

10 June 2008

Mr Elton Humphery
Committee Secretary
Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Mr Humphery

Re: Inquiry into Ready-to-Drink Alcohol Beverages

I am writing to acknowledge your letter of 16 May 2008 which included a copy of the Terms of Reference for this Inquiry.

I also acknowledge your subsequent e-mail of 30 May which provided an additional 51 separate questions on the detail of alcohol tax policy.

Comments on Alcopops

The initial terms of reference focus on the Government's recent announcement concerning the taxation of alcopops.

On this issue we wish to make three points: two in response to recent media stories on alcopops taxation and; the third in response to the report of a recent Victorian Inquiry.

1. No support for malternatives

There have been claims that substitute alcopops could be manufactured by stripping the alcohol out of beer ('de-malting' it) and then adding flavourings, colourings etc. to replicate spirit based alcopops/ready-to-drink (RTD) products.

While this is technically possible (but difficult) it has no appeal to Australian brewers. Australia's largest brewers, comprising 98% of the market, have no plans for the replication of spirit based alcopops via the manufacture of 'malternatives' with alcohol sourced from beer.

Further, we have sought advice from the Centre for Customs and Excise Studies at the University of Canberra on possible amendments which may be required to prevent malternative-type substitutes receiving beer excise treatment and we have already indicated our willingness to government to assist on this matter.

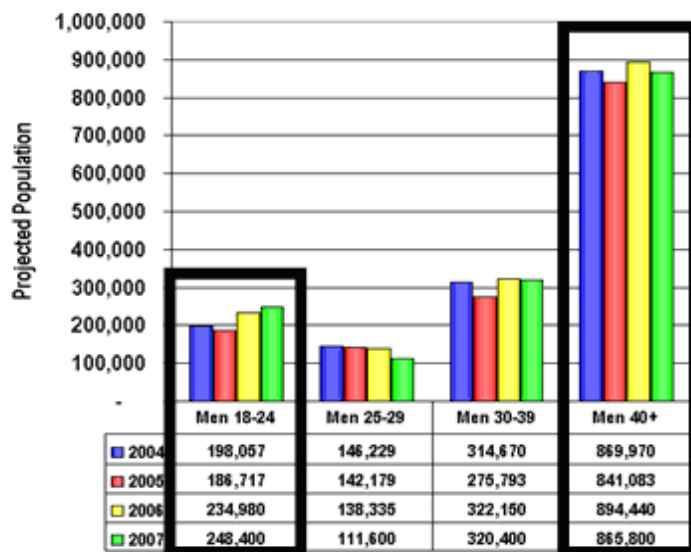
2. Questionable figures for ‘heavy drinkers’

A recent article in *The Australian* entitled “Middle-aged men outdrinking teen tipplers” relied on statistics provided by the spirits lobby to support this headline.

Like many arguments in the alcohol debate this is a misrepresentation which totally distorts the data. This distortion arises from the comparison of absolute numbers of 18-24 year olds (10% of the male population) against absolute numbers of men aged 40 or above (44% of the population).

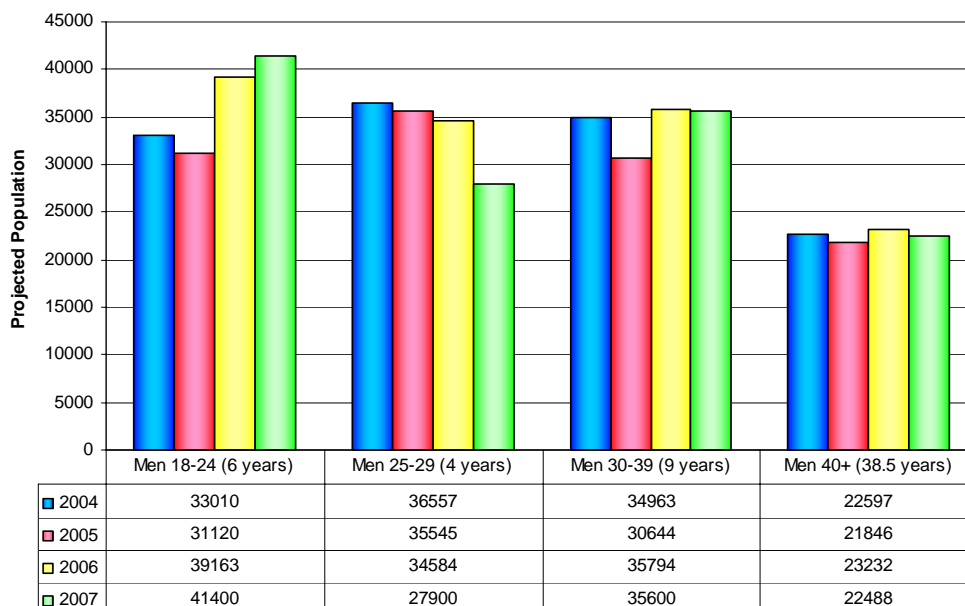
Here are the data for males, as shown on DSICA’s website:

Projected Size of Population Who Consume More Than 100 Drinks in 4 Week Period
 Source: Roy Morgan Single Source, N=2350, 2049, 2334, 1982



Using the same data, if the number of drinkers who drink more than 100 drinks per month is averaged out per year then 40+ males go from the highest to the lowest rung on this measure. This is more in-line with the expectation that drinking behaviour moderates with age:

Projected Size of Population who Consume >100 Drinks in 4-Week Period
 (divided by number of years in each age category)



Indeed, even if the same data are averaged against Australian Bureau of Statistics population data (i.e. projected population in each age category divided by the *actual* number of men in each age category) 18-24 y.o. males are still more likely to drink over 100 drinks per month than men over 40.

The DSICA data supplied to *The Australian* also fails to take account of the patterns of drinking (i.e. how much a person drinks on a single occasion); average consumption levels over time cannot be used to assess binge-drinking behaviours, the two concepts are fundamentally different.

3. Victorian Inquiry

Although Australia's two major brewers also compete in the alcopops segment of the market they are very sensitive to community perceptions that these products are of a special nature.

These perceptions have been chronicled in previous inquiries, the most comprehensive of which would be a Victorian Parliamentary Committee's "*Inquiry into Strategies to Reduce Harmful Alcohol Consumption*" which conducted 102 public hearings and recommended that:

*"...the Victorian Government request the Ministerial Council on Drug Strategy to review the alcohol content of ready to drink beverages, particularly those associated with and targeted to young people, such as those colloquially known as 'alcopops'."*¹

This was an all-party recommendation. We want the Senate Inquiry to be aware that both Foster's and Lion Nathan have since announced voluntary limits on the strength of RTD beverages produced by them.^{2, 3}

Comments on Volumetric Taxation

In our view, the subsequent 14 points encompassing 51 questions we received by email effectively seek to reorient the terms of reference towards an examination of the concept of volumetric taxation.

We believe we can best assist the Committee on this issue through the provision of independent modelling on the effect of volumetric taxation on various common products. This modelling was commissioned for this Inquiry and is attached for your information. The modelling assumes a 'revenue-neutral' scenario, i.e. the tax collected under a volumetric model is equal to the amount currently collected through excise and WET taxes.

Summary of the modelling

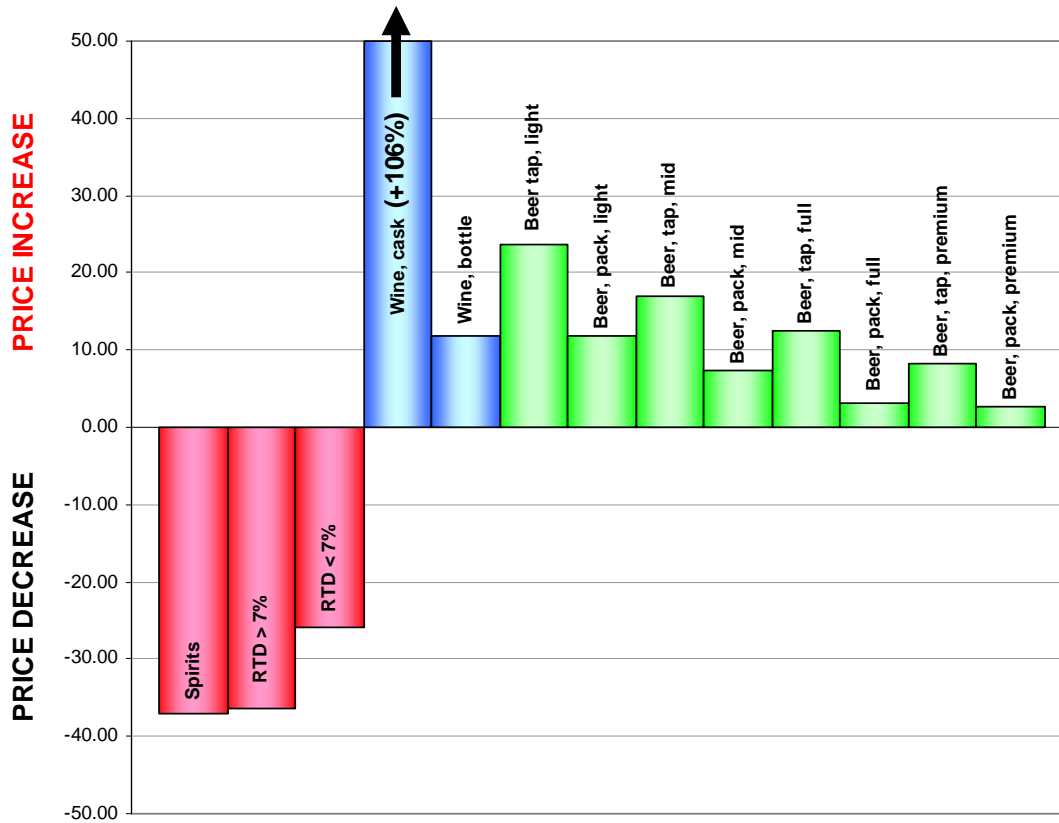
By averaging the three price scenarios, we see the following price effects of volumetric taxation in percentage terms.

¹ Recommendation 94, p.889 "*Inquiry into Strategies to Reduce Harmful Alcohol Consumption*" by the Drugs and Crime Prevention Committee (Victoria).

² "*Foster's Australia exits added Energy and Higher Alcohol RTDs*" media release 2008

³ "*Lion Nathan Australia to cease production of Energy additive RTDs*" media release 2008

Average % Change (by Beverage) Against Current Price Under Volumetric Taxation Regime



By averaging the three same price scenarios, we see the following price effects of volumetric taxation in dollar terms.

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

It is clear from these figures why the spirits lobby continues to invest heavily in the promotion of this concept: the prices of all spirits would fall significantly, from alcopops/RTDs through to the highest strength spirits containing over 70% alcohol by volume (ABV).

Conversely, beer prices (with a normal ABV range of 2.5% through to 5%) would rise across the board, as would wine prices.

In our view, there are very good industry and agriculture policy reasons for rejecting volumetric taxation. As well as health policy reasons: relative to the much higher ABV range of spirits products, or wine products, *'all beer is low alcohol'*.

We hope this information is of assistance to the Committee.

Yours sincerely

A handwritten signature in blue ink that reads "Stephen Swift". The signature is written in a cursive, flowing style.

Stephen Swift
Executive Director

Enc.



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DATE: 6 June 2008
TO: Paul Evans, Lion Nathan Limited
FROM: Access Economics
RE: Uniform Volumetric Tax Analysis

CHANGE IN RETAIL PRICES UNDER A UNIFORM VOLUMETRIC TAX REGIME

The following note summarises the expected change in retail prices should a uniform volumetric tax regime per litre of alcohol (LAL) be introduced across all alcoholic beverages. The price changes are compared to the current tax policy outlined by the new Government in April 2008. Lion Nathan Limited (LNA) requested that Access Economics (AE) confirm the results of modelling undertaken by Members of the Australasian Associated Brewers (AAB) with regard to the impact of a constant volumetric tax regime. Results from the Access Economics Alcoholic Beverages Taxation Model for the 2008-09 financial year were used for reconciliation and further analysis. Key assumptions and final results were also benchmarked against publicly available data¹ from the Distilled Spirits Industry Council of Australia (DSICA).

The fundamental assumptions underlying the AE and AAB analysis are largely consistent. These cover total quantity of product consumed, retail mark-up on wholesale costs, alcohol content, and current retail prices per litre of product.

