



The Royal Australasian
College of Physicians

Questions to those making submissions to the Senate Community Affairs Committee inquiry into Ready to Drink Alcohol beverages

Executive summary

There are a number of key elements with which government can interact that have been shown to be related or have a direct effect on alcohol consumption and/or subsequent harms. There are many studies dealing with these issues and much variation in the nature and findings of the studies, but broadly speaking one can confidently assert these principles.

- Price: consumption is directly related to price, and harm is directly related to consumption
- Outlet density: consumption and harms increase with greater outlet density
- Opening hours: consumption and harms increase with longer opening hours
- Minimum drinking age: lower minimum drinking age leads to increased consumption and harms in younger people
- Nature of public drinking environment: more controlled environments are associated with fewer harms

The evidence in support of our views can be found in several books which analyse and discuss in detail the particular evidence.

Babor T, Caetano R, Casswell, S, Edwards G, Giesbrecht N, Graham K, Grube J, Grunewald P, Hill L, Holder H. *Alcohol No ordinary commodity: research and public policy*, Oxford, Oxford University Press 2003.

Heather N, Peters TJ, Stockwell T (Eds) *International Handbook of Alcohol Dependence and Problems*. Chichester: John Wiley and Sons, 2001; 685–698.

Chikritzhs, T., Gray, D., Lyons, Z. and Siggers, S. (2007). *Restrictions on the sale and supply of alcohol: Evidence and outcomes*. National Drug Research Institute, Curtin University, Perth

The supplementary questions posed to us concern the very convoluted system of taxing of alcohol products and whether one can assert that there are relative benefits or harms associated with the various taxes. They all hinge on essentially the same concept: whether tax and price have an impact on subsequent consumption of alcohol and by extension on subsequent harm.

In our view, these various taxes appear to have been devised largely on the basis of commercial considerations rather than considerations of public health and the public order. From a public health point of view, alcohol volume should be the most important determinant of alcohol tax policy. Drinking German beer or Australian beer gets one just as drunk. The driver who has a blood alcohol concentration of 0.1 is just as dangerous whether they drank wine or spirits. In relation to the consumers of alcohol, Government cannot interact in any socially equitable way with the price of different alcohol products other than by the focus on alcohol volume. The volume of alcohol that is consumed, whether by individuals on one occasion, by individuals over time or by society as a whole will directly relate to the subsequent harm.

We are not aware of any evidence that differential tax policies based on considerations of other than the alcohol volume have any impact on alcohol consumption and related harm. Therefore the RACP policy is that, in general ALL alcohol products should be taxed in the same way and at the same level based on the alcohol volume.

There may be, on public health grounds, some justification for modifying this approach if it could be demonstrated that certain alcohol products were associated with a higher or lower degree of harm. For example, if there was reason to believe that “super strength” RTDs (eg the 7 per cent, 8 per cent or 9 per cent products) were more associated with binge drinking or some measure of harm, then there may be a case for increasing the tax on them. Similarly, there are concerns that have been raised about the palatability of many RTDs to young people which might encourage people

to start drinking at a younger age and that the alcohol effect can “sneak up on” young people and lead to greater consumption. Such concerns if backed by some evidence may provide a rationale for increasing the tax on RTDs.

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?

The RACP supports the increase in excise in ready-to-drink (RTD) alcohol beverages. However, in the view of the RACP, a more comprehensive response to alcohol-related harm is required. In particular, alcohol taxation reform is the single prevention strategy best supported by evidence of effectiveness. Current alcohol taxation does not make any economic sense, let alone public health sense. The RACP and a large and growing number of major health organisations support a root and branch review of alcohol taxation with a view to subsequent reform based on economic and public health grounds. Alcohol tax reform will be even more effective in conjunction with other measures. The Commonwealth government has recognised this year that action on alcohol is one of the most important areas for prevention of excess mortality and morbidity.

- *Price is an important tool in reducing alcohol abuse;*

The RACP is of the view that the Government’s proposed increase in excise on RTD products is a step in the right direction and should, on the basis of the evidence, contribute to a reduction in consumption and alcohol related harms both overall and especially in young people. However, it should be part of a comprehensive approach to the issue.

