

27 February 2009

The Secretary
Senate Community Affairs Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Sir/Madam,

RE: Submission to Community Affairs Committee inquiry into Excise Tariff Amendment (2009 Measures No.1) Bill 2009 and Customs Tariff Amendment (2009 Measures No. 1) Bill 2009

We are very pleased to enclose a joint submission from the Australian Drug Foundation, and Victorian Health Promotion Foundation (VicHealth) for consideration by the Community Affairs Committee. This submission builds on the previous advice provided by the Alcohol Policy Coalition, consisting of the Australian Drug Foundation, Cancer Council Victoria, Turning Point Alcohol and Drug Centre and VicHealth, for the Committee's inquiry into Ready to Drink Alcohol Beverages in 2008.

If you wish to discuss this matter or need any further information please contact Geoff Munro, National Policy Manager, Australian Drug Foundation, on (03) 9278 8108 or munro@adf.org.au . In addition, Brian Vandenberg, Senior Program Advisor can also be contacted at VicHealth on 03 9667 1315 or bvandenberg@vichealth.vic.gov.au.

We appreciate the opportunity of presenting our submission and we look forward to the outcomes of the Committee's investigation.

Yours sincerely



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**Response to Community Affairs
Committee Inquiry into Excise Tariff
Amendment (2009 Measures No.1)
Bill 2009 and Customs Tariff Amendment
(2009 Measures No. 1) Bill 2009**

**Submission by
the Australian Drug Foundation and
the Victorian Health Promotion
Foundation (VicHealth)**

SUMMARY

1. We understand the intent of the *Excise Tariff Amendment Bill 2009* (alcopops excise) is to reduce the prevalence of drinking by young people under the age of eighteen years, and especially excessive drinking by females in that age group.
2. Underage drinkers aged 12-17 years drank 175 million standard drinks in 2005 and contributed over \$200 million to the alcohol beverage industry and \$107 million in tax revenue to the Australian government (Doran 2008).
3. A recent report by the National Preventative Health Taskforce emphasises that childhood and adolescence are critical times for brain development, and the brain is more sensitive to alcohol-induced damage during these times (NPHT 2008). Initiation of alcohol use at a young age may increase the likelihood of negative physical and mental health conditions, social problems and alcohol dependence. Regular drinking in adolescence is an important risk factor for the development of dependent or risky patterns of use in young adulthood.
4. Drinking contributes to the three leading causes of death among adolescents – unintentional injuries, homicide and suicide – along with risk taking behaviour, unsafe sex choices, sexual coercion and alcohol overdose (NPHT 2008).
5. Alcopops' similarity to soft drinks enables the youngest adolescents to take up drinking. It is reasonable to expect that they may not substitute other alcoholic drinks for alcopops as easily as older drinkers of alcopops.
6. Alcopops are popular among school students. In 2005 they were the preferred alcoholic drink for 43% of girls aged 12-15 years and 53% of girls aged 16-17, while the prevalence among boys aged 12-17 years had doubled from a low base (White & Hayman, 2006). Many school students drink hazardously: 20% of senior students, and 40% of the "current drinkers" among them, are drinking on a per occasion level that is hazardous even for an adult (White & Hayman, 2006). They face "...memory loss, the potential for violence and sexual risk taking" and risk of fatal and non-fatal accidents and injury (White & Hayman, 2006).

7. Alcopops are consumed by underage drinkers who drink at the most hazardous levels. Data from the 2004 National Drug Strategy Household Survey conducted by the Australian institute of Health and Welfare indicates 75% of teenagers aged 14-19 years who drink at “risky or high risk levels for short term harm” consume alcopops as much or more than any other alcohol beverage (Stark, 2007).
8. Price is a powerful determinant of alcohol consumption and it is likely that a higher price for alcopops will place downward pressure on underage young people.
9. The true effect of the alcopops excise may not be known for some time. Early changes in retail sales of alcopops is consistent with the excise having the result intended, although the collation and analysis of more sophisticated data over a longer period of time will be necessary before a definitive judgment is possible.
10. We support the Excise Tariff Amendment Bill 2009 because it offers an opportunity to reduce the attraction of alcohol to children and adolescents.
11. To effectively address harmful alcohol use across our community a whole raft of other initiatives in addition to taxation must be undertaken to change the culture which supports and promotes harmful consumption of alcohol. These include public education; stricter regulation and control of advertising and marketing; firmer controls on the sale and supply of alcohol; and increased enforcement of laws and regulations relating to alcohol.
12. The current Henry Review of Australia’s taxation system provides an opportunity for comprehensive reform of alcohol tax arrangements, taking into account how price changes impact on young people’s drinking behaviour, not only with regards to alcopops, but across the full range of alcohol products. However, a recent public health commentary on the alcopops tax increase published in *The Lancet* (Doran *et al.* 2008) states that “**going part of the way is not the same as going the wrong way**”. This is the sentiment that underlies our support for the alcopops tax increase.

