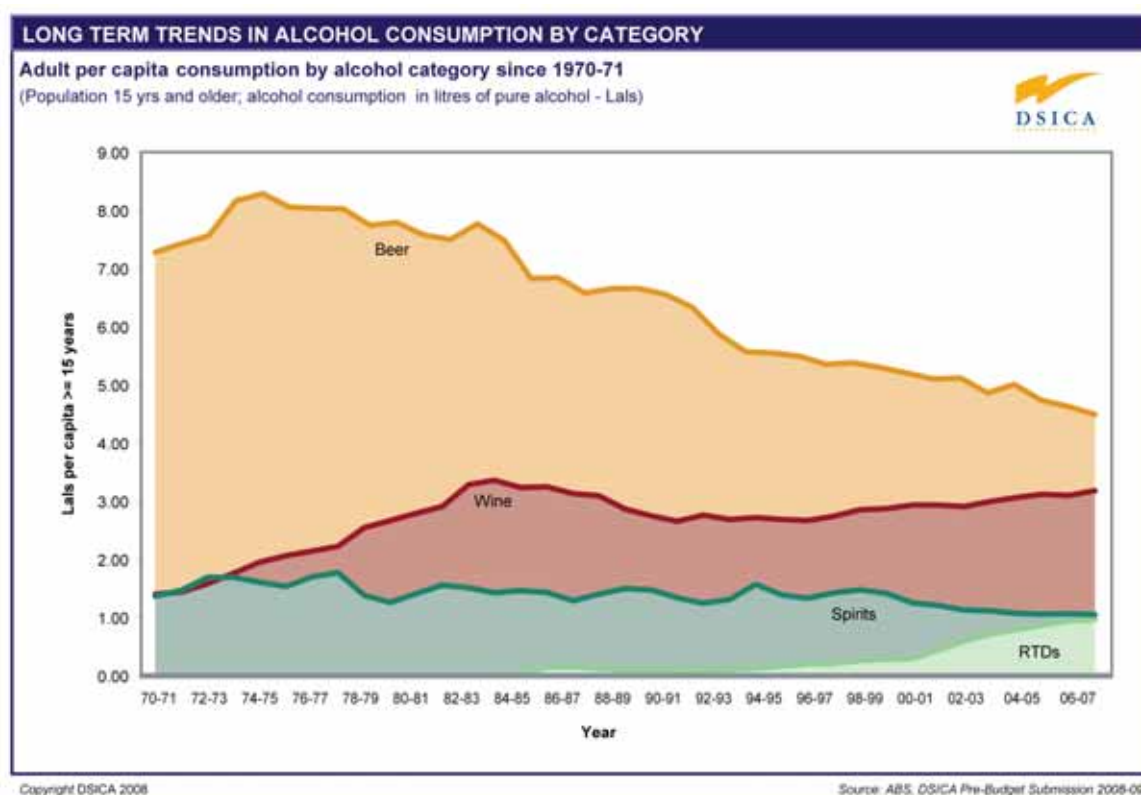
It is important to note that drinking at risky levels has been decreasing over the last six years as measured by the Government's own statistics, including among young females.<sup>3</sup>

1 Australian Institute of Health and Welfare, *2007 National Drug Strategy Household Survey, First Results*, April 2008, p. 18.

2 DSICA, *Submission 27*, p. 7.

3 Independent Distillers Australia, *Submission 22*, p. 2.

**Figure 1: Australia's adult per capita alcohol consumption by alcohol category (1971-71 to 2006-07)**



Source: Submission No. 27 (Distilled Spirits Industry Council of Australia), p.69.

Mr Terry Mott, Chief Executive Officer, Australian Liquor Stores Association (ALSA) pointed out that:

It appears from evidence from the Australian Institute of Health and Welfare, the ABS and the New South Wales Department of Health's secondary schools survey that there does not appear to be a significant, growing problem with youth drinking, and that information does not seem to have been contested. ALSA does not for a minute shy away from the fact that there may be young people misusing alcohol, but it does not appear to be an endemic, growing problem. Even if there were an epidemic of teenage binge drinking, we are not of the belief that taxation, as a blunt instrument, will give any real solution to solve that sort of problem.<sup>4</sup>

Mr Daryl Smeaton, Chief Executive, Alcohol Education and Rehabilitation (AER) Foundation, told the Committee that a comprehensive approach was needed as:

...clearly our biggest drinkers are not teenagers; they are the 20- to 30-year-olds.<sup>5</sup>

4 Mr Terry Mott, ALSA, *Proof Hansard*, 12 June 2008, p. 38.

5 Mr Daryl Smeaton, AER, *Proof Hansard*, 11 June 2008, p. 31.

Mr Smeaton further noted:

We have focused this particular issue around young women but excessive consumption is a problem across a very broad range. It is not just young women.<sup>6</sup>

While none of this constitutes a reason for inaction on excessive drinking, it does suggest that a rushed or under-researched response to this problem is not warranted. The anecdotal evidence of a surge in dangerous drinking offered by some witnesses to the inquiry needs to be set against the less emphatic data available from bodies such as AIHW.

### **The 'link' between RTDs and risky alcohol use**

The AIHW noted the preference for RTDs has increased slightly over the period 2001–2007, particularly in older age groups, but the trend among those aged under 18 years is unclear (see Table 2 and Table 3).

The AIHW also found that there has been virtually no change in the pattern of risky drinking over the period 2001–2007, including among young Australians.<sup>7</sup>

Given these findings the AIHW concluded that 'given the stable prevalence of risky drinking, and the lack of any clear trend regarding preferences for RTDs, the increased availability of RTDs does not appear to have directly contributed to an increase in risky alcohol consumption'.<sup>8</sup>

IDA pointed out that the Government has publicly relied on the findings from the National Drug Strategy Household Survey to justify the excise increase saying the figures showed an 'explosion' of binge drinking among teenage girls. They noted:

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.<sup>9</sup>

---

6 Mr Daryl Smeaton, AER, *Proof Hansard*, 11 June 2008, p. 33.

7 AIHW, Submission 23, p. 8.

8 AIHW, Submission 23, p. 8.

9 Independent Distillers Australia, *Submission 22*, p. 19.

**Table 2—Trends in preferences for specific alcoholic drinks, 2002–2007, males (per cent)<sup>10</sup>**

Alcohol type	Year	Age group						Total
		12–15	16–17	18–19	20–29	30–39	40+	
Cask wine	2007	6.1	8.2	7.5	7.0	7.1	16.0	12.0
	2004	9.5	8.0	9.1	7.7	9.4	22.1	15.9
	2001	10.0	11.7	5.9	7.7	11.0	22.2	16.0
Bottled wine	2007	11.9	10.1	18.9	34.1	47.7	52.6	45.1
	2004	17.2	8.3	21.0	36.2	46.0	49.4	43.4
	2001	21.4	14.6	15.2	34.2	42.3	45.0	39.7
Regular strength beer	2007	29.0	50.6	63.9	68.0	61.0	40.1	49.8
	2004	34.9	51.2	67.8	68.6	55.3	35.7	47.0
	2001	44.2	62.9	71.7	67.1	59.1	38.2	50.1
Low alcohol beer	2007	13.5	12.5	5.7	11.0	17.5	29.4	22.3
	2004	23.7	14.2	5.5	12.7	23.1	33.6	26.0
	2001	21.4	18.4	8.9	15.4	26.3	36.1	28.3
Bottled spirits and liqueurs	2007	30.6	47.6	54.0	54.5	40.3	32.0	38.7
	2004	35.5	42.9	63.1	51.9	37.1	31.9	38.0
	2001	44.4	58.0	67.6	58.4	40.9	30.3	40.4
Pre-mixed spirits in a can	2007	36.9	56.3	60.7	47.6	28.5	10.9	24.3
	2004	50.2	55.7	65.3	42.0	27.9	9.3	23.0
	2001	43.8	57.9	53.5	34.8	19.5	5.5	18.2
Pre-mixed spirits in a bottle	2007	25.8	29.9	33.3	26.4	11.6	3.8	11.5
	2004	21.1	32.0	41.7	22.7	10.0	3.6	10.8
	2001	24.1	31.9	35.6	21.2	9.1	1.7	9.6

*Notes:*

1. Preferences are inferred from responses to the question 'What type of alcohol do you usually drink?'; respondents could select more than one usual drink.
2. The 2001 survey did not include 12–13 year olds. In this table, 14–15 year olds are shown in the 12–15 age group column for 2001. Therefore the trend for this column should be interpreted with caution. The totals for 2001 are for 14 years and over.

*Source:* AIHW analysis of National Drug Strategy Household Surveys.

**Table 3—Trends in preferences for specific alcoholic drinks, 2002–2007, females (per cent)<sup>11</sup>**

Alcohol type	Year	Age group						Total
		12–15	16–17	18–19	20–29	30–39	40+	
Cask wine	2007	3.8	7.3	9.7	10.7	10.9	19.3	15.2
	2004	8.8	11.0	16.0	13.6	14.8	26.8	20.8
	2001	12.4	15.8	18.4	14.9	19.8	30.3	23.9
Bottled wine	2007	15.4	16.5	28.0	60.0	69.0	70.2	63.8
	2004	19.5	21.0	32.7	54.4	62.0	66.8	59.8
	2001	24.7	20.1	30.7	57.3	62.0	61.6	57.3
Regular strength beer	2007	9.8	9.6	17.3	25.6	19.8	9.0	14.3
	2004	12.1	17.2	24.9	26.5	18.1	8.2	14.4
	2001	8.9	15.1	26.2	29.3	17.6	8.4	15.1
Low alcohol beer	2007	5.8	3.6	6.3	5.9	7.7	10.8	8.8
	2004	7.8	5.2	4.6	7.9	10.8	12.7	10.8
	2001	12.9	5.6	3.0	8.1	11.9	14.4	11.9
Bottled spirits and liqueurs	2007	53.3	54.4	73.9	58.3	44.2	33.5	42.4
	2004	46.1	64.4	69.8	61.5	43.1	34.4	43.5
	2001	51.7	59.1	76.8	64.4	48.8	33.4	45.4
Pre-mixed spirits in a can	2007	59.4	57.0	60.8	37.1	22.8	9.7	21.3
	2004	43.0	61.7	57.3	37.1	21.9	7.5	20.1
	2001	55.5	57.2	62.0	32.5	19.2	5.5	18.6
Pre-mixed spirits in a bottle	2007	49.9	68.5	68.9	47.3	28.7	11.0	25.4
	2004	55.1	80.8	75.4	51.8	27.2	10.5	26.8
	2001	63.6	70.8	76.4	47.7	25.3	7.1	24.7

*Notes:*

1. Preferences are inferred from responses to the question 'What type of alcohol do you usually drink?'; respondents could select more than one usual drink.
2. The 2001 survey did not include 12–13 year olds. In this table, 14–15 year olds are shown in the 12–15 age group column for 2001. Therefore the trend for this column should be interpreted with caution. The totals for 2001 are for 14 years and over.

*Source:* AIHW analysis of National Drug Strategy Household Surveys.

