

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



Submission from Independent Distillers Australia

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Executive summary

Independent Distillers Australia (IDA) welcomes the opportunity to make a submission to the Senate Community Affairs Committee Inquiry into the Excise Tariff Amendment (2009 Measures No. 1) Bill 2009 and Customs Tariff Amendment (2009 Measures No.1) Bill 2009 [provisions].

"This Government is determined to take a strong, comprehensive approach to tackling binge drinking in our community. It is a community-wide problem that demands a comprehensive, community-wide response."

Hon. Nicola Roxon
Minister for Health and Ageing
13 May 2008
Hansard

"So we know that binge drinking is a problem. Parents know it is a problem. Police know it is a problem. Health experts know it is a problem."

Hon. Nicola Roxon
Minister for Health and Ageing
13 May 2008
Hansard

And Independent Distillers knows that binge drinking is a problem. We agree with the Minister.

In introducing the RTD tax the Government said it was about addressing the problem of binge drinking. There is little argument that problem drinking continues to be a serious behavioural problem in our community. But it is important to note that drinking at risky levels has been decreasing over the last six years as measured by the Government's own statistics, including among young women. That said, we acknowledge that risky drinking remains a social scourge that we as an industry must play a role in addressing. IDA is keen to work with the Government and stakeholders to develop targeted, cost effective and practical measures to further address this problem.

When the Rudd Government introduced the so-called "alcopops tax" almost a year ago, they said it was done as a health measure, to reduce problem drinking, particularly among young women.

Despite that fact, the Government admits it did not consult the Department of Health before introducing the tax. IDA believes it is time to admit the tax is not working to deliver the reduction in problem drinking it is after. We believe it is time to look at more comprehensive measures which have a greater chance of tackling risky drinking. And we are not the only ones. One of the issues this tax ignores is that alcohol is alcohol – no matter what it's made from.

"There is no difference in the alcohol in beer, or wine or spirits in terms of the potential harm excessive consumption can cause."

Darryl Smeaton
Alcