

Additional Comments

Senator Andrew Murray

1 Price and behaviour

The Australian Democrats have long been campaigners for comprehensive alcohol review and consequent reform. The Hansard record will show years of campaigning on alcohol issues, including extensive amendments to improve the system.

The Democrats have no issue with the price of alcohol being increased via excise if the social intent is to reduce the harmful consumption of alcohol. We support measures including price measures that will actually significantly reduce the harm caused by excessive consumption of alcohol. The Democrats have no set level of excise or alcohol tax in mind that will achieve this goal. The level at which excise is set is always going to be a matter of judgement, a behavioural guess, and the Treasury are as good at that sort of estimate as any.

What we take issue with are excise actions in one alcohol category in isolation of action in other alcohol categories which are capable of easy substitution for the targeted category.

The behavioural logic is easy. Price affects consumption. Raising the price should lower consumption. However if there are easy substitutes no significant fall in consumption will occur. So you have to raise the price of all substitutes too.

What was disturbing at both the June Senate Budget Estimates¹ and at the Committee Inquiry is that the question of substitution has been largely swept aside or been diminished in importance. Yet it is central to the question of whether this pre-mixed drink excise increase will work at all in reducing the harmful consumption of pre-mix drinks, particularly by young people. Issues relating to the RTD tax increase were discussed at length during the Economics Committee's session. Extracts from the exchanges on these issues are at Attachment 1.

At the time of the announcement of this excise increase for pre-mixed drinks the Democrats said it must be matched by other action. We said that the government had correctly identified price as helping curb alcohol abuse. When certain products are flavoured, sweetened, packaged and marketed to attract the young, then price is an obvious weapon to use to restrict consumption. Unfortunately young people also can and do binge drink on beer and wine, as do adults that binge drink.

Despite helpful reform in the last decade, the federal government's alcohol tax policy lacks integrity and consistency. In 2002 I had this to say on the matter, and I drew out five main conclusions in my Supplementary Remarks:

¹ Budget Estimates, Senate Standing Committee on Economics, *Proof Committee Hansard*, 3 June 2008, pp. 50-55 and 63-80 <http://www.aph.gov.au/hansard/senate/committee/S10862.pdf>.

-
- The Government's new alcohol tax system is a considerable improvement on the former regime (an improvement furthered by this Bill);
 - Further improvements to the alcohol tax regime could make a material contribution to improved health outcomes;
 - The value-added Wine Equalisation Tax (WET) is a failure in two respects. It has created a low-price cheap-alcohol cask market that is at the centre of alcohol abuse, and it is punishing the premium and small business bottled wine sector;
 - The Government's low-alcohol policy is poor, since it only focuses on beer, when there are clear opportunities for incentives to encourage low alcohol RTDs and wines; and
 - There are significant continuing inequities and anomalies in excise taxation, among others in RTDs, Brandy, Cider, and mid strength beer.²

The previous Coalition Government did nothing to address these policy weaknesses, nor did it follow up on the unanimous Senate Economic Committee's later recommendation in 2006 that a pricing regime be introduced to encourage the consumption of low-alcohol RTDs.³

Alcohol is alcohol, whatever its source. Yet the alcohol pricing regime is selective between and within alcohol categories on random grounds. The detrimental effect of alcohol comes from the amount consumed, not from its type, its packaging or its flavour.

Labor has shown it has the courage to take on the spirits lobby. It now needs courage to take on the wine and beer lobbies. Three principles must be followed:

- All products in the same product category should be taxed the same. For instance, brandy should be taxed at the same rate as whisky, rum and white spirits, which it is not.
- All products with the same alcohol level should be taxed the same. Full-strength beer (which is determined at 4.65+ percent) should be taxed the same as pre-mix drinks at 4.65 percent. If increasing excise curbs binge drinking on RTDs, then beer excise should also be increased immediately to curb binge drinking on beer; plus wine should be taxed volumetrically not by value to achieve a similar outcome.
- The low-alcohol and mid-strength beer excise should be matched with a low-alcohol and mid-strength RTD excise rate.

² Senate Economics Legislation Committee, *Provisions of the Excise Tariff Amendment Bill (No. 1) 2002 and Provisions of the Customs Tariff Amendment Bill (No. 2) 2002*, October 2002, http://www.aph.gov.au/Senate/committee/economics_ctte/completed_inquiries/2002-04/tariff_02/report/report.pdf.

³ Senate Economics Legislation Committee, *Report on the Provisions of the Customs Amendment (Fuel Tax Reform and Other Measures) Bill 2006 and three related bills*, June 2006, p.10. http://www.aph.gov.au/senate/committee/economics_ctte/completed_inquiries/2004-07/fuel_3/report/report.pdf

Recommendation 1:

That the Henry Tax Review examining alcohol taxation have regard to these three general principles:

- **all products in the same product category should be taxed at the same rate;**
- **all products with the same alcohol level should be taxed at the same rate; and**
- **the low-alcohol and mid-strength beer excise should be matched with a low-alcohol and mid-strength RTD excise rate.**

If this government is really serious about alcohol policy, when is it going to announce its response to the Senate's unanimous call, agreed to on 13 March 2008, for a full review? The Senate motion said:

(1) That the Senate, noting concern in the community at the abuse of alcohol, asks that the Government refer the following matter to a parliamentary committee, an appropriate body or a specially-established task force for inquiry and report: The need to significantly reduce alcohol abuse in Australia, especially in geographic or demographic hot spots, and what the Commonwealth, States and Territories should separately and jointly do with respect to:

(a) the pricing of alcohol, including taxation; (b) the marketing of alcohol; and (c) regulating the distribution, availability and consumption of alcohol.

(2) In undertaking the inquiry, regard is to be had to: (a) economic as well as social issues; (b) alcohol rehabilitation and education; (c) the need for a flexible responsive and adaptable regulatory regime; and (d) the need for a consistent harmonised Australian approach.

Recommendation 2:

That the Government comply with the Senate motion of 13 March 2008 calling for a comprehensive holistic review of all aspects of alcohol.

Political and industry concern with respect to the RTD increase has been two-fold:

- that this excise increase is actually a revenue measure disguised as a social policy; and
- that this is a tokenistic response to a serious issue which will not work because substitution will occur.

The Democrats are prepared to give the Government the benefit of the doubt that they do desire to significantly reduce harmful drinking. Even so, there are real weaknesses in their approach.

In an important sense, the alcopops issue is not a side-issue. It is a worrying signal that the new Government has already dropped its approach of a principles-based or alternatively an evidence-based policy response to significant social and economic problems. If it does that elsewhere or more broadly, then Australia is headed for troubled policy waters.

Raising price to tackle over-use is a legitimate behavioural tool, and is commonly used in sin taxes (drinking, smoking, and gambling) but there is no policy consistency here. If you raise the price on one alcohol category you have to raise the price on all categories, otherwise the substitution effect will undo your policy intention.

Imagine you are a teenage girl (...well try), and the price of pre-mix vodka and lemon goes up 70% - do you stop drinking; drink less; switch to much cheaper wine with a higher alcohol content (cask wine is hardly taxed at all); switch to cheaper beer with the same alcohol content (beer is preferentially taxed); switch to cheaper cider (preferentially taxed); or buy a spirits bottle and a cool drink bottle and mix your own much cheaper vodka and lemon?

The evidence in the Majority Report is that the jury is not yet in, the evidence is still being collected, but there will be behavioural changes, including some present RTD drinkers drinking less or drinking less harmfully. My own very long experience in this policy field still leads me to expect that the majority of those who drink for the alcohol effect will simply switch from RTDs to cheaper products.

This view was supported by evidence provided to the inquiry including the following real life example from Dr Raymond Seidler, specialist in addiction medicine practising in Kings Cross NSW and Secretary of the Eastern Sydney Division of General Practice:

'Recently, our division of general practice hosted a youth Forum for all the high schools in our area. Attendees included 75 students from variety of private and public schools. My presentation was on intoxication and the subject of premixed alcopops came up in discussion. The consensus of opinion amongst the young people was that raising the excise on premixed drinks would do nothing to reduce the level of binge drinking amongst their cohort. Many of the young women said they would just resort to cheap drinks or buy their own spirits, and at the same time purchase a bottle of soft drink to mix with either vodka, bourbon or whisky. They also explained to me and to their teachers that they would seek out cheaper alcohol alternatives like wine in casks which they explain could be procured for around \$10 for 4 Litres.'⁴

The majority of evidence to the committee expressed the opinion that the RTD measure should not stand alone but should be part of a comprehensive suite of measures to address the harmful consumption of alcohol.

2 A summary of Democrats' views on alcohol

Alcohol is the most commonly used drug in Australia and the second greatest cause of drug-related deaths and hospitalisations after tobacco. Almost three and a half thousand deaths are attributed to alcohol consumption each year. The financial cost of alcohol misuse in Australia has been estimated at more than \$15 billion per year.⁵ A comprehensive national alcohol strategy is needed that focuses on causes and effects and remedial responses; on regulation, controls, and education; and on more effective taxation. Our national health depends on it.

In the 2007 federal election the Australian Democrats outlined their 'Action Plan'. This was framed in the following way:

⁴ Dr Raymond Seidler, *Submission 1*, p. 1.

⁵ AMA, *Submission 33*, p. 6.

Implement and properly fund the National Alcohol Strategy informed by:

- An inquiry into what Commonwealth, States and Territory governments should separately, jointly and consistently do with respect to the pricing marketing and regulation of alcohol;
- A comprehensive study by the Productivity Commission of the full economic and social costs of alcohol-associated problems; and
- Ongoing independent research to identify the causes and effects of alcohol abuse in Australia, and to identify policies to significantly reduce alcohol abuse and the harm caused by it.

The Democrats advocated: *Stronger regulation and intervention*

- Direct a standard 2% of alcohol tax revenue (about \$160 million per annum) towards promoting the responsible consumption of alcohol and emphasising the dangers of alcohol misuse; and, assisting people to limit or abstain from drinking, with particular emphasis on the young, pregnant women and those indigenous communities at risk;
- Provide policing assistance to indigenous and other communities wishing to enforce their 'dry' status and heavy penalties for 'grog-runners' and substantially improve access for indigenous people to prevention and treatment services ;
- Negotiate tighter liquor licensing laws with the States, with stricter enforcement and higher penalties for supplying alcohol products to under-18 year-olds and reduce the number and density of liquor outlets and hours and days of sale;
- Ban products designed to appeal to young people;
- Restrict alcohol advertising and promotion, including banning alcohol-industry sponsorship of social, sports and entertainment events;
- Establish an independent statutory body to develop and run an independent regulatory system funded by hypothecated alcohol taxes;
- Apply health warnings on alcoholic beverages, including the warning that there is no safe level of consumption for minors or for pregnant women;
- Support high levels of random breath testing in all jurisdictions, including ensuring that a high proportion of drink driving offenders are successfully referred to intervention programs; Increase the availability and use of ignition interlock devices both on a voluntary basis and as part of sentencing of convicted drink drivers; Foster mandatory referral of severe or recurrent drink driving offenders to alcohol treatment services;
- Establish a national network of sobering up facilities and increase funding for withdrawal and treatment facilities including greater use of screening for alcohol related problems, encouraging the use of effective pharmacotherapies and increasing brief alcohol interventions in primary care settings;
- Support decriminalisation of public drunkenness and diversion to sobering up facilities;
- Provide targeted funding for specialised programmes for children raised in substance misusing families; and

- Make it the law clear that liquor license holders and alcohol suppliers have a duty of care for the safety of consumers of their products; or, reverse the changes to the Trade Practices Act that removed the capacity for litigation to recover health care costs from alcohol suppliers responsible for or associated with personal injury caused by conduct related to alcohol consumption.

A much improved taxation framework

- Revise the alcohol taxation system so that all alcohol products are taxed according to volume according to alcohol content, and wine and cider are not taxed by value;
- Introduce the same tax and excise treatment to low and mid strength RTDs and wine as is applied to low and mid strength beer;
- Ensure imported products are not priced differently to domestic products of the same alcohol class, and brandy is not priced preferentially to other spirits; and
- Establish the ATO as the single government agency responsible for the collection of revenue and the administration of excise equivalent alcohol goods.

The Democrats said that **issue one was inquiry and research:**

An independent inquiry is needed, with particular regard to significantly reducing alcohol abuse in Australia, especially in geographic or demographic 'hot spots'. We need to establish what the Commonwealth, States and Territories should separately, jointly and consistently do with respect to

- the pricing of alcohol, including taxation;
- the marketing of alcohol; and
- regulating the distribution, availability and consumption of alcohol.

The inquiry must take into account economic and social issues; alcohol rehabilitation and education; the need for a flexible adaptable regulatory regime; and, the need for a consistent harmonised approach.

Australia's per capita alcohol consumption has fallen by about 25% since it peaked in the mid-1970s, but there is much more to be done. Concern is justified at the social and economic costs of alcohol abuse, at binge drinking, and at the costly and socially harmful health problems arising from excessive alcohol consumption.

Although drinking is often glamorised by popular culture and viewed as a rite of passage by many, alcohol misuse contributes to high-risk binge drinking, depression, anxiety, physical and sexual violence, crime rates, road accidents and injuries, to name a few of many undesirable social effects. There are high risk groups, including the young and certain indigenous groups. The only way to deal with risk is to use credible genuinely independent empirically based research. The challenge is to deepen our understanding of the underlying motivation of why some people drink at harmful levels.

Evidence provided to the committee agreed that our understanding of why young people drink to excess is limited as noted by Dr Michael Tedeschi, Fellow, Royal Australasian College of Physicians, who told the committee 'Alcohol consumption and the various ways

alcohol is consumed by young people is a highly complex matter in that we have a very poor understanding of the patterns of why people drink the way they do'.⁶

Good social and health outcomes are a key objective of a coherent set of alcohol policies. Good alcohol policies can make a positive contribution to these outcomes. It is possible to moderate behaviour, but it is hard to change behaviour. To change behaviour you have to know what causes behaviour. That is why the Democrats place such emphasis on independent Government-funded research.