There are, however, two key assumptions made in AAB's modelling that differ significantly from AE's approach:

1. AAB's analysis assumes no consumer reaction to relative changes in alcoholic beverage prices (i.e. it assumes a constant amount of product sold under old and new tax regime), while AE's modelling allows consumers to change their alcoholic beverage consumption patterns in the face of relative price changes; and
2. AAB's analysis assumes a multiplicative retail mark-up on wholesale costs, while AE's modelling utilises additive mark-ups under the assumption that retailers will choose to maintain the value of margins at their current level for goodwill.

In light of this, the results are presented under three scenarios that serve to highlight the sensitivity of these different modelling assumptions:

Scenario 1 AAB's assumptions for items 1. and 2. above

Scenario 2 AE's assumption for item 1. and AAB's assumption for item 2. above

Scenario 3 AE's assumptions for items 1. and 2. above

¹ DSICA, *Alcohol Tax in Australia 2006*, November 2006. DSICA, *Pre-budget Submission 2008-09*.

The retail price impacts of the three scenarios, benchmarked against current retail price estimates are presented in the table below.

TABLE 1: RETAIL PRICES BY SCENARIO AND BEVERAGE TYPE COMPARISON AGAINST CURRENT

Beverage	Quantity (litres)	Current	Retail Prices by Scenario			% Change against Current		
			1	2	3	1	2	3
Beer, pack, premium	9.00	\$40.43	\$41.55	\$40.77	\$42.26	2.8%	0.8%	4.5%
Beer, tap, premium	0.415	\$5.01	na	\$5.55	\$5.30		10.9%	5.8%
Beer, pack, full	9.00	\$37.85	\$39.04	\$38.28	\$39.73	3.2%	1.1%	5.0%
Beer, tap, full	0.415	\$3.85	\$4.47	\$4.40	\$4.14	16.1%	14.1%	7.4%
Beer, pack, mid	9.00	\$30.15	\$32.48	\$31.94	\$32.78	7.7%	5.9%	8.7%
Beer, tap, mid	0.415	\$3.34	\$4.06	\$4.01	\$3.66	21.6%	20.0%	9.5%
Beer, pack, light	9.00	\$32.10	\$36.06	\$35.64	\$36.00	12.3%	11.0%	12.2%
Beer, tap, light	0.415	\$2.92	\$3.79	\$3.75	\$3.29	30.0%	28.6%	12.7%
RTD (>7%)	9.00	\$72.03	\$44.62	\$43.53	\$49.39	-38.1%	-39.6%	-31.4%
RTD (<7%)	9.00	\$72.03	\$52.45	\$51.67	\$55.86	-27.2%	-28.3%	-22.5%
Wine, cask	4.00	\$15.14	\$32.82	\$31.93	\$28.94	116.8%	110.9%	91.1%
Wine, bottle	0.750	\$11.81	\$13.47	\$13.29	\$12.90	14.0%	12.5%	9.1%
Spirits	0.700	\$32.40	\$19.68	\$19.18	\$22.33	-39.2%	-40.8%	-31.1%

The table shows, for example, that under a revenue neutral shift to a uniform volumetric excise, that:

- Under AAB's assumptions of no consumer behaviour and a multiplicative retail mark-up (Scenario 1) the tax change leads to a 16.1% increase in the retail price of full strength tap beer – a typical full strength tap beer would increase from \$3.85 to \$4.50;
- Under a hybrid approach using AE's assumption of changes in consumer behaviour and AAB's assumption of multiplicative mark-ups (Scenario 2) the tax change leads to a 14.1% increase in the retail price of full strength tap beer – a typical full strength tap beer would increase from \$3.85 to \$4.40 - which demonstrates that differences in assumptions about consumer behaviour have a relatively small impact on the estimated price response; and
- Under AE's assumptions of changes in consumer behaviour and an additive mark-up the tax change leads to a 7.4% increase in the retail price of full strength tap beer – a typical full strength tap beer would increase from \$3.85 to \$4.15 – which suggests that assumptions about mark-ups can have a large impact on the results.

Overall, Scenarios 1 and 2 demonstrate that retail price outcome of a revenue neutral move to a uniform volumetric tax across all alcohol types, depends heavily on the assumptions governing pricing behaviour (additive versus multiplicative mark-ups) but to a lesser extent on assumptions about consumer behaviour.

Access Economics finds that AAB's calculations are a reliable guide to what would happen to retail pricing assuming constant proportional retail margins.