Mr Douglas McKay, Executive Chairman, Independent Distillers Australia told the Committee:

RTDs have been part of the national alcohol landscape for 40 years in Australia. Unarguably, the convenience and other benefits of RTDs have helped augment their popularity. But this increasing popularity does not necessarily mean increasing alcohol abuse and the two things seem confused in much of this debate. RTDs are a minority part of the liquor industry and there is no compelling evidence linking them to an increase in alcohol abuse. Levels of risky drinking remain largely unchanged or slightly down according to the most comprehensive and long-running research by the AIHW.<sup>12</sup>

<sup>11</sup> AIHW, *Submission 23*, p. 6.

<sup>12</sup> Mr Douglas McKay, IDA, *Proof Hansard*, 12 June 2008, p. 49.

Mr Terry Mott, Chief Executive Officer, ALSA also questioned the link that has been drawn between RTDs and alcohol abuse as:

A tenuous interpretation of the statistics, as they fail to compare what young people may have been consuming and mixing for themselves in earlier statistics....it does seem a long bow to draw to suggest that, even if there were a significant trend in alcohol misuse, that is has been caused by a particular product or category.<sup>13</sup>

Liberal senators assume that if RTDs are indeed a ‘Trojan horse’ to young Australians, ushering them into higher or more dangerous levels of alcohol use than before, there would be evidence of increased rates of overall drinking in these age groups. There is no such evidence. The evidence is consistent with this generation of young drinkers having switched to RTDs from, say, the beer or sparkling wine preferences of earlier generations, but not at overall greater consumption levels than their predecessors.

### **Were health considerations uppermost in the Government’s mind?**

Liberal senators note the lack of a submission from Treasury to the inquiry despite the modelling being included specifically in the terms of reference at (g). Questioning of Treasury officials during Estimates revealed their task was only to estimate the impact on the budget of the measure using a range of studies of the price elasticity demand for alcohol.<sup>14</sup> Treasury officials also commented on the involvement of Health:

**Senator COLBECK**—Mr Ray, you said before that you did not speak to the Department of Health in relation to this. Why would you not talk to the agency that has all the figures in relation to this matter?

**Mr Ray**—With respect to my colleagues in the department of health, they did not have the data that we needed in order to do the costing.

**Senator COLBECK**—What data was that?

**Mr Ray**—As I explained earlier, it is ATO data on clearances.<sup>15</sup>

IDA argued that the Government's revenue and health policy objectives will not be achieved.

The Government's economic modelling to support the tax increase is not based on solid research – Treasury themselves acknowledge broad assumptions have been made in formulating their revenue projections.<sup>16</sup>

---

13 Mr Terry Mott, ALSA, *Proof Hansard*, 12 June 2008, p. 38.

14 Mr Nigel Ray, Acting Executive Director, Treasury, Senate Economics Committee, *Estimates Hansard*, 3 June 2008, pp. E50-51.

15 Senate Economics Committee, *Estimates Hansard*, 3 June 2008, p.66.

16 Independent Distillers Australia, *Submission 22*, p. 2.

IDA further commented that sales data since the excise increase calls the modelling by Treasury into question:

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%.<sup>17</sup>

Mr Warwick Ryan, Director, Government relations, KPMG told the Committee:

But certainly sales of 375 ml and 200 ml containers of full-strength spirits have gone up about 20 per cent since the tax increase. Certainly the zero cross-price elasticity assumption which Treasury used in their modelling is not a number that has been applied in overseas countries and it is not the cross-price elasticity or the transference factor which you refer to that will be used in the modelling undertaken for DSICA. Certainly the evidence in the market of substitution of full-strength spirits, beer and wine shows that that zero transference factor is not credible.<sup>18</sup>

Liberal senators note with concern that Health was not a party to the cabinet submission which approved the RTD excise increase. We conclude from this extraordinary omission that the Government's chief objective was revenue-specific, not health-specific.

### ***Revenue windfall not matched by investment in prevention/education strategies***

Treasury modelling showed the financial implications of the increase in excise for RTDs. The total revenue increased from \$97.9 million in 2007-08 to \$892.6 million in 2011-12.<sup>19</sup> By contrast, the Prime Minister's National Binge Drinking Strategy has a budget of just \$53 million.

IDA noted that none of the revenue will go to the National Binge Drinking Strategy:

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>20</sup>

IDA further noted the lack of clarification regarding the use of the revenue:

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

---

17 Independent Distillers Australia, *Submission 22*, p. 2.

18 Mr Warwick Ryan, *Proof Hansard*, 12 June 2008, p. 13.

19 Treasury Executive Minute dated 14 May 2008 'Information paper on the costing of the impact of the increase in excise on 'other excisable beverages'', tabled by the Minister for Health and Ageing in the House of Representatives on 15 May 2008.

20 Independent Distillers Australia, *Submission 22*, p. 13.



---

outlined how much constitutes a 'proportion' or if alcohol strategies or programs will benefit.<sup>21</sup>

Mr Smeaton, AER noted:

You asked me what my understanding was. As I have said, the government have said on a number of occasions that some of the revenue from this particular increase in taxation will be directed back to preventative health. I have not sought, nor have they offered, an amount. There is a National Preventative Health Strategy task force working on these issues, and it is due to report, I think, initially by the end of this year. I expect that some of the recommendations will need funding and some of those things will be funded, I expect, from that revenue stream.<sup>22</sup>

The Government appears at this point to be putting virtually all its eggs in the tax increase basket, despite the strong urgings of public health groups that a multi-faceted approach is required. Liberal senators can understand why Australians would be cynically attracted to the view that revenue is the Government's primary motivation here.

