

**The impact of the tax on ready-to-drink alcoholic beverages:  
A submission to the Senate Community Affairs Committee  
Inquiry into the Excise and Customs Tariff Amendment Bills**

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## **Introduction**

Much of the Australian population drinks alcohol, and alcohol use is associated with a range of symbolic, economic and social benefits. However, alcohol use also contributes to a range of acute adverse consequences, including injury (e.g. interpersonal violence, accidents on the road and at work, and self-harm) and chronic harms (e.g. liver cirrhosis, a range of cancers and mental health conditions). In Australia, the main causes of alcohol-attributable deaths are cancer, alcoholic liver cirrhosis and road trauma. Among people aged 15 to 34 years, alcohol is responsible for the majority of drug-related deaths and hospital episodes, causing more deaths and hospitalisations in this age group than all illicit drugs combined.

## **Part I: Alcohol: Price and tax**

### *The evidence*

Alcohol taxation is an important source of government revenue. It also substantially influences the retail price of alcohol.

There is strong international evidence that increasing the cost of alcohol reduces consumption<sup>1</sup> and lower levels of overall consumption are closely related to lower levels of alcohol-related harm.

In several countries, price increases (even quite modest increases) have been consistently shown to reduce alcohol consumption and related harms in both the general population and at-risk populations, such as young people, heavy drinkers and indigenous populations.<sup>1-3, 4</sup> Price and tax regimes can also be used as a means of encouraging drinkers to choose beverages with lower alcohol content, which have a corresponding relationship with lower levels of alcohol-related harm.

There are many studies that identify the link between price, consumption and harm. According to a comprehensive study by Wagenaar et al<sup>5</sup> published in early 2009, excise and sales taxes are the most widespread public policy affecting the retail price of alcohol.

These researchers examined 112 papers containing more than 1000 separate empirical estimates of the relationship between alcohol taxes/prices and consumption. Their study clearly demonstrated that higher alcohol taxes and price reduce consumption. They found that this applied to all alcoholic beverages and affected not only overall consumption but also measures of heavy drinking. These findings provide a strong rationale for using increases in alcoholic beverage taxes to promote public health by reducing drinking<sup>6</sup>.

The authors found that:

“The meta-analyses reported here demonstrate the statistically overwhelming evidence of effects of alcohol prices on drinking. Price affects drinking of all types of beverages, and across the population of drinkers from light drinkers to heavy drinkers. We know of no other preventive intervention to reduce drinking that has the numbers of studies and consistency of effects seen in the literature on alcohol taxes and prices.”

A study by Gruenewald and others<sup>7</sup> suggested that increases in inexpensive alcohol have large impacts on sales. They argue that price increases focusing on these low-cost beverages might be particularly useful for preventing alcohol problems among younger and heavier drinkers. Young people are responsive to price controls.

### *Australian Case Study*

The Northern Territory's Living With Alcohol (LWA) program is a relevant Australian example of the effect of a price/excise increase. Introduced in 1992, LWA was a comprehensive program to reduce alcohol consumption and alcohol-related harms in the Northern Territory. It was initially funded by the imposition of a small levy on all alcoholic beverages sold in the Territory containing 3% alcohol by volume or greater. The LWA Levy effectively raised the retail cost of these beverages by about 5 cents per standard drink.

National Drug Research Institute evaluations of the program showed that the public health, safety and economic impact of the LWA program resulted in significantly reduced alcohol-attributable deaths as well as financial cost savings to the Territory. The combined impact of the LWA program and Levy resulted in an immediate reduction in acute alcohol-attributable deaths among both Indigenous and non-Indigenous Territorians, and saved the Territory Government \$124 million in health and policing costs over a four-year period.

The results of these evaluations present strong evidence about the impact of even small increases in taxation, alone and when combined with comprehensive programs and services designed to reduce the harms from alcohol<sup>8</sup>.

### **Part II: The 'alcopops' tax and consumption**

In the context of well-established global evidence of the link between alcohol price/tax and levels of consumption, and therefore alcohol-related harm, the Australian Government's April 2008 increase in excise tax on ready-to-drink (RTD) spirit-based products ('alcopops') was a welcome evidence-based strategy to reduce excessive RTD consumption amongst young people.

Definitive statements about the impact of the so-called 'alcopops tax' are premature in the absence of independent alcohol sales data. However, the available evidence indicates that the tax has significantly reduced sales of RTDs.