The Democrats said that **issue two was regulation**.

The federal Government collects about \$8 billion annually in alcohol revenue, and the alcohol industry is a considerable sector of our economy. Against that must be set the huge costs of alcohol abuse. The policy task is to lower these costs substantially. Alcohol requires regulation. Universal prohibition does not work. Neither does treating alcohol as a run-of-the-mill consumer good.

Alcohol abuse affects many, but certain indigenous communities and specific age groups such as underage drinkers are high risk. Australia's alcohol regulation is shared between Federal, State and Local authorities. Coordination and consistency is essential, and is currently missing. Control policies include taxation, licensing regulation, access, hours of sale, and disincentives for anti-social behaviour such as drink-driving. Control policies should regulate the price marketing and availability of alcohol in a manner that minimises harm and encourages responsible consumption.

Educational programs for parents and the community on the dangers and inappropriateness of supplying alcohol to underage drinkers are ineffective. Enforcement is poor. Drink driving laws have been spectacularly successful in reducing the levels of anti-social drink-driving behaviour on our roads. We need a similar breakthrough in the area of supply of alcohol to minors by parents and friends.

Alcohol marketing, promotion, advertising and sponsorship are permitted almost without restriction in Australia. There is industry self-regulation of advertising but many problems exist with this system. Research shows that advertising does have a role in drinking behaviour and attitudes towards alcohol. Products designed to appeal to young people should be banned.

Random breath testing has been one of the most effective programmes for reducing alcohol related morbidity and mortality. It is most effective when it has a high profile and large numbers of people are routinely tested. Health warnings on labels have been adopted in some countries and have contributed to greater awareness of the risks associated with alcohol use.

The Democrats said that **issue three was price and taxation**.

The Democrats have always supported the taxation of alcohol as a standard regulatory mechanism to prevent alcohol being cheaply available, and as a means of contributing to the public cost of harm arising from alcohol consumption. The Government's broad conceptual framework for alcohol taxation policy in Australia means alcohol taxation and pricing levels

⁶ Dr Michael Tedeschi, Fellow, Royal Australasian College of Physicians, Community Affairs Committee Hansard, 11 June 2008, p. 40.

are better than they were but further improvements to the alcohol tax regime could make a significant contribution to improved health outcomes.

The policy framework still lacks sufficient coherence. The framework has three key compartments: products with less than 10% alcohol content; products with more than 10% alcohol content; and wine and cider.

Until this RTD excise increase the Government had recognised the merit of taxing most products under 10% alcohol content at similar taxation rates, regardless of the form of the alcohol. This tax is levied volumetrically as excise or customs duty on the amount of the alcohol in the product. The Government has also recognised the merits of taxing all products over 10% alcohol content at a higher rate. This too is sound policy.

However a fatal policy flaw is that the taxation of wine and cider is still based on the value, not alcohol volume, of the product. Alcohol is alcohol. A standard drink is a standard drink. Alcohol taxation should reflect this truth. It is better tax policy to tax each alcohol product on its alcohol content rather than its value.

This view was expressed by many to the committee such as Diageo Australia which told the committee they supported a uniform volumetric approach to taxing alcohol products based on the rationale that 'the effect on the body is the same whether the alcohol is consumed from a beer, a wine, or a spirit.'⁷ ADCA told the committee 'it is hard to think of any public health-based justification for differences in taxation between different alcohol beverages of equal strength.'⁸ The RACP noted that 'Current alcohol taxation does not make any economic sense, let alone public health sense'.⁹

Many other submissions such as AER, noted the complexity and anomalies in the current alcohol taxation system.¹⁰

In pursuing these alcohol taxation issues, Senator Murray provided questions for a number of organisations (see Attachment 2) and received responses including the comments referred to above.¹¹

The Government's low-alcohol policy is poor. It only focuses on beer and fails to provide clear incentives to encourage low-alcohol ready-to-drink alcohol products (RTDs) and wine. The Democrats have long campaigned for changes to alcohol excise to encourage the production and consumption of low-alcohol products, whatever their form. A key feature of any coherent alcohol policy should be the promotion of low-alcohol products.

⁷ Diageo Australia, *Submission 29*, p. 6.

⁸ ADCA, *Submission 13a*, p. 4.

⁹ RACP, *Submission 25a*, p. 3.

¹⁰ AER, *Submission 14a*, p. 1.

¹¹ The organisations that provided responses to these questions were Alcohol and other Drugs Council, *Submission 13a*; Alcohol Education and Rehabilitation Foundation, *Submission 14a*; Winemakers' Federation of Australia, *Submission 21a*; Royal Australasian College of Physicians, *Submission 25a*; Australian Drug Foundation, *Submission 28a*; Australasian Associated Brewers, *Submission 34*.

The Democrats have consistently recommended that low-alcohol packaged RTD products be subject to the same tiered excise regime that has successfully encouraged the production and consumption of low-alcohol packaged beer.

There was evidence presented to the inquiry that low-alcohol products should be encouraged. For example, Mr Smeaton, Chief Executive Officer of the Alcohol Education and Rehabilitation Foundation told the committee:

Beer currently has an incentive to produce a low-alcohol beer because the first 1.15 per cent of alcohol is not taxed. There is no incentive in that area for either wine or spirits. That might be something that could be considered in the context of a public health outcome...¹²

The value-added Wine Equalisation Tax (WET) is a failure in two respects. It has created a low-price cheap-alcohol cask market that is at the recorded centre of alcohol abuse. Contrary to the myth, wine is also at the heart of alcohol abuse, not at its periphery. Secondly, it continues to punish the premium bottled wine sector. WET provides wine producers with an incentive to produce low-value wine. Research in the Northern Territory demonstrates that increasing the price of cask wine substantially reduced alcohol abuse.

The Royal Australasian College of Physicians told the committee that 'The College is of the view that in Australia, the introduction of the Wine Equalisation Tax (WET) primarily benefited cask wine producers (mostly large multi-national companies) at the expense of Australia's premium wine producers. An unintended negative consequence of the WET has been the effect on the health and well-being of many disadvantaged communities where the low price of cask wine is a primary factor influencing the quantity of alcohol consumed.'¹³

Beyond increasing the price of cask wine, a volumetric wine tax would also lower the price of higher value wines, which are over-priced by virtue of the WET. This, in turn, would stimulate that sector of the industry, and create jobs. There is consistent support for the view that all alcohol should be taxed volumetrically as alcohol regardless of its type. The Australian Medical Association supports moving to a volumetric wine tax. ADCA and other health lobby groups advocate a volumetric wine tax.

Inequities and anomalies continue in alcohol taxation. For instance, imported goods such as bourbon and brandy have tax advantages over domestic products. Brandy is concessionally taxed to other spirits. These policy differences are unnecessary and should be ended.

At present Customs is responsible for administration (i.e. licensing and audit) and policy of *imported* spirits and RTDs. However, the ATO is responsible for administration (i.e. licensing and audit) and Treasury is responsible for policy on *locally produced* spirits and RTDs. This creates unnecessary duplication, and a single administration, under the ATO, would significantly reduce red tape and costs.

¹² Mr Daryl Smeaton, Chief Executive Officer, Alcohol Education and Rehabilitation Foundation, *Proof Committee Hansard*, 11 June 2008, p. 30.

¹³ RACP, *Submission 25a*, p. 6.

Evidence to the committee called for a comprehensive review of alcohol taxation and the government has committed to a review of alcohol taxation issues as part of the Ken Henry review of taxation.¹⁴

Senator Andrew Murray
Australian Democrats, Western Australia

¹⁴ Senator the Hon. Stephen Conroy, *Estimates Hansard*, 3 June 2008, p. E70.

ATTACHMENT 1

DISCUSSION OF RTD TAX INCREASE DURING SENATE BUDGET ESTIMATES HEARINGS

Senate Economics Committee, *Proof Committee Hansard*, 3 June 2008, pp. 53-55

Senator MURRAY—Thank you. I have read, over several decades, papers concerning price effects with alcohol, including the effects of substitution as well as the effects of an aggregate increase on price. Nearly all the elasticity models I have seen are complicated by the substitution issue. In certain categories, substitution is automatic. For instance, if you raise the price of one beer, people switch to another beer. That is almost an equal effect whereas it is different if you get radically different types of alcohol?

Mr Ray—That is correct.

Senator MURRAY—Were you able to use the overseas studies on price effects in alcohol to moderate your expectation of the effect of increasing price so radically in just one area where it is plain that direct substitution is possible—by which I mean you can take a bottle of rum and a bottle of coke and mix them yourselves—and indirect substitution is possible whereby you can move from an RTD to, say, a cheap cask wine?

Mr Ray—Yes.

Mr Brown—In looking at the overseas studies, that was one of the areas where there was fairly mixed evidence. The studies tended to show that, if you look at spirits, that spirit based drinks tended to be complements to things like beer, that beer tended to complement wine, and that spirits and wine tended to be substitutes.

Mr Ray—That is complement with an ‘e’, isn’t it?

Mr Brown—Yes. But the actual significance of some of those results is rather dubious. While you can get reasonable estimates of price elasticities from studies, usually the cross-elasticities are far less significant in terms of statistical significance, so they are less reliable results. The other issue for RTD beverages is that there are very few studies, if any, that directly look at RTD beverages that are out there in terms of price elasticities and that may reflect that the amount of data or the length of time data is available may be insufficient to do a valid econometric analysis of them. The issue in respect of substitutions, say, from RTDs to spirits in terms of the costing is less significant as well because now with the excise rate per LAL of alcohol set at the same level, if you substitute the same amount of alcohol for the same amount of alcohol in a different beverage it does not actually affect the revenue estimates that we would derive.

Senator MURRAY—The evidence, as I understand it, with respect to cross-elasticities of demand, is that where there is insufficient data you therefore have to look at the motive or the prime determinant of consumption, and if the prime determinant is effect then, as I understand the documentation I have read, substitution is more likely to occur than if the prime purpose of consumption is alternative, such as quality, packaging or something of that sort. The inference around binge drinking, of course, is its effect—basically an ingestion of large amounts of alcohol to get drunk—which would imply that substitution would be

relatively easy for that class of drinker. It may be different, for instance, for a plumber aged 30 who likes to drink his Bundy and Coke. But did you use a kind of commonsense appraisal, if you like, to supplement your advice which would cover off that area of motive and likely effect?

Mr Ray—In terms of the specifics about motives of binge drinking, you are probably better asking the department of health, but this is about the aggregate consumption of RTDs. The costing is not about binge drinking, per se.

Senator MURRAY—Yes, but if I may interpolate on this basis: if I understand Senator Coonan's question correctly and my own, we are concerned about the aggregate consumption of alcohol, within which RTD is one component, for which if you adjust the price effect, if the primary motive is simply to get drunk which is binge drinking, then you are likely to see a substitution effect, which is contrary to the elasticity measures you have been relying on to give the government advice.

Mr Ray—As Mr Brown has said, it depends on what they substitute into.

Senator MURRAY—There are only two choices, as I understand it: alcohol or drugs.

Mr Ray—I was actually referring to which different type of alcohol you might substitute into.

Senator MURRAY—If you say that the anecdotal evidence so far is that substitution is occurring, the question we would all be looking at is how large that substitution effect is.

Mr Ray—I think we would be cautious about short-term responses—studies which purport to show a short-term response. I think we would want to wait to see how the long-term response settles down.

Senator MURRAY—I can assure you when a retailer places an ad they know the next day whether or not the ad was effective. When there is a price movement, they know the next day whether price is effective. I understand you being cautious because that is your job, but the market effects will, in fact, be immediate. That is the nature of substitution: the market effects are immediate. I will leave it there.

Senator COONAN—Following on from Senator Murray, you would obviously be aware that on 28 May there was released findings from an AC Nielsen survey from the latest data collected from liquor retailers across Australia. Were you aware of that?

Mr Brown—Yes.

Senator MURRAY—Just to clarify my own view: I do accept that increasing price will affect consumption. My point is you that you have got to increase the price of substitutes, as well. Do you think a measure to decrease consumption of alcohol, in addition to this one, could be to raise the price of all substitutable products? That is essentially what Senator Eggleston was saying. You have to bring up the price of cask wine, beer and all substitutable products if you want to reduce consumption for the effect that we are discussing. Do you agree with that?

Mr Ray—This is getting quite close to policy advice, but I do not disagree with the idea that the demand curve is downwards sloping.

Senator MURRAY—Thank you.

Senate Economics Committee, Proof Committee Hansard, 3 June 2008, pp. 68-70

Senator MURRAY—I have some questions quickly on the same topic. I just want to discuss this question of closing an anomaly which has been widely used as a justification for this price increase in RTDs. For the purposes of your answer, let us talk about a beer at five per cent alcohol by volume, an RTD which is spirits based at five per cent alcohol per volume and an RTD which is wine based at five per cent alcohol per volume. Each of those has got one constant and that is five per cent, but the beer taxation is less because there is a 1.15 per cent tax free threshold. The spirits is more because its rate is higher. This is before the change. Wine is less because wine is a value-added tax, not a volumetric tax, so wine is the cheapest of all.

Mr Ray—That is correct.

Mr Brown—If the wine based was an RTD it would be taxed as another excisable beverage if it was five per cent.

Senator MURRAY—And it is only when it reaches a certain percentage of alcohol that it has to be—

Mr Brown—It has to meet the definition of wine.

Mr Ray—Which I think is about eight per cent.

Senator MURRAY—I will just focus on the beer and the spirits RTD. Apart from the fact that beer is cheaper, why is it considered to be an anomaly when an RTD spirits based at five per cent alcohol by volume is taxed at nearly the rate of beer at five per cent alcohol by volume? I have not understood this idea of raising the price of a spirits based RTD closer to the full bottle spirits rate, because, as you know, it is normally but not always 40 per cent alcohol by volume. What does it mean in policy terms—and I am not asking you a policy question—from Treasury's perspective?

