



NATIONAL DRUG AND
ALCOHOL RESEARCH CENTRE

**NDARC Submission
to the Senate Community Affairs Committee**

Inquiry into Ready-to-Drink Alcohol Beverages

Who are we?

The National Drug and Alcohol Research Centre (NDARC) is the largest centre of research excellence for alcohol and other drug issues in Australia. It has a well established national and international reputation for high quality research and the Centre is one of the most highly cited among those working in this area of population health.

NDARC is pleased to provide this submission to assist the Committee in its work.

Why is alcohol important in Australia?

Alcohol is a widely consumed commodity in Australia, with 83% of Australians assessing themselves to be current drinkers (National Drug Strategy Household Survey 2008 – ref). Alcohol is also associated with significant health and social problems – it is one of the highest preventable risk factors for major disease categories, is associated with high rates of violence, causally linked to family breakdown and is estimated to be the cause of 27% (approximately \$15b) of all social costs to the Australian Community, representing about double that of all illicit drug use (15%) and about half that of tobacco (56%) (Collins and Lapsley 2008).

Alcohol sales generally are estimated at \$28.8b in Australia and that figure has risen by just under 50% in the last 10 years.

Sales data, taken from the Euromonitor International 2008 Report, provides startling figures that demonstrate that while the market for all alcohol types, including straight spirits, has remained largely constant between 1997 and 2006 (at approximately 54 million litres in sales), the corresponding period saw sales of pre-mixed spirits (or Ready-to-Drink (RTD) or 'Alcopops') increase from 70 million litres to over 390 million litres.

The widespread use of alcohol, and the increasing awareness in the community of the problems it causes, is significant and fundamentally related to why the issue of a change to the tax rate for alcohol is the cause of such significant public discussion.

Drinking patterns in Australia

To inform the current debate, it should be understood that there are both long term risks (such as liver disease, cancer) and short term risks (accidents, injury) associated with alcohol consumption. In Australia, the most common problem drinking pattern is binge drinking, which the NHMRC defines as the consumption of more than 5 (women) or 7 (men) standard drinks on one occasion, resulting in short-term harm.

Alcohol and young people

Young people are particularly at risk from binge drinking for a number of reasons:

- As is the case for the Australian population generally, the most common form of problem drinking among young people is binge drinking.
- It is likely that a large proportion of young people specifically drink 'to get drunk' (WHO 2004).
- The age of initiation is an important factor in the later development of alcohol and other drug problems (Maggs & Schulenberg, 2005)
- Adolescence is a time where bodies and brains are still developing, as are social and emotional skills that equip people to make sound decisions and judgments that avoid risky situations (Zucker et al, 2008).

What do young people drink?

The Australian Secondary School Students' Use of Alcohol in 2005 (ASSAD) reports that for the 12-15 age group, a greater proportion of males (39%) most commonly consumed spirits than other types of drink. A greater proportion of females most commonly consumed RTDs (42%) with spirits (32%) a clear second.

In the 16-17 age group, equal proportions of males most commonly consumed beer and spirits (39%), while the greatest proportion of females most commonly consumed RTDs (53%). Overall, about equal proportions of students most commonly consumed RTDs (34%) and spirits (33%).

Why do young people like spirits and RTDs?

There are two main reasons for young people's preference for spirits (to mix their own drinks) and RTDs:

Firstly, there is an issue of the palatability of pre-mixed drinks. Investigations of beverage preference (Copeland et al., 2007) and beverage choice (McKeganey et al, 1996) support the assertion that sweeter drinks are more acceptable to younger drinkers.

Secondly, RTDs have been cheap, relative to straight spirits, because of the differential tax treatment that spirits in one preparation (RTDs) are treated with compared to standard or straight spirits. A 70% differential means that RTDs were taxed at \$39.36 per litre, with spirits taxed at \$66.67 per litre. The recent abolition of this idiosyncratic excise difference has sparked widespread debate – not only about whether it will lead less young people to binge drink, but also about whether alcohol taxation (and the price at all) is an effective lever to reduce alcohol consumption more generally.

Will price affect drinking behaviour?

Price Elasticity is a well evidenced economic theory that essentially addresses people's preferences for goods or services in relation to the price of that good or service.

Demand for alcohol is generally considered to be price inelastic – a 10% increase in price will reduce consumption by around 5%.

According to the theory of price elasticity, the change to the tax applied to RTDs could be expected to alter the sales of these products. Given the relative recency of the change, it is too early to tell, but anecdotal reports are that this theory has salience as there are initial reports of a decrease in demand for RTDs.

It is unclear however, if the change will signal – in the absence of other, more comprehensive measures to address drinking attitudes, mores and modeling – a shift to the sales of other types of alcohol.

What are the likely scenarios?

First, the most likely outcome is that drinkers generally, and young people in particular, will shift their purchasing preferences from RTDs to straight spirits (and mix their own drinks). If this proves to be the case, it underscores the validity of price elasticity: that is, that price is an effective lever in adjusting purchasing – and in this case, consumption – behaviors. This is one of the reasons health and research bodies are very supportive of the move to bring the tax on RTDs into line with that for other spirits:

Second, it is unlikely that, by itself, the excise increase on RTDs will dramatically reduce consumption across the whole Australian community, either in terms of usual or binge drinking patterns, because RTDs still comprise a minority of the alcohol market share (about 15% before the excise increase, compared to about 66% for beer) and because those who drink RTDs appear to be relatively price inelastic, meaning they are more likely to switch to purchasing spirits than dramatically decreasing their consumption.

Should the excise on RTDs have been raised?

This move was a sensible one for a number of reasons.

First, NDARC is of the view that this change in the taxation for RTDs has brought about an important debate. It has drawn into the spotlight the place of alcohol in Australian society and our collective acceptance of intoxication as a 'right of passage' and even something to discuss in the context of a great night out or weekend away. It has asked questions of 83% of Australians who drink and prompted them to think about their behaviour.

Second, it has starkly highlighted the glaring inconsistencies in our current approach to alcohol taxation. These are not based on cost-effective, best practice approaches and they ought to be reviewed in totality, not one product at a time. There are no sensible reasons, for example, for vodka to be taxed 70% less in one form, than in another. Vodka is still vodka, rum is still rum.

Furthermore, NDARC research about to be released by the Alcohol Education and Rehabilitation Foundation, demonstrates the old adage that 'prevention is better than a cure' when it comes to alcohol. In this project, the cost effectiveness of alcohol taxation change is modeled, using internationally leading techniques. It estimates significant cost savings to health and other sectors resulting from a sensible revision of the taxation system as it applies to alcohol – that is, taxing alcohol products according to the volume of alcohol within the product, not the type of alcohol – nor the type of package it is held in.

Conclusion

Taxation change in isolation will struggle to achieve all the results we would wish of it. A comprehensive approach is required, as is a willingness for adults to look at the drinking behaviour they model, for service industries to take appropriate responsibility for service of this commodity, for availability to be carefully assessed and for the rules governing advertising – particularly that aimed at younger audiences - to be examined.

NDARC looks forward to the deliberations of all Governments on the issue of alcohol abuse.

NDARC also commends the Australian Government on its attempt to curb the massive growth in the consumption of these pre-mixed spirits and closing this obvious loophole.

Finally, NDARC looks forward to the implementation of the Australian Government's \$53m Binge Drinking Strategy and welcomes the provision of funding to this most important of substance use issues.

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