The ‘prevention paradox’ refers to the smaller number of alcohol-related casualties arising from those drinking at highest relative risk, compared to the larger number of people occasionally drinking large quantities of alcohol in a community over a year.¹ It is this large group drinking at lower risk who account for most of the alcohol-related casualties in the community. This group consumes in aggregate well above

¹ Stockwell T, Hawks D, Lang E, Rydon P. Unravelling the preventive paradox for acute alcohol problems. *Drug and alcohol review* 1996; 15 :(1)7-15.

the mean but far less than the former high-risk group and accounts for most of the alcohol-related casualties seen in that community. In the same way, it is the large number of motor car drivers driving at lower risk who account for most of the deaths on the road rather than the small number of motor cycle riders who travel at very high risk but who account for a smaller proportion of road crash deaths.

It is now accepted that episodic high-risk drinking in the group with more moderate aggregate consumption accounts for this apparent paradox in relation to the acute harms resulting from alcohol. The harms observed result from the product of a lower risk multiplied by the very large number of the population at risk. The implication of these observations is that far greater impact on alcohol-related casualties at the population level is achieved by focussing primarily on the very large number drinking alcohol somewhat above the mean but below the levels of a small group of severely dependent drinkers.

- ***Higher prices for alcohol reduce consumption;***

The College's interpretation of the literature is that, in general terms, when the price of alcohol increases consumption will decrease.^{2 3} Alcohol consumption, unlike most commodities, is relatively inelastic in relation to price changes. This means that the extent of the decrease in consumption is less than extent of the price increase.

However, the reduction in alcohol consumption does achieve worthwhile public health benefits. Because of this relatively inelastic response to alcohol price increases, government revenue still increases. The alcohol tax reforms that the RACP supports involve: (i) a move toward volumetric taxes and away from *ad valorem* taxes; (ii) any increase in alcohol taxation should always be modest and repeated with swingeing one-off increases avoided; (iii) hypothecation of a small proportion to fund alcohol and drug prevention and treatment; (iv) reduction of taxation on low alcohol concentration beverages. Funding of programs to reduce alcohol related harms should be greatly increased. Government revenues from alcohol sales are substantial.

² Babor T, Caetano R, Casswell S et al. *Alcohol: no ordinary commodity- Research and public policy*. Oxford and London, Oxford University Press 2003.

³ National Drug Research Institute, *Restrictions on the sale and supply of alcohol: evidence and outcomes*. National Drug Research Institute, Curtin University of Technology. 2007

- Australian household spending was on average \$908/yr on alcohol or 2.5 per cent of total Gross Domestic Product (GDP);
- Government revenue from indirect tax on alcohol is estimated to be in excess of \$4.3bn or 2 per cent of total government revenue.
- ***There are anomalies in the taxation of alcohol that need fixing; and***

The College believes that the most notorious anomaly in Australian is the preferential low taxation on cask wine compared to bottled wine. The inevitable result of this tax arrangement is that cask wine is one of the preferred alcoholic beverages of the most disadvantaged Australians, i.e. Aboriginal Australians. If the gap in health outcomes is to be closed, then cask and bottled wine will have to be taxed at a similar rate.

- ***Binge drinking needs to be addressed by increasing the price of ready-to-drink pre-mixed spirit-based beverages.***

The College is of the view that there has been a significant increase in regular binge drinking (drinking at least five drinks in one session) to the point of intoxication in young Australians in recent years. Drinking to the point of intoxication and therefore exposure to risk has become more common among young Australians in recent years. This rise has been especially dramatic in young women.⁴ In 2007, 37.4 per cent of males and 41.2 per cent of females aged 14-19 consumed alcohol at a level that placed them at risk of short term harm (for example being involved in fight, a car crash or engaging in risky sexual behaviour) in the past year. Just under one in ten in this age group did so *every week* (8.8 per cent males, 9.4 per cent females).⁵ There is little doubt that the RTD market is aimed primarily at young persons. Increased taxation of RTDs will not eradicate binge drinking among young people but is likely to reduce it.