Mr Ray—I think this is a benchmark question. What the government has said is that what this measure does is tax alcohol in spirits at the same rate, whether those spirits are sold in a bottle just in the spirits and then mixed with some other thing like cola or lemonade, or whatever these things are mixed with, or it is sold in a pre-packaged product where it is pre-mixed. That is what the government has said.

Senator MURRAY—Assuming you are dealing with rational people, that would be because a spirits based drink at five per cent alcohol by volume has eight per cent of the impact of a beer based drink at five per cent alcohol by volume? Is that what lies behind it?

Mr Ray—That is asking me to impute a motive. I think that the simple way to explain what the government has been saying is that spirits will be taxed the same no matter how they are packaged and sold.

Senator MURRAY—I accept that there are anomalies in customs and excise taxation of alcohol; in fact I know and you know that to be the case and I am not unhappy for them to be resolved. What I cannot work out is where the policy rationale lies, because I am told by the drug and alcohol people—not by the industry, but by the people who are trying to stop the abuse of alcohol—that alcohol is alcohol. Quite simply, alcohol by volume is the same: wine, spirits, beer or cider, it does not matter what you drink, it has the same effect.

Mr Ray—Unlike Senator Conroy I am not a teetotaler and I probably—

Senator MURRAY—My question is: if the desire is to change the anomaly, has Treasury given advice to the government to equalise the tax, and equalise the price effects, therefore, and the demand effects, on all products relative to the alcohol by volume?

Senator Conroy—I would only disagree with you on the basis that I think you are suggesting the rational basis for the comparison. I am not sure that when you sit down—

Senator MURRAY—Senator Conroy, you know nothing about grog.

Senator Conroy—I actually worked in a liquor store for five years. I was a very safe employee and I did observe a lot of behaviour.

Senator MURRAY—Deviant behaviour.

Senator Conroy—I am not sure about your alcohol stores. The ones I worked in were not deviant behaviour. I am not sure that the underlying assumption that you make is an accurate one. When I worked in stores I have literally watched people walk in and they were not sitting there comparing the alcohol content, they were comparing the price.

Senator MURRAY—Since I have been listening to these answers, essentially I have heard the correct answers from Treasury—namely that they have looked at this as an economic matter and that the health effects, the alcohol effects, considerations are those that concern the health department. But from a rational Treasury point of view, I cannot see the tax rationale of this. I just cannot see it. I need a better explanation from either you, who I do not trust on these matters—

Senator Conroy—As a teetotaler, I do not take that personally.

Senator MURRAY—But I have not heard a decent response on that aspect from Treasury. I have heard the economic response.

Mr Ray—As I said, this measure equalises the excise equivalent customs duty on spirits, no matter how it is sold. I think that is actually explained in the budget papers as being one of the policy rationales that the government has. I do not want to mislead you. I think we in the Treasury would agree that if you increased the price of something the demand for it would fall—other things being equal.

Senator MURRAY—What I get from that is, ‘Spirits bad; wine and beer good,’ and the amount of alcohol in it is irrelevant. And yet the government is selling this as an assault on the consumption of alcohol.

Senator Conroy—We have also indicated we will have a look at excise taxes in the Henry review. We are moving to look at this in a much broader range, which I think you have suggested—

Senator MURRAY—Which I appreciate, Minister.

Senator Conroy—and we have taken up as a worthwhile policy discussion. Some of the questions that you have put in here will naturally fall to be dealt with within that review process.

Senator MURRAY—You see, Minister, through the chair, I am caught in a bind, in that the Treasury have defended the previous policy and now defend this policy, and the two are markedly different. Of course the officers have to do that; I accept that. But I think what you have done is created a greater anomaly, which you now need to fix through the Henry review. What I want to do, Minister, is ask for your commitment on behalf of the government that you will look at this whole area objectively and with a view to maximising the social benefit and minimising the social harm from the consumption of alcohol of all types. That is what I want.

Senator Conroy—I think we have given that public commitment to examine these issues thoroughly as part of that review. I am happy to reiterate that. The former government introduced the new category of excisable alcohol that had the effect of reducing the effective rate of excise on spirit based ready to drink beverages by 40 per cent, so I would challenge you on your suggestion that we have created a bigger anomaly. I think that was an anomaly that was created then and we have addressed that by reversing the decision. Spirits are taxed at the same rate, no matter how they are consumed. But the overall point that you make is a worthy one and I am sure it will be considered in detail.

Senator MURRAY—I hope so.

