

Senate Community Affairs Committee Inquiry into Ready-To-Drink Alcohol Beverages

Supplementary Submission by the Distilled Spirits Industry Council of Australia Inc (DSICA)

June 2008

1. Executive Summary

- On 3 June 2008, DSICA lodged a submission to the Senate Community Affairs Committee Inquiry into Ready-To-Drink Alcohol Beverages (referred to in this paper as “the original submission”).
- DSICA appeared as a witness before the Committee’s public hearing on 12 June 2008 (the Hearing).
- At the Hearing, a number of matters were raised upon which DSICA undertook to provide further information. These are considered in this submission (“the Supplementary Submission”).
- DSICA is grateful for the opportunity to provide further information in relation to these developments by way of this Supplementary Submission. DSICA requests that the information contained in this Supplementary Submission be read as part of and in the context of its original submission.
- DSICA notes the motion, proposed by Senator Bob Brown and passed by the Senate on 17 June 2006, which declares the Senate’s opposition to the Government’s increased tax on ready to drink beverages unless and until the Government tables in the Senate a comprehensive and costed plan of new action to address the problem of alcohol abuse in Australia.
- DSICA notes the implication of this motion is that the government’s tax increase on ready to drink beverages - in the form that it was applied on 27 April 2008 - will not now pass the senate. DSICA remains committed to working with the Parliament to ensure that the problem of risky alcohol consumption is addressed through well designed, well targeted measures, based on a strong evidentiary basis.

2. Statistical information available on alcohol consumption

Overcoming “statistical overload” on alcohol consumption data

- DSICA shares the view expressed by the Committee during its Hearings that the range of statistical information available on alcohol consumption patterns and alcohol-related harm in Australia can be overwhelming.
- DSICA believes that one good way to work through the myriad of often conflicting information and draw some conclusions is to focus on the best available national survey evidence on alcohol consumption.
- As pointed out in our original submission, an independent review of national survey evidence on alcohol consumption trends commissioned by DSICA has concluded that the **National Drug Strategy Household Survey** (NDSHS) series undertaken by the Australian Institute of Health and Welfare (AIHW) is the most robust and reliable survey evidence regarding alcohol consumption statistics and trends in Australia.

- As the Committee is aware, the First Results of the 2007 NDSHS were released by AIHW on 27 April 2008. AIHW have indicated that the Detailed Findings for the 2007 NDSHS will be released later this year. DSICA encourages the AIHW to release these Detailed Findings as soon as possible to fully inform the current alcohol consumption and taxation debate.
- DSICA relies on this leading survey for the following reasons:
 - An independent review of national survey evidence by Professor Ian McAllister from the Australian National University has concluded that the NDSHS is the “Gold Standard” in terms of alcohol consumption data in Australia;
 - It is a highly regarded, consistent, nation-wide survey with a large sample size, that has been produced by an independent body over a long period (since 1985);
 - The Government clearly holds the NDSHS in high regard, as the Minister for Health and Ageing referred to the First Results of the 2007 NDSHS on 27 April 2008 to support the Government’s decision to increase the tax on RTDs; and
 - As outlined by the AIHW in its evidence to the Committee, the AIHW will be the Government agency responsible for monitoring the effectiveness of the excise increase on RTDs.
- Considerable taxpayer funding has been invested over many years by Australian Governments of both political persuasions to ensure the AIHW can produce credible, reliable and consistent nation wide statistics on alcohol consumption on an ongoing basis.
- DSICA considers that the scale of the long-term investment and the quality of the work produced by the AIHW, provides strong arguments for the NDSHS being the primary authoritative source for the Committee regarding alcohol consumption statistics.
- Accordingly, we suggest that the Committee should give due weight and consideration to the NDSHS survey series and use it as a key reference point in its consideration of alcohol consumption data and trends.

3. Additional DSICA information/comment

3.1 Introduction

- At the Hearing, DSICA indicated that it had undertaken further work on the number of standard drinks that could be purchased for \$20 across a variety of different alcohol types. The Committee indicated that this analysis would be of interest to it in its deliberations.
- Also, at the conclusion of the Hearing, the Committee requested that DSICA may wish to provide some additional comments on the submission lodged by Australasian Associated Brewers Inc (AAB) regarding its analysis of a uniform volumetric tax rate for all alcohol.
- DSICA addresses both of these issues in this section of the Supplementary Submission.