⁴ Mathers C, Vos T, Stevenson C. *The Burden of Disease and Injury in Australia*, Australian Institute of Health and Welfare November 1999. (accessed May 2005)
<http://www.aihw.gov.au/publications/health/bdia/>

⁵ Australian Institute of Health and Welfare, The 2007 National Drug Strategy household survey. First results. Canberra: AIHW, 2008.

2. Do you agree that the price of alcohol affects consumption?

The College believes that there is no doubt that increases in the price of alcohol relative to income result in (somewhat smaller) reductions in *per capita* alcohol consumption (and *vice versa* for price decreases). As the discretionary income of young people is less than older persons, price increases affect younger people more than older people. Modeling health-related reforms to taxation of alcoholic beverages has demonstrated that alcohol tax reform on its own is more effective if carried out in conjunction with other strategies.⁶ Alcohol is relatively price-inelastic compared to almost all other commodities. This means that an alcohol price rise results in a relatively small fall in consumption (and *vice versa*) compared to most other commodities.

- ***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?***

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.⁷ Under the GST package, there is a continuing failure to tax the alcohol content of drinks in order to strengthen incentives for drinkers to choose low alcohol varieties and to create greater disincentives for heavy drinkers to choose cheap bulk drinks.⁸

⁶ Op. cit. (En 100)

⁷ Crosby D, Stockwell T, Wodak A, O'Ferrall T. *Alcohol, Taxation Reform, and Public Health in Australia: A submission to the Federal Parliamentary Inquiry into Substance Abuse in Australian Communities* 2000.

⁸ Crosby D, Stockwell T, Wodak A, O'Ferrall T. *Alcohol, Taxation Reform, and Public Health in Australia: A submission to the Federal Parliamentary Inquiry into Substance Abuse in Australian Communities* 2000.

- *If you do agree with these statements do you support:*
- *Some alcohol types being tax-free? Why/why not?*

The College is of the view that in Australia *ad valorem* taxation (where alcohol taxation is primarily based on the value of a particular alcohol product) is applied to wine products only, whereas beer and spirits are taxed under a *volumetric* method. Public health advocates prefer all alcoholic beverages to have a *volumetric* tax where the tax is levied according to the actual alcohol content of the beverage. The justification for this is that levies are then contributing to the community and partly contribute to amelioration of the damage caused by *risky or high risk* levels of alcohol consumption. However, an exception can be made for low alcohol concentration beverages which should be taxed at a lower rate to encourage an even greater migration of drinkers to these beverages.

- *Some higher alcohol products being taxed less than some lower alcohol products? Why/why not?*

Yes, the College believes that the alcohol tax system in Australia, on the one hand, reduced taxes on RTDs to a rate slightly higher than full strength beer and, on the other, increased taxes on alcoholic sodas and lemonades with a wine base to the same level as RTDs. The result appears to have been a switch in market share from full strength beer to RTDs, though the net level of alcohol consumption has remained static.⁹

- *Different tax rates for the same product? Why/why not?*

The College is of the view that generally increasing the price of alcohol reduces alcohol consumption in a community and *vice versa*.^{10 11} Similarly, in many communities, increasing alcohol consumption generally increases alcohol-related harm and *vice versa*. Price increases in alcohol mainly result from changes in

⁹ Distilled Spirits Industry Council of Australia Inc. *DSICA Submission to the Senate Economics Legislation Committee*. DSICA, Melbourne, Australia 2002.

¹⁰ *Alcohol in Australia: issues and strategies*. Consultation draft, National Expert Advisory Committee on Alcohol (NEACA), Canberra 2000.

¹¹ Babor T, Caetano R, Casswell, S, Edwards G, Giesbrecht N, Graham K. et al. *Alcohol: No ordinary commodity, Alcohol and public policy*, Oxford, Oxford University Press 2003.

government policy on alcohol taxation. Alcohol consumption is less affected by price changes than most other commodities and therefore this relationship is referred to by economists as relatively inelastic. The estimated elasticities of beer, wine and spirits are very different. The majority of the alcohol consumed in a community is drunk at high risk of either acute or chronic harm (or both). Therefore, any reduction in *per capita* alcohol consumption will result in a reduction in consumption of alcohol drunk at high risk of either acute or chronic harm (or both). Policy should aim to reduce the consumption of alcohol drunk at high risk of either acute or chronic harm (or both).