### **Indicator-by-indicator examination of the effects on drinking patterns of the RTD tax**

#### *Consumption patterns since measure introduced shows total alcohol sales only marginally reduced, if at all*

DSCIA provided the Committee with early market reaction to the tax change as reported by the AC Nielson Liquor Scan Track Service for the two week period ending 11 May 2008. This showed:

- A 39 per cent decrease in the sales of dark spirit-based RTDs (such as whisky, rum and bourbon preferred by male drinkers aged over 25);
- A 37 per cent decrease in the sales of light spirit-based RTDs (such as vodka, gin and white rum preferred by females); and
- A 20 per cent increase in the sales of full strength spirits.<sup>23</sup>

Mr Mott, ALSA told the Committee that while it is not yet possible to determine the long term effect of the measure:

...from the data that is available to date it may well be that the net total consumption of alcohol has increased...<sup>24</sup>

---

21 Independent Distillers Australia, *Submission 22*, p. 14.

22 Mr Daryl Smeaton, AER, *Proof Hansard*, 11 June 2008, p. 36.

23 DSICA, *Submission 27*, pp. 9–10.

24 Mr Terry Mott, ALSA, *Proof Hansard*, 12 June 2008, p. 39.

Mr Mott further commented:

As I said, in some areas there seems to have been a lift in sales of beer, but it is hard to measure, and also increased sales of sweeter styles of wine. The beer would be, typically, four to five per cent alcohol and the wines, typically, six to 12 per cent ABV. So, while it is too early to tell if the net amount of alcohol consumed—or, more importantly, any alcohol misuse—has risen or declined, it does not appear that there has been any significant public health benefit from this measure; it is simply a further distortion in the nature of the beverages sold in the market place.<sup>25</sup>

This evidence is in contrast to the conclusions of other witnesses, eg the Public Health Association which postulated that early indications are that the tax “is effective in reducing introduction to alcohol amongst young women...”<sup>26</sup> In fact there appears to be no clear evidence on consumption levels at this early stage, with the market no doubt discovering and adjusting to the excise increase. DSICA commented:

I think it is a novel concept that people would stop drinking...<sup>27</sup>

Liberal senators believe that careful analysis will be required into whether alcohol sales actually reduce, and in particular whether such reductions are attributable to the decisions of young drinkers or of adult ones who currently make up the majority of consumers of RTDs.

### ***Substitution and the popularity of spirits among younger drinkers***

The industry asserts that in recent years there has been a change in product preference but not a change in consumption:

It can be seen the increase in the popularity of RTDs has been primarily in substitution for bottled full-strength spirits and full-strength beer, and is not due to an overall increase in consumption.<sup>28</sup>

This was echoed in the comments of Dr Anthony Shakeshaft, National Drug and Alcohol Research Centre:

So when you just look at the drinking habits of underage people – and the date we have got is for 12- to 17-year-olds – they tend to be very price inelastic around alcohol, so they have got a clear preference for spirits.<sup>29</sup>

Mr Warwick Ryan, Director, Government Relations, KPMG told the committee:

Certainly the market evidence here in Australia that we have included in our submission has shown a very significant substitution of full-strength

---

25 Mr Terry Mott, ALSA, *Proof Hansard*, 12 June 2008, p. 40.

26 PHAA, *Submission 24*, p. 7.

27 Mr Gordon Broderick, Executive Director, DSICA, *Proof Hansard*, 12 June 2008, p. 4.

28 DSICA, *Submission 27*, p. 11.

29 Dr Anthony Shakeshaft, *Proof Hansard*, 11 June 2008, p. 88.

---

spirits, and there is anecdotal evidence that there has been substitution of beer and wine products as well. We are not aware of any international evidence that shows that there would be a reduction in total alcohol consumption as a result of a tax increase on one category of product.<sup>30</sup>

In support Mr Michael McShane, Managing Director, Brown-Forman Australia, stated:

Yes, there has been a migration. Our experience so far is that there has been a definite reduction in the amount of sales of RTD products since the imposition of the tax, but equally there has been a significant shift into full-strength spirits since that date. We also have anecdotal evidence to suggest that there is switching going on into other categories, and I think the opening comments in the *Four Corners* program on Monday night would have shown that. Our experience is that there is definite shifting going on.<sup>31</sup>

IDA pointed out that while RTD consumption may decrease as a result of the excise increase:

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).<sup>32</sup>

IDA concluded that:

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.<sup>33</sup>

Mr McKay from IDA described the early evidence to the Committee:

The early evidence is indicating that the overall consumption of alcohol will not be affected by this tax, as RTD consumers merely substitute RTDs for other forms of mostly higher strength and/or cheaper alcohol.<sup>34</sup>

Mr Mott from ALSA noted that:

Although the early reports fully indicate a drop in sales of RTDs, we are, as I have said, somewhat concerned at the lift in sales of full-strength bottled spirits and other forms of alcohol beverages. Our members have also noticed that, along with the increased sales of bottled spirits, sales of soft drink mixers have also risen, suggesting a practice that may not result in the stated benefits of the measure. It seems that the highly mobile 18 to 24

---

30 Mr Warwick Ryan, *Proof Hansard*, 12 June 2008, p. 4.

31 Mr Michael McShane, *Proof Hansard*, 12 June 2008, p. 5.

32 Independent Distillers Australia, *Submission 22*, p. 4.

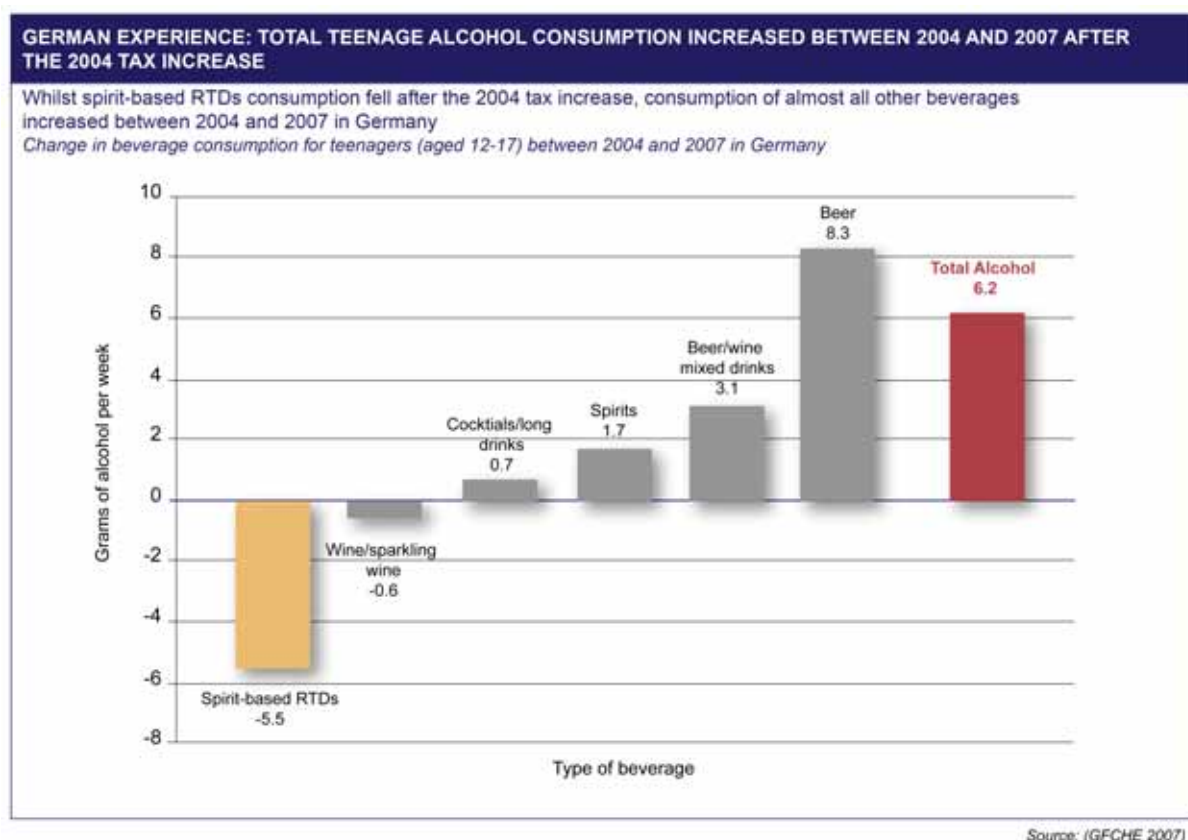
33 Independent Distillers Australia, *Submission 22*, p. 5.

34 Mr Douglas McKay, IDA, *Proof Hansard*, 12 June 2008, p. 49.

population are now buying full-strength spirits and mixing on the run. People in that age group do not necessarily carry measuring jiggers with them to mix. It seems highly unlikely that they will be accurately measuring the proportion of alcohol in the mixed drink, resulting in disturbing variable and potentially risky strengths of alcohol in their drinks. If they are mixing on the run, it is almost impossible for them to accurately calculate the amount of alcohol that is going into their drinks and the drinks of whoever they are sharing it with. At least with prepackaged products it was a set amount of alcohol and it was clearly labelled with the number of standard drinks.<sup>35</sup>

The experience of tax increases in other countries here is illuminating. DSICA cites the case of a tax on RTDs introduced in Germany in August 2004 which had the following impact over 3 years on total teenage alcohol consumption (see Figure 2).

**Figure 2: German experience: Total teenage alcohol consumption increased between 2004 and 2007 after the 2004 tax increase**



Source: Submission No. 27 (Distilled Spirits Industry Council of Australia), p.49.

If there is a preference among young drinkers for spirits or spirit-based drinks, as both “sides” of this debate seem to concede, one would expect a considerable problem with younger drinkers shifting from RTDs to spirits to avoid the tax. Those problems may

35 Mr Terry Mott, ALSA, *Proof Hansard*, 12 June 2008, pp. 39–40.

include an impaired capacity to count standard drinks and a greater incidence of drink-spiking. These factors need to be included on the debit side of the ledger when the tax's implications are tallied.

### ***Capacity to count standard drinks and the avoidance of drink-spiking***

At the hearing DSICA told the committee about the unintended consequences of the excise increase: Mr Gordon Broderick, Executive Director of DSICA stated:

The government's 70 per cent tax increase on a limited range of alcohol products has created some potentially dangerous unintended consequences, and these effects are already evident in the community. The consequences are real and current and include inexperienced consumers being driven to purchasing and mixing their own, stronger spirits and younger drinkers opting for cheaper wine pops and cask wine, which contain twice the alcohol and are taxed at half the rate. Young girls are facing the real risk of being victims of drink spiking; highly respected medical experts are already warning that teenagers are at risk of being drugged as they opt for buying open drinks over the bar or at parties rather than safeguarding against drink spiking by consuming drinks already premixed in a can or a bottle. There is increased abuse by young men of full-strength beer, with the potential for greater street and domestic violence. The tax hike trial has failed not only because it does not achieve its objective but also, more dangerously, because it has created a series of problems that continue as long as the trial continues.<sup>36</sup>

IDA noted that:

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.<sup>37</sup>

Mr McKay outlined the benefits of RTDs:

Our benefits really are the benefits you associate with RTD products—convenience, a premeasured serving of alcohol, clear labelling, and a safe and secure pack.<sup>38</sup>

### ***Substitution to illicit substances***

Some witnesses expressed concern that one form of substitution that could be expected is to illicit drugs, which in some cases may become cheaper than RTDs. DSICA cited a 1997 study whose findings suggest:

...high school students (the majority of whom initiated their alcohol and drug use earlier) treat alcohol and marijuana as substitutes...<sup>39</sup>

---

36 Mr Gordon Broderick, Executive Director, DSICA, *Proof Hansard*, 12 June 2008, pp. 1–2.

37 Independent Distillers Australia, *Submission 22*, p. 12.

38 Mr Douglas McKay, IDA, *Proof Hansard*, 12 June 2008, p. 53.

## **Lack of evidence on which excise decision based**

The Australian Hotels Association believed there was a lack of evidence for the increase on the excise stating:

The Commonwealth Government has consistently highlighted binge-drinkers as being young females, yet all the evidence suggests the real consumers of pre-mixed alcohol products are 25+ single males.<sup>40</sup>

The AHA further asserted that 'there has been no evidence presented by the Commonwealth that links price structure of the pre-mixed alcohol market with binge-drinking' and 'there has been no evidence presented by the Commonwealth that links the increasing popularity of the pre-mixed sector with problem drinking patterns in young drinkers'.<sup>41</sup>

IDA also concluded that the basis for the 'singling-out of RTD products is not backed up by research'. They argued:

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.<sup>42</sup>

IDA recommended that there needs to be better understanding of the role played by not only RTDs but other alcoholic products in drinking behaviours across both sexes and all age groups.<sup>43</sup>

IDA also pointed out that this measure will have a considerable effect on their industry as RTD drinkers switch to other forms of high strength and/or cheaper alcohol.

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.<sup>44</sup>

Liberal senators believe that given the potentially negative consequences, such as the potential loss of revenue and jobs for the industry, such consequences should be carefully weighed and the evidence should be conclusive.

---

<sup>39</sup> Chaloupka & Laixuthai, *Do Youth Substitute Alcohol and Marijuana? Some Econometric Evidence*, Eastern Economic Journal, Summer, 1997; 23, 3, p. 253, cited in DSICA, *Submission 27*, p. 47.

<sup>40</sup> AHA, *Submission 31*, p. 3.

<sup>41</sup> AHA, *Submission 31*, p. 3.

<sup>42</sup> Independent Distillers Australia, *Submission 22*, p. 9.

<sup>43</sup> Independent Distillers Australia, *Submission 22*, p. 10.

<sup>44</sup> Independent Distillers Australia, *Submission 22*, p. 4.

---

## Issue of aligning alcohol taxes with a volumetric approach

The Alcohol Education and Rehabilitation (AER) Foundation argued that all alcohol should be taxed under one, consistent volumetric regime which would save administrative costs and not favour any particular alcoholic beverages.<sup>45</sup>

The AER provided the Committee with a diagram (available in chapter four of the majority report) indicating a hypothetical tax rate to show what a single rate of taxation would look like that produces revenue neutrality but taxes by alcoholic content, not by drink type. Mr Daryl Smeaton, Chief Executive Officer, AER, told the Committee that:

From a purist's point of view, the foundation has said that it does tax the alcohol in RTDs at the same rate as the alcohol and spirits. But, as our hypothetical tax rate does show, when you apply a tax to the alcohol—whether it is in beer, wine or spirits—at the same rate, you clearly cannot tax them at the spirits rate. That would treble the amount of revenue that the government would get and it would not make much change at all to unsafe consumption, other than the fact that most people would not be able to afford to buy alcohol any longer. One of the effects of applying an across-the-board tax rate is that certain products would reduce in price, and spirits are one of those products. But, as I pointed out earlier, the spirits share the alcoholic market is only two per cent by volume; the beer market is still by far the biggest part of the market, and I expect it would continue to be so.<sup>46</sup>

Regarding alcohol taxation, Mr Smeaton further stated:

...But the fact is that the alcohol taxation system is broken. It does not achieve anything other than a revenue stream for government. I have no doubts that governments need to maintain revenue, but if we looked at the alcohol taxation system from a public health perspective, as well as from an economic perspective, then I think we could come up with a much better system that would serve Australia equally well in both areas.<sup>47</sup>

Several witnesses welcomed the excise increase as a step towards a volumetric approach to alcohol taxation. It is however clear from the AER submission that this is not true; AER suggests that a revenue neutral volumetric level of taxation on RTDs would equate to a tax per standard drink of 47cents. In fact the recent increase has raised the tax to \$1.25.

Ironically the tax level was closer to a revenue neutral volumetric approach *before* the increase than it is now.

Other witnesses, notably those representing beer and wine interests, highlighted the dramatic price changes across categories that would stem from a shift to a pure,

---

45 AER *Submission*, 14, p. 3.

46 Mr Daryl Smeaton, AER, *Proof Hansard*, 11 June 2008, p. 29.

47 Mr Daryl Smeaton, AER, *Proof Hansard*, 11 June 2008, p. 30.

revenue neutral volumetric tax model. Australasian Associated Brewers Inc provided modelling, verified by Access Economics, which indicated the significant price increases beer and wine products would face, compared with significant price reductions for spirit based categories under a revenue neutral volumetric tax regime (see table 4).

**Table 4 – Price effects of volumetric taxation in dollar terms**

BEVERAGE	CURRENT PRICE	VOLUMETRIC PRICE	+ / –
Spirits (700ml)	\$32.40	\$20.40	– \$12.00
RTD> 7% (carton)	\$72.03	\$45.85	– \$26.18
RTD< 7% (carton)	\$72.03	\$53.33	– \$18.70
Wine (cask)	\$15.14	\$31.23	+ \$16.09
Wine (bottle)	\$11.81	\$13.22	+ \$1.41
Light Beer (schooner)	\$2.92	\$3.61	+ \$0.69
Light Beer (carton)	\$32.10	\$35.90	+ \$3.80
Mid Beer (schooner)	\$3.34	\$3.91	+ \$0.57
Mid Beer (carton)	\$30.15	\$32.40	+ \$2.25
Full Beer (schooner)	\$3.85	\$4.34	+ \$0.49
Full Beer (carton)	\$37.85	\$39.02	+ \$1.17
Premium Beer (schooner)	\$5.01	\$5.43	+ \$0.42
Premium Beer (carton)	\$40.43	\$41.53	+ \$1.10

*Source: Submission No.34 (AAB), p.4.*

Several witnesses indicated that a strictly volumetric approach could be tempered by variations. DSICA posed the options of an excise-free threshold, the phasing in of volumetric rates and, in particular, a "series of tiered rates ...whereby lower content beverages are taxed at lower volumetric rates."<sup>48</sup> It is important to note however that even if a moderately tiered arrangement were adopted in the future, the excise on RTDs recently imposed would be way out of kilter with such a scheme.

Conversely, the excise imposed on RTDs would be consistent with a volumetric approach if the Government were to lift overall taxation levels on alcoholic products substantially. This may have health benefits but is not part of any general strategy which has yet been spelt out to the community. The Committee is conscious that the Henry Review might encompass such options; Liberal senators trust there will be appropriate consultation with affected industries and the broader community before such a move is adopted as the Government's policy.

48 DSICA, *Submission 27a*, p. 4.



---

***Support of many health groups conditional on Government's "follow up" with an across-the-board volumetric approach – little evidence that this will occur***

Although many health groups supported the excise measure, their support was conditional that this was just one measure to address harmful alcohol consumption of young people and should be part of a comprehensive suite of measures such as volumetric taxation.

The AMA noted the focus on RTDs alone may provide 'perverse incentives for young people to shift their preferences to potentially more harmful behaviours or alcohol substitutes' and advocated:

Uniform application of a volumetric alcohol tax to ensure that there are no incentives for people to shift their drinking preferences to cheaper, but higher alcohol volume products.<sup>49</sup>

The AMA stressed that raising the excise tax on RTDs should not be applied in isolation and a multi-faceted strategy should address controlling supply and reducing demand.<sup>50</sup> They further noted the 'RTD tax increase alone will not solve the problem and it is simplistic to suggest otherwise'.<sup>51</sup>

Similarly, the Australian General Practice Network qualified its position on the new tax:

To summarise our position, we do support the current approach, although we would not support it if that was the end of it. We do support it if it is part of a broader approach to risky behaviour with alcohol amongst young people. We do support a volumetric approach and we would like to see, in that approach, incentives to produce lower alcohol products. We also believe very strongly that there need to be targeted strategies to increase the capacity of the primary health-care sector in dealing with risky alcohol consumption.<sup>52</sup>

Professor Michael Moore of PHAA also struck a note of caution:

We just described it as a first step and we continue to describe it as a first step because, as we stated in our submission on the alcohol toll bill, we believe that a comprehensive approach is critical. That comprehensive approach should include pricing measures.<sup>53</sup>

Liberal senators saw scant indication of the broader prevention and education measures which might be expected under such a multi-faceted strategy. Officers of the

---

<sup>49</sup> AMA, *Submission 33*, p. 1.

<sup>50</sup> AMA, *Submission 33*, p. 4.

<sup>51</sup> AMA, *Submission 33*, p. 5.

<sup>52</sup> *Committee Hansard* 12.6.08, p.25 (Ms Carnell, AGPN).

<sup>53</sup> *Committee Hansard* 11.6.08, p.16 (Mr Moore, PHAA).

Department of Health told the Committee that the task force working on a preventive health strategy is not due to report for more than a year.<sup>54</sup>

### **Lack of any present device to measure the ongoing success of this excise increase**

Ms Virginia Hart, Assistant Secretary, Drug Strategy Branch, Department of Health and Ageing told the Committee during estimates hearings that they were in the process of designing an evaluation for all components of the binge drinking strategy and also the increase in excise.<sup>55</sup> At the hearing the department reinforced that:

...the RTD excise is only one lever being used to tackle adolescent binge drinking. We are in the process of now trying to devise an evaluation to look at how all the initiatives that we have set out will contribute to tackling binge drinking.<sup>56</sup>

No timeline for completion of an evaluation instrument was provided. Liberal senators were disturbed to hear that no device was available or was being contemplated by the Government to test its new tax's effectiveness. They further suggest that the blending of other anti-binge drinking measures into the purview of an eventual evaluation instrument will make isolating the success or failure of this measure even harder.

### **Evidence of sweetness as a "hook" for RTDs**

Regarding the attractiveness of RTDs to young palates due to their sweetness, Mr Broderick from DSICA told the committee:

I think the high sugar content is an assertion. I have not seen any scientific data saying that the ready-to-drinks have higher sugar content than any fruit juices or soft drinks. The most common component of the ready-to-drinks is probably cola. I do not think they are artificially highly sweetened for any devious purpose. This strawberry wine would be very sweet. People could well migrate to that.<sup>57</sup>

DSICA later added:

A 375 ml can of Coca Cola has 39.8 grams of sugar compared with 33.4 grams in a 375 ml can of Jim Beam and cola, which is representative of DSICA member pre-mixed products. That is, the 375 ml can of Jim Beam and cola has 16% less sugar than the same size can of Coca Cola soft drink.<sup>58</sup>

---

<sup>54</sup> Department of Health and Ageing, *Proof Committee Hansard*, p. CA91.