3.2 How many standard drinks will \$20 buy?

- At the Hearing, DSICA volunteered information regarding how many standard drinks could be purchased for \$20.
- DSICA has since had this information captured in graphical form – see attachments 1-1 and 1-2, “Bang for your buck”. We have prepared information and graphics for the situation both before and after the RTD tax change of 27 April 2008. (Note that the only change between the two being in relation to RTDs, with the number of standard drinks reduced from 8.5 to 7.1).

- **The standout fact is that cask wine is the cheapest option to purchase the maximum number of standard drinks. For \$20, a person can purchase 55.9 standard drinks by buying cask wine.**
- It is interesting to note that the graphics indicate that both before and after the tax change, RTDs are the most expensive way to purchase alcohol. For \$20, a person would have bought 8.5 standard drinks before the tax change. This has now reduced to 7.1 standard drinks.
- In terms of other substitute products, compare the 7.1 standard drinks available for \$20 spent on RTDs compared to 15.8 standard drinks for spirits and 12.6 standard drinks for full strength beer.

3.3 Submission by Australasian Associated Brewers Inc

- The Committee has referred DSICA to the submission lodged by the AAB, in particular its comments on volumetric taxation, and has requested us to provide our comments/feedback on the points made by the AAB.
- We note that the AAB concluded in its submission that there are “good policy reasons for rejecting volumetric taxation” (see p 5).
- In reaching this conclusion, the AAB have presented only one possible model of a volumetric tax – specifically a revenue neutral, uniform volumetric tax per litre of alcohol across all alcohol beverages.
- DSICA makes the following comments on the single rate (“flat earth”) volumetric tax outlined by the AAB:
 - As stated in evidence to the Committee, DSICA is not suggesting the Committee recommend a flat rate volumetric tax – as outlined by the AAB – because the distortions, the reductions in prices and the increases in prices are so dramatic.
 - The key purpose of a volumetric tax – as espoused by almost all witnesses to the committee – is that if the purpose of taxing alcohol is to address the health costs of alcohol consumption, then all alcohol products – irrespective of source – should be taxed according to how much alcohol is consumed – not by how much you pay.
 - It is simplistic to equate the principle of volumetric taxation of alcohol with a single rate “flat earth” volumetric tax. This is only one of a number of possible volumetric tax models. Rejecting the AAB volumetric tax model is not a rejection of volumetric taxation.
- DSICA makes the following comments on the principles of volumetric taxation:
 - The simplest form of volumetric taxation for all alcohol would be the imposition of one single rate across all beverages (as proposed by the AAB). That is, the same rate would apply to lower alcohol beverages (like beer and RTDs), “middle tier” strength beverages (like wine and some liqueurs) and higher strength beverages (such as spirits).
 - We agree that such a scenario applied in the Australian context today (assuming a revenue neutral outcome is desired) will produce a significant impact on the retail prices of most products given that spirits are currently taxed at a high volumetric rate and wine is subject to much lower tax on an ad valorem basis. This is demonstrated on page 4 of the AAB’s submission. While we are not privy to the details of the calculations that yielded these results, we can understand the reasons for the results documented in relation to estimated price differences.

- However, there are variations to a simple “flat earth” volumetric model that could be applied, which would yield more moderate results. Modifications to a simple model that could be considered include:
 - 1 **Tiered rates:** A series of tiered rates could be introduced whereby lower content beverages are taxed at lower volumetric rates. This would encourage the production and consumption of lower alcohol content beverages.
 - 2 **Excise-free threshold:** An excise free threshold could be introduced whereby no tax is levied on a certain minimum alcohol content. This currently applies to all beer products, whereby the first 1.15% alcohol content is not subject to tax. Again, this would encourage consumption of beverages with a lower alcohol content.
 - 3 **Phasing in:** New volumetric rates could be phased in over a period of years for those beverages that would be impacted the most by the transition to a universal volumetric system. This would give time for producers and consumers of the most impacted beverages to adjust to the new system.
- Accordingly, DSICA submits that the Committee should be aware that the volumetric tax model outlined by the AAB is only one of a myriad of possible models and that rejection of the AAB model is in no way a rejection of the principle of volumetric taxation.
- Support for volumetric taxation across all alcohol products is widespread amongst health bodies and with health researchers / academics. Again, this degree of support demonstrates the need for the Committee to fully consider volumetric taxation across all alcohol products and for the Committee to discount to a degree the simple “flat earth” model proposed by the AAB.
- As indicated in its original submission, DSICA has recommended that a volumetric taxation system should be applied to all products in the long term, to ensure social/health policy outcomes are achieved in harmony with revenue raising requirements.

3.4 Sugar content of DSICA member products

- During the hearing, DSICA submitted that over 90 per cent of its pre-mixed products contain a cola type product. The Committee asked that DSICA provide information on the level of sugar in its pre-mixed cola products compared to a standard cola soft drink (such as Coca Cola).
- A 375ml can of Coca Cola has 39.8 grams of sugar compared with 33.4 grams in a 375ml can of Jim Beam and cola, which is representative of DSICA member pre-mixed products. That is, the 375ml can of Jim Beam and cola has 16% less sugar than the same size can of Coca Cola soft drink.

4. Literature Reviews

4.1 Introduction

- DSICA was asked by the Committee to provide our views on two recent journal articles in relation to alcohol consumption and alcohol-related harm and policy instruments to address the costs of alcohol consumption:
 - *Recent trends in risky alcohol consumption and related harm among young people in Victoria, Australia*, Australian and New Zealand Journal of Public Health 2008, Vol 32, No 3, Michael Livingston, AER Centre for Alcohol Policy Research, Melbourne Victoria (referred to here as “the Livingstone Article”); and

➤ *Alcohol taxation and regulation in the European Union*, International Tax and Public Finance, 2007, 14: 699-732, Sijbren Cnossen (referred to here as “the Cnossen article”).

- As a general comment, DSICA notes that there is a wide body of literature in relation to the taxation of alcohol and the health effects of alcohol consumption and that these papers are only two of many in this field. Specific comments on each paper are outlined below.

4.2 Journal article by Michael Livingston, Melbourne

- This paper compares trends in survey data on alcohol consumption and trends in hospital admissions and presentations in the Australian state of Victoria.
- A summary of Livingston’s assessment of the two sets of data is provided in the following extract at the end of the article under the heading ‘Implications’ (see p 270-271 of the Livingston article):

Implications

The data summarised in this paper present a mixed view of trends in the risky drinking patterns of young people in Victoria. On the whole, the surveys do not provide a clear and consistent picture of trends in risky drinking amongst young people. There are few significant trends and almost no notable increases in risky drinking in recent years, with only the VYADS data suggesting increased risky drinking. Contrastingly, there is a clear increasing trend in alcohol related harm among young people across three separate sources of secondary data.

- Mr Livingston provides a number of possible explanations for the difference between the two data sets, such as differences in record keeping practices by state hospitals, before concluding the article with the following comment:

The fact that these explanations cannot be confidently supported or rejected points to a clear need for a more rigorous examination of young people's drinking, particularly focussing on young people whose drinking results in serious health consequences.

- DSICA supports this statement, which is consistent with the Committee's endeavours in seeking an unambiguous and rigorous evidentiary basis to alcohol consumption in Australia for the purposes of policy decisions.
- Livingstone notes that possible explanations for the difference in the data series is that surveys of alcohol consumption are excluding some young people, as they may have left school before turning 17, or "they may live in situations that preclude their selection from the population based surveys (eg they might live in a household with no phone, be homeless or live in an institution)."
- DSICA agrees that resolving these types of questions through rigorous independent research is essential to identifying the most effective policy instruments to address consumption of alcohol in Australia at risky levels.
- If it is the case that young Australians being admitted to hospital for alcohol-related illness, might "live in a household with no phone, be homeless or live in an institution", DSICA considers there would be merit in undertaking research on:
 - the causes of youth homelessness and institutionalisation;
 - whether risky alcohol consumption by young Australians who are homeless or institutionalised is best addressed through the tax system, or through other more comprehensive policies, such as early intervention programmes focussed on children at risk from family breakdown; and
 - whether changes to alcohol excise are the most appropriate policy instrument to assist homeless and institutionalised youth into a stable family environment.
- It has been suggested by some witnesses to the Committee that the differences in data sets described by Mr Livingstone raise a question mark over the reliability of Australian surveys on alcohol consumption.
- DSICA questions how this conclusion could be drawn when the author says in the article that the possible explanations for the differences, "cannot be confidently supported or rejected" and when the range of explanations listed by the author include not only possible sampling biases

in surveys, but also that “recording practices for hospital databases may have changed in recent years, resulting in increasing numbers of patients coded with alcohol-related diagnoses”.

- Without a clear explanation of the differences, including from the author, DSICA is puzzled how others are able to conclude that it is one data set rather than the other that is the cause of the difference.
- DSICA also notes that the information in the Livingstone paper on alcohol-related hospital admissions is consistent with other evidence to the Committee, in that it does not identify what type of alcohol product (beer, cask wine, bottled wine, fortified wine, cider, full strength spirits or ready to drink beverage) was consumed by the person admitted to hospital. That is, without data on what proportion of people admitted to hospital for alcohol-related illness consumed only RTDs or some RTDs prior to admission, the paper does not shed any light on the specific question before the committee – will an increase in excise on RTDs affect hospital admissions for alcohol-related illness?
- Without data on what alcohol products have been consumed by persons admitted to hospital – data not yet provided to the Committee – how is it possible to answer this question?

4.3 Journal article by Sijbren Cnossen, The Netherlands

- This paper looks at whether taxation alone can address the external costs that arise from the consumption of alcohol or whether a mix of price and non-price signals are required. The paper abstract says the following:

An optimal alcohol excise is difficult to design, because the welfare gains from a reduction in socially costly heavy drinking must be balanced against the welfare loss from a fall in moderate drinking. This suggests that while an alcohol excise increase may be efficiency improving, complementary regulatory measures, which focus on specific problem groups, should be an important element of the policy package.

- The paper provides two useful perspectives to the debate on policy measures to address risky levels of alcohol consumption. The first perspective the paper outlines is that increases in taxes on alcohol can have positive and negative effects:
 - a positive effect from reducing risky levels of alcohol consumption; and
 - a negative effect by reducing moderate alcohol consumption, which can be beneficial.
- On the negative effects, the paper says:

Accordingly, there is a need to balance the reduction in harmful consumption through excise taxation against the loss in welfare of moderate or low risk consumption. (p701).
- The second perspective is that because increases in alcohol taxes have both positive and negative effects, it is difficult to design an alcohol tax that accurately reflects the external cost of alcohol consumption. The paper states:

The excise taxation of alcohol is a fairly blunt instrument, causing welfare losses to non-harmful users while at the same time not adequately controlling the drinking of harmful users.

- For this reason the paper suggests that non-price measures should also be considered as part of any strategy to address risky alcohol consumption.
- DSICA considers that the points raised in the paper provide useful background to the development of policy responses to risky alcohol consumption.
- In particular, the analysis in the paper that alcohol taxation is a “blunt instrument” to address risky alcohol consumption is supported by DSICA, because it targets all consumers of alcohol, irrespective of whether they are risky drinkers or not.
- For this reason, DSICA considers Government should examine the underlying causes of excessive alcohol consumption and design appropriate policy responses.

5. Conclusion

- In conclusion, DSICA takes the opportunity to re-cap on a number of its conclusions and recommendations contained in our original submission that are further addressed in this supplementary submission.
- Firstly, DSICA shares the concern of the Committee at the level of alcohol abuse in Australia. DSICA’s is also concerned that the proposal to tax only one alcohol category does not effectively address the stated problem and as such, has created unintended consequences.
- We believe that none of the additional comments contained in this supplementary submission detract from the conclusions in our original submission. If anything, the information contained herein re-enforces the themes of the original submission.
- The AIHW undertakes Australia’s leading national survey on alcohol consumption patterns – the NDSHS. DSICA urges the Committee to give due regard to these surveys in its efforts to “wade through” the complex set of data that is available on alcohol consumption.
- We again note that in its submission to this inquiry, the AIHW has, supported by the NDSHS, stated that there has been “virtually no change in the pattern of risky drinking over the period 2001-2007, including among young Australians”.
- In the long term, a volumetric system of taxation should be applied to all alcohol products. Such a system should have a range of features that would moderate the impact of the proposed “single rate” volumetric proposal put forward by the AAB in its submission to the Committee. These matters, amongst other things, can be examined by the Government as part of the recently announced Henry Tax Review.
- The Government should undertake a comprehensive review of the evidence-base and the causes of alcohol misuse with the aim of funding sustainable, behaviour changing programmes. Studies such as those referred to in this supplementary submission could be used to help inform this review.

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List of Appendices

- 1 How many standard drinks will \$20 buy?