RESPONSE TO THE SPECIFIC TERMS OF REFERENCE

The terms of reference on which the Community Affairs Committee has sought comment are:

The impact of the tax on RTDs, the so-called alcopops tax, since its introduction on 27 April 2008 with particular reference to:

(a) revenue raised by the alcopops tax measure

(i) According to the estimate by the Treasury Department the excise was expected to raise \$3.1 billion over the period of the forward estimates.

(ii) As the volume of RTDs sales appears to have declined since April 2008 it seems likely that the tax receipts from RTDs will be lower than anticipated; however, to the extent that “substitution” of other alcohol beverages takes place, the notional deficit may be smaller if some of the beverages substituted for RTDs (e.g. spirits) are subject to the same rate of taxation.

(iii) We wish to draw the Committee’s attention to recent research which has estimated that the total annual revenue derived from underage drinking by Australian adolescents aged 12-17 years is a staggering \$212 million (Doran *et al.* 2009). Of this, alcohol industries collect 51%, or \$110 million, with the balance collected by government in tax revenue. In terms of specific types of alcohol products, the alcohol industries’ main source of revenue from underage drinking was the sale of pre-mixed spirits (i.e. alcopops). Clearly, the underage alcopop market in Australia is highly lucrative for the manufacturers of such products, and hence it is not surprising to observe an aggressive campaign by liquor lobby groups over the past 10 months in opposition to the alcopops tax increase.

(b) substitution effects flowing from the alcopops tax measure

(i) The range of alcoholic products available for sale in Australia is vast, not only with great variety of spirits and spirit based drinks, but also other types of alcoholic products including wine, wine-based drinks, ciders and beers. What degree of substitution will occur between these types of drinks is largely unknown. How consumers respond to the increased prices of RTDs will need to be monitored closely and, where necessary, additional initiatives and interventions undertaken.

(ii) The market research company AC Nielsen reported on consumer sales of retail packaged liquor for the quarter to July in 2008, the first full quarter following the introduction of the excise. Nielsen recorded alcopops had declined by 26.2%, equivalent to 7 million standard drinks per week, while spirits had increased by 11.2%, equivalent to 2.9 million standard drinks per week, and packaged beer had grown by 1.5%, equivalent to 1.1 million standard drinks per week (Walton 2008). These returns suggest some purchasers of alcopops were moved to purchase other products; however Nielsen concluded the net result was a decrease in volume of alcohol sold equal to three million standard drinks per week.

(iii) In the present case it appears the net effect has been a substantial decline in the overall volume of alcohol sold to consumers after April 2008, because the volume of spirits and beer that was “substituted” for alcopops by consumers did not compensate for the reduction in the volume of alcopops. This was exemplified in the testimony of Mr Bruce Carbonari, President and CEO of Fortune Brands, owner of Jim Beam, in his report to US shareholders in July 2008: "...the 70% increase in excise tax on RTDs has increased the price of RTDs in Australia by about 25% [so] we saw a decrease in sales of Jim Beam RTDs of 30% that was only partially offset by a bump in sales of full strength Jim Beam..." (Carbonari, 2008).

(iv) Whether a partial substitution of spirits and beer for alcopops would invalidate the aim of the excise will depend on the demographic character of those consumers who switch from alcopops to an alternative drink; and the volume of alcohol they consume subsequently, as measured in the number of standard drinks. If, for example, the excise acted to depress underage drinking while causing some adult consumers to switch to other categories of drinks, the aim of the excise might be realised.

(c) changes in consumption patterns of ready-to-drink beverages by sex and age group following the introduction of the alcopops tax

(i) The apparent decline in the retail sale of alcopops is consistent with the tax working as it was intended to do (i.e. to reduce underage drinking), but further epidemiological and demographic evidence is required to ascertain if it is having the intended effect on that age group and whether other effects are taking place.

(ii) We are not aware of robust epidemiological or demographic data that would illuminate

consumer patterns of drinking following the introduction of the excise. While it is apparent that some consumers have “substituted” other drinks for alcopops (spirits and beer principally) the available data does not allow an accurate analysis by sex and age of the purchaser, let alone the ultimate consumer.

(d) changes in consumption patterns of all alcohol beverages by sex and age group following the introduction of the alcopops tax

AC Nielsen data for the September quarter in 2008 indicates the alcopops category has declined by about one quarter, the spirits category has increased by about one-tenth (11%) while the beer category has increased marginally (1%) and wine has remained stable (Walton 2008).

As for (c) we are not aware of robust data that would allow an accurate analysis by sex and age of the purchasers and ultimate consumers of the product categories.

(e) any unintended consequences flowing from the introduction of the alcopops tax such as the introduction of so-called malternatives (beer-based ready-to-drink beverages)

We are aware that the spirits industry (including manufacturers, retailers, and its representatives) has alleged a number of unintended consequences of the excise, but, we submit that those allegations are not supported with substantial and reliable evidence. The allegations include the claims that the excise has

- (i) led to an increase in the incidence of drink spiking (DSICA, 25 May 2008). We are not aware of evidence that would support this claim.
- (ii) led to an increase in consumption of more potent drinks. On the basis of statistics provided by the Liquor Merchants Association of Australia (LMAA) the Distilled Industry Council of Australia (DSICA) claimed the tax had failed because spirits sales had increased by 46% and alcopops had fallen by 30%, by June 2008, and resulted in a net increase in alcohol consumption of 10% (DSICA 28 July, 2008). This analysis was not confirmed by consumer data released by the market research company AC Nielsen for the quarter to July 2008, and by tax receipt figures of the Australian Tax Office, both of which found the level of increase in spirits sales was relatively small and did not compensate for the decline in sales of alcopops.

- (iii) led to increased dangerous levels of drinking because consumers are buying spirits instead of alcopops, and because they do not pour standard drink measures they are therefore not aware of the amount of alcohol they are drinking (DSICA, 9 September 2008). We are not aware of substantial evidence that would support this claim.
- (iv) re (iii) it might be considered unexpected for the spirits industry and its representatives to charge that drinkers of “straight” spirits are at great risk of dangerous drinking when pouring their own drinks. It is an unexpected outcome because spirits have traditionally been marketed in that format and spirits manufacturers, producers, retailers, and their representatives, have not previously raised this practise as a problem.

(f) Evidence of the effectiveness of the government changes to the alcohol excise regime in reducing the claims of excessive consumption of ready to drink alcohol beverages

(i) We have referred previously to the AC Nielsen data published in September 2008 that indicated the volume of alcopops had declined dramatically following the introduction of the excise and that the overall volume of alcohol purchased by consumers had declined (Walton, 2008).

(ii) We think the full effects of the excise are unlikely to be known for some time. A robust account of the effects will need reliable data on alcohol sales over a reasonable period and accurate alcohol consumption patterns for all demographic groups.

(iii) Also unknown is the effect of the responses of the various parts of the alcohol industry to the changed market conditions –some retailers are reported to offer a special discount for purchases of several bottles of spirits (e.g. ‘triple up and save’) and by bundling together bottles of spirits and mixers as a means of facilitating the replacement of alcopops by spirits (Elks, 2008).

(g) any evidence of changes to at risk behaviour or health impacts (either positive or negative) as a result of the introduction of the alcopops tax drink alcohol beverages

As for (f).

(h) comparison of the predicted effects of the introduction of the alcopops tax, with the data of actual effects, with a particular focus on evidence (or lack thereof) collected by the relevant department

As for (f). We are not in a position to respond to the second part of this question except to reiterate that the full effect of the excise will not be known until comprehensive data, including retail sales and population consumption statistics, are available for analysis.

(i) the value of evidence based decision making in the taxation of alcoholic products

We hope that all government policy decisions are made on the basis of sound evidence. In the case of taxation of alcohol products, we believe that governments must balance various considerations, including the need to raise revenue to permit government expenditures; to protect members of the population from the predictable harm that arises from hazardous use of the product; and for adults to have reasonable access to the product of their choice.

We are of the view that a high proportion of the additional funds raised by the alcopops excise should be expended on preventative measures designed to reduce the attraction of alcohol to young people, and to provide early intervention services for young people who are at risk of developing long term problems with alcohol.

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