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?*

The RACP does not support financial subsidies to the alcohol beverage industry. Making wine bought at the cellar door of small producers tax-free is a form of subsidy. We recognise that the alcohol beverage industry also provides substantial economic benefits to Australia. The recent Collins and Lapsley [more details please] study estimated that the annual cost of alcohol to the Australian economy was \$15.3 billion out of a total of \$56 billion. The alcohol and beverage industry has an annual turnover in excess of \$50 billion and employs one in five of the manufacturing workforce. It is Australia's largest manufacturing sector - employing about 170,000 Australians and contributing 2.5 per cent to gross domestic product.¹² Australia's food, drink and grocery product industry is a substantial contributor to the economic and social welfare of all Australians.

From 2002 to 2003, the funding to Australian political parties from the alcohol beverage industry and hotel association was just under \$7m.¹³ The economic contribution of alcohol to the Australian economy is substantial, contributing A\$13bn

¹² Australian Food and Grocery Council <http://www.afgc.org.au/index.cfm?id=117> (Accessed 30.05.2005).

¹³ <http://search.aec.gov.au/annualreturns/arwdefault.asp?submissionid=5> (Accessed on 2.07.2004).

in retail sales, with Australian household spending on average \$908/yr on alcohol or 2.5 per cent of total Gross Domestic Product (GDP);

- Government revenue from indirect tax on alcohol is estimated to be in excess of \$4.3bn or 2 per cent of total government revenue; and,
- Wine exports account for approximately half of all wine produced in Australia, with exports growing at a rate of 25 per cent per year. In 2000/01, the value of wine exports was A\$1.6bn.
 - *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?*

DISAGREE: this favours higher alcohol products

- *Where beer is consumed on the premise, such as a bar, a draught beer is taxed less than the same beer in a bottle?*

DISAGREE: alcohol should be taxed at the same rate regardless of where it is bought.

4. Do you think there is a case for beer products with the same alcoholic content being taxed at different rates?

Public health advocates from the College argue that a *volumetric* tax where the tax is levied according to the actual alcohol content of the beverage is more effective. The justification for this is that levies are then contributing to the community and partly compensate for the damage caused by *risky or high risk* levels of alcohol consumption.

- *How do beer products that have the same alcoholic content being taxed at different rates contribute to less alcohol abuse?*

The College is of the view that estimates of the size of the effect varies for different countries and different beverages (e.g. beer consumption is usually less responsive to

price changes than is wine or spirits), but the direction of the effect is very consistent.

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- *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?*

The College believes that if these taxes were based on public health considerations alone, then the tax would be based very largely on the alcohol content alone but with reduction in the rate of taxation for low content beverages.

5. Do you think there is a case for spirit products that have the same alcohol content being taxed at different rates?

The RACP supports spirit products that have the same alcohol content being taxed at the same rates. Public health advocates prefer *volumetric* tax where the tax is levied according to the actual alcohol content of the beverage. The justification for this is that levies are then contributing to the community and partly contribute to amelioration of the damage caused by *risky or high risk* levels of alcohol consumption.

- *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?*

The RACP supports the same or very similar tax rate for brandy and other beverages with the same alcoholic content (such as rum or any other spirit). There is no economic or public health justification for brandy not paying tax equal to rate of other spirits although there may be a political justification.

¹⁴ Osterberg E, *Effects of price and taxation*. In Heather N, Peters TJ, Stockwell T (Eds) International Handbook of Alcohol Dependence and Problems. Chichester: John Wiley and Sons, 2001; 685–698.

6. What is the justification for having a 5 per cent ad valorem (value-added) customs duty payable on imported RTDs and imported spirits but not on imported beer?

The College is of the view that the alcohol tax system in Australia, on the one hand, reduced taxes on RTDs to a rate slightly higher than full strength beer and, on the other, increased taxes on alcoholic sodas and lemonades with a wine base to the same level as RTDs. The result appears to have been a switch in market share from full strength beer to RTDs, though the net level of alcohol consumption has remained static.¹⁵

- *Why should only some imported alcohol products pay customs duty but not others?*

The College believes that all alcohol products containing similar quantities of alcohol should pay a similar customs duty. Between 1977 and 1978 the excise duty on spirits was increased by 40 per cent resulting in a significant reduction in the consumption of spirits.

- *Should all imported alcohol products pay customs duty, or none? Why?*

Public health advocates from the College would advocate from this perspective, however, the main objective is to ensure that the tax and any financial imposts other levied on alcoholic beverages are proportional to their alcohol content.

7. Do you agree that alcohol is alcohol, whatever its source, and that ingestion of (say) alcohol at 5 per cent by volume, will have the same or very similar effects on the consumer regardless of the product that the 5 per cent is found in?

Yes, apart from the exception of low alcohol content beverages.

- *If you disagree with that statement please indicate why?*

¹⁵ Distilled Spirits Industry Council of Australia Inc. *DSICA Submission to the Senate Economics Legislation Committee*. DSICA, Melbourne, Australia 2002.

- *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 per cent of alcohol in the product?*

As much as possible, the principal from a public health perspective should be that alcohol should be taxed by volume so that whatever the type of product, the taxation is the same.

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?

The College is of the view that as much as possible, all taxes and other government imposts on alcoholic beverages should be based on alcohol content. The component of alcoholic beverages that is responsible for health and other costs is the alcohol. It makes sense for the community to receive revenue directly in proportion to the extent of the harm caused to the community. In Australia *ad valorem* taxation (where alcohol taxation is primarily based on the value of a particular alcohol product) is applied to wine products only, whereas beer and spirits are taxed under a *volumetric* method. Public health advocates prefer *volumetric* tax where the tax is levied according to the actual alcohol content of the beverage. The justification for this is that levies are then contributing to the community and partly contribute to amelioration of the damage caused by *risky or high risk* levels of alcohol consumption.

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?

The College believes that by taxing alcohol by volume rather than by value is fairer because it is the alcohol content which is responsible for the harm to the community. Volumetric taxes deliver better health outcomes especially if some additional economic encouragement is given for consumption of lower strength beverages.

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?

The College is of the view that there is no doubt that the major beverages consumed excessively by disadvantaged groups are the most inexpensive forms of alcohol. There is evidence that even alcohol dependent individuals reduce their consumption of alcohol following a price increase. Cask wine is commonly consumed by disadvantaged groups when binge-drinking or drinking in harmful or hazardous ways.

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?

The College is of the view that there are many anomalies in alcohol taxation because many ad hoc decisions have been made over time. The anomalies can only be removed by comprehensive alcohol review and reform.

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?

The RACP supports differential tax rates so that full-strength beer is taxed more than lower strength beers to encourage the consumption of lower strength beer and also supports a similar policy for all other alcohol products including 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?

The College is of the view that alcohol taxation should be largely based on alcohol content. As much as possible this should be true within and between beverage classes.

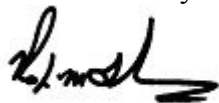
14. Is it the case that under WET, a wine-based RTD would need to have an alcohol content of at least 8 per cent before being taxed? Is it the case that some wine-based RTDs may bear no WET at all if the producer is in receipt of the WET producer rebate? If wine-based RTDs are taxed according to their value under the WET and have to be at least 8 per cent 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?

The College is of the view that these anomalies result from the fact that alcohol tax has been subject to numerous adjustments and *ad hoc* decisions. These anomalies cannot be justified on public health grounds. They make a case for a comprehensive review of alcohol taxation with the aim of a reform.

The College also would like to express an interest in attending any hearings in relation to this enquiry.

If you require any further clarification of the endorsement please contact Ms Mary Osborn by email on mary.osborn@racp.edu.au.

Yours sincerely



Professor Napier Thompson
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