<sup>55</sup> Ms Virginia Hart, *Estimates Hansard*, 4 June 2008, p. CA80.

<sup>56</sup> Department of Health and Ageing, *Proof Committee Hansard*, p. CA91.

<sup>57</sup> Mr Gordon Broderick, Executive Director, DSICA, *Proof Hansard*, 12 June 2008, p. 8.

<sup>58</sup> *Supplementary Submission No.27 (DSICA)*, p.4.

Mr McShane supported this and stated:

Over 90 per cent of the ready-to-drink products in Australia are actually served with cola, and those are cola bases which could carry similar sorts of sugar levels and caffeine levels, for example, as a standard cola that you would buy in a supermarket.<sup>59</sup>

Mr McShane also added that sweetness is not necessarily an inducement to drink more:

There is a term that we use in the industry: 'sessionable'. You cannot drink too much sweet product because it just becomes sickly on the palate, and so, in fact, sweetness is not necessarily an inducer. It can actually be a negative. So excessive sweetness is not necessarily a good thing.<sup>60</sup>

### Support by Australians for other strategies

Liberal senators note that Australians polled by AIHW rate a number of measures to combat alcohol abuse well ahead of increases in tax levels (see Table 5)

**Table 5 – Support<sup>(a)</sup> for alcohol measures: proportion of the population aged 14 years or older, by sex, Australia, 2004, 2007**

Measure	Males		Females		Persons	
	2004	2007	2004	2007	2004	2007
	(per cent)					
Increasing the price of alcohol	16.1	20.5 #	25.5	27.7 #	20.9	24.1 #
Reducing the number of outlets that sell alcohol	22.7	27.9 #	34.2	36.3 #	28.5	32.2 #
Reducing trading hours for pubs and clubs	27.3	35.4 #	36.6	42.4 #	32.0	38.9 #
Raising the legal drinking age	35.4	42.5 #	45.9	50.0 #	40.7	46.3 #
Increasing the number of alcohol-free public events	56.9	56.4	69.5	68.3	63.3	62.5
Increasing the number of alcohol-free dry zones	59.1	58.9	67.4	67.0	63.3	62.5
Serving only low-alcohol beverages at sporting events	53.8	54.5	67.2	65.5 #	60.6	60.1
Limiting TV advertising until after 9.30 p.m.	66.3	67.2	76.3	77.0	71.4	72.2
Banning alcohol sponsorship of sporting events	37.8	41.7 #	54.1	55.2	46.1	48.5 #
More severe penalties for drink driving	80.4	81.5	91.1	91.0	85.9	86.3
Stricter laws against serving drunk customers	79.9	79.9	87.7	86.8	83.8	83.3
Restricting late night trading of alcohol	45.5	54.0 #	58.1	61.9 #	51.9	58.0 #
Strict monitoring of late night licensed premises	68.4	72.4 #	75.7	77.9 #	72.1	75.2 #
Increasing the size of standard drink labels on alcohol containers	60.3	60.7	72.4	70.7 #	66.4	65.8
Adding national drinking guidelines to alcohol containers	63.9	66.1 #	75.7	75.7	69.9	70.9
Increasing tax on alcohol to pay for health, education and treatment of alcohol-related problems	31.5	35.5 #	45.5	47.0	38.6	41.3 #

(a) Support or strongly support (calculations based on responses of 'strongly support', 'support', 'neither support nor oppose', 'oppose' and 'strongly oppose').

# Difference between 2004 result and 2007 result is statistically significantly (2-tailed  $\alpha = 0.05$ ).

Source: AIHW 2007 National Drug Strategy Household Survey: first results, April 2008.

59 Mr Michael McShane, *Proof Hansard*, 12 June 2008, p. 8.

60 Mr Michael McShane, *Proof Hansard*, 12 June 2008, p. 8.

Respondents listed "More severe penalties for drink driving", "Stricter laws against serving drunk customers" and "Strict monitoring of late night licensed premises" as their highest priorities. These measures attracted support at about twice the rate of "Increasing tax on alcohol".

Liberal senators are unaware of any moves by the Government to address the alcohol-related measures supported by most Australians, even to the extent of encouraging their colleagues in the state and territory governments to contemplate action.

## **Conclusion**

Given the evidence for the excise increase is not clear and that there are potential negative consequences such as substitution, punishing responsible drinkers, and potential industry job losses, the question of whether the tax should proceed is problematic based on the evidence.

Liberal senators are not opposed in principle to strong new weapons to attack the culture of alcohol abuse. Indeed they acknowledge that such measures must be seriously contemplated by all levels of government, for example liquor trading hours and the number of retail outlets need to be on the table for examination. But any measure adopted must pass a basic test of commonsense and adequately-researched efficacy. We remain concerned that this has not occurred here.

We support close examination of a volumetric method of alcohol taxation, or variations thereof, such as a scaled approach that gives low alcohol products a market advantage. We are not however convinced that the Government's RTD tax is part of such a strategy.

Accordingly, Liberal senators **recommend that the RTD excise increase be reversed until the Henry Review of Australia's tax system has reported and a response devised.**

**Senator Gary Humphries, Deputy Chair**

**Senator Sue Boyce**

**Senator the Hon Richard Colbeck**

**Senator Simon Birmingham**