ATTACHMENT 2

QUESTIONS FROM SENATOR MURRAY TO CERTAIN GROUPS MAKING SUBMISSIONS TO THE SENATE COMMUNITY AFFAIRS COMMITTEE INQUIRY INTO READY TO DRINK ALCOHOL BEVERAGES

1 The Government has increased the excise on ready-to-drink (RTD) alcohol beverages. Do you agree with these broad propositions made in the general debate with respect to this alcohol policy?

- Price is an important tool in reducing alcohol abuse;
- Higher prices for alcohol reduce consumption;
- There are anomalies in the taxation of alcohol that need fixing; and
- Binge drinking needs to be addressed by increasing the price of ready-to-drink pre-mixed spirit-based beverages.

2. Do you agree that the price of alcohol affects consumption? Do you support the specific taxation of alcohol products (through customs and excise duties and through the Wine Equalisation Tax (WET)), all of which have the effect of raising the price of alcohol products? If you do agree with these statements do you support:

- Some alcohol types being tax-free? Why/why not?
- Some higher alcohol products being taxed less than some lower alcohol products? Why/why not?
- Different tax rates for the same product? Why/why not?

3. With respect to your answers to Q2, are you aware that - and what is your opinion of these policies:

- A rebate of \$500 000 is payable in WET paid annually by any producer or producer group, the effect of which is to make tax-free wine bought at the cellar door of small producers?
- All wines, meads, perries, ciders and sakes are subject to the WET, and this means that these products are often taxed less than lower alcohol products subject to customs and excise duties?
- Where beer is consumed on the premise, such as a bar, a draught beer is taxed less than the same beer in a bottle?

4. Do you think there is a case for beer products with the same alcoholic content being taxed at different rates? How do beer products that have the same alcoholic content being taxed at different rates contribute to less alcohol abuse? In answering these questions please give your views on low-strength packaged beer paying 5 times the tax of low-strength draught beer; mid-strength packaged beer paying 1.9 times the tax of mid-strength draught beer; full-strength packaged beer paying 1.4 times the tax of full-strength draught beer?

-
5. Do you think there is a case for spirit products that have the same alcohol content being taxed at different rates? How does a concessional tax rate for brandy reduce alcohol abuse when it has the same alcoholic content as rum or any other spirit? What is the justification for brandy not paying tax equal to the spirits rate?
6. What is the justification for having a 5% ad valorem (value-added) customs duty payable on imported RTDs and imported spirits but not on imported beer? Why should only some imported alcohol products pay customs duty but not others? Should all imported alcohol products pay customs duty, or none? Why?
7. Do you agree that alcohol is alcohol, whatever its source, and that ingestion of (say) alcohol at 5% by volume, will have the same or very similar effects on the consumer regardless of the product that the 5% is found in?
- If you disagree with that statement please indicate why?
 - If you agree with that statement do you agree with the proposition that all alcohol should therefore be taxed by volume, so that whatever the type of product, the taxation is the same for a given % of alcohol in the product?
8. If there is to be a customs duty on imported alcohol, should it be based on alcohol by volume or should it be based on value? Why?
9. Are you aware that wines, meads, perries, ciders and sakes are taxed by value but spirits, spirit-based drinks and beers are taxed on their alcohol by volume? Which policy is fairer and why? Which policy contributes more to addressing the abuse of alcohol, or delivers better health outcomes, and why?
10. Is cheap alcohol a risk with regard to binge-drinking and alcohol abuse? As an example, does cask wine feature in binge-drinking or alcohol abuse? Is it the case that a standard drink of cask wine and many RTDs average a similar alcohol content? Is it the case that RTDs pay 14 times the tax paid by cask wine? Do you believe cask wine should be taxed on its volume of alcohol content, so raising its price?
11. It is the case that many beer products have a similar alcohol content to packaged RTDs, so why is the excise duty payable on a mid-strength can of RTD greater than the amount payable on a full-strength can of beer? How does that contribute to addressing the abuse of alcohol, or delivering better health outcomes? Given the similarity of alcohol content for both products, why should RTDs and beer be taxed differently?
12. Do you support differential tax rates so that full-strength beer is taxed more than lower strength beers to encourage the consumption of lower strength beer? Do you believe a similar policy should be introduced for all other alcohol products, in particular RTDs?
13. Is it the case that a cider product pays tax of 26c whereas a spirits-based RTD pays tax of 84c (per standard drink)? Why is this difference good policy?

14 Is it the case that under WET, a wine-based RTD would need to have an alcohol content of at least 8 % before being taxed? Is it the case that some wine-based RTDs may bear no WET at all if the producer is in receipt of the WET producer rebate? If wine-based RTDs are taxed according to their value under the WET and have to be at least 8% alcohol by volume to be taxed under the WET, isn't this an encouragement to produce wine-based RTDs with a lower price and higher alcohol content than spirit-based RTDs? How does that contribute to addressing the abuse of alcohol, or delivering better health outcomes?