Australian Taxation Office data showed a 54% reduction in sales of RTDs compared to a 7% increase in spirit sales from April to June 2008.<sup>9</sup>

An editorial recently published by the Medical Journal of Australia<sup>10</sup> compared estimated national monthly sales of packaged alcohol (sold for off-premise consumption by liquor licensees across five states) collated by AC Nielsen<sup>11</sup> by beverage type in the three months after the April 2008 tax to the same months in 2007. From May to July in 2008, some 91 million fewer standard drinks were sold as RTDs than in the same months during the previous year. Wine sales also decreased but standard drinks sold as spirits and beer increased. However, the increase in spirit and beer sales was 48 million standard drinks as compared to the 91 million fewer RTD drinks sold, indicating that the decline in RTDs was only partially offset by increased sales of these other packaged beverages. In other words, there appeared to have been some 'substitution' to beer and spirit products but the net effect of the 'alcopops tax' was 43 million less standard drinks consumed as RTDs (see Table 1).

**Table 1: Number of standard drinks<sup>1</sup> consumed by beverage type,**  
 May to July, 2007 and 2008 (Source: Chikritzhs et al 2009)

	May to July (Million standard drinks consumed)		Difference in million standard drinks +/-	% change
	2007	2008		
RTD	348	257	-91	-26.1
Beer	886	899	13	1.5
Wine	797	776	-21	-2.6
Spirits	313	348	35	11.2
Total	2,344	2,280	-64	-2.7

<sup>1</sup>One standard drink = 10grms pure alcohol. To accurately convert beverage volumes to pure alcohol, the NLSG applies alcohol conversion factors at the sub-segment level for beer (eg regular, mid, low strength beer) and RTDs. Average alcohol contents by beverage type: RTDs 5.0%; beer 4.8%; straight spirits 38.0%; and wine 13%.

Consistent with a large body of research evidence, the early indications are that RTD sales declined in the first few months following the tax increase. Previous research suggests that this decline in alcohol sales – which is a reliable proxy for actual alcohol consumption<sup>12</sup> – is likely to produce a public health benefit<sup>5, 13, 14</sup>. Further investigation is needed to determine whether this reduction in RTD purchases occurred primarily among the target group of the tax increase, young drinkers, and if there were other factors that may have contributed to the decline. Nevertheless, the evidence to date suggests that consumer responses to the alcopops tax are ‘headed in the right direction’<sup>10</sup>.

In the context of the debate around the ‘alcopops tax’ it is also worth examining the effect of a reduction in tax and the retail price of RTDs that resulted from the introduction of the GST and other tax changes in 2000. Before the price reduction, RTDs were the preferred beverage of about 23% of 12-17 year-old female drinkers. Five years after the tax decrease half (48%) of young females listed RTDs as their preferred beverage. RTD consumption also increased for 12-17 year-old males, from 6% to 14%.<sup>15</sup> Although new products and marketing strategies may have contributed to these changes, these figures suggest that young Australians are likely to alter their alcoholic beverage choices in response to price changes.

### **Part III: Conclusion**

In conclusion, NDRI would like to highlight two more points worthy of attention. Firstly, it appears that increasing numbers of Australians are supportive of landmark action, particularly in the area of taxation and price controls, to address alcohol-related harm. According to the 2007 National Drug Strategy Household, there was a significant increase in the previous three years in public support for changes in alcohol policy relevant to this hearing. Almost a quarter of Australians 14 years and older

supported increasing the price of alcohol (24.1%, up from 20.9% in 2004) and 41.3% (up from 38.6%) supported increasing tax on alcohol to pay for health, education and treatment of alcohol-related problems<sup>16</sup>. It is noted that these data were gathered before the current debate on the need to respond to heavy episodic drinking.

Secondly, NDRI encourages the Government to continue efforts to ensure that high quality data are gathered to help evaluate the impact of policy and strategies to reduce alcohol related harm and to inform future endeavour.

In conclusion, NDRI supports evidence-based strategies to address the impact of alcohol-related harm in Australia. While more work needs to be done to provide definitive evidence of the effect of the increase in the 'alcopops' tax, early indications are that it has reduced consumption of RTDs and there are indications that there has been an overall decrease in alcohol consumption. This, combined with consistent and overwhelming Australian and international evidence indicating the effectiveness of price and tax in reducing consumption and alcohol-related harm, among the general population and among young people, leads to our conclusion that the tax is 'heading in the right direction'. We also note that there are a range of other evidence-based strategies (e.g. controls on hours of sale; ensuring responsible service of alcohol; random breath testing; brief interventions; access to treatment) that can work in combination with tax and price controls.<sup>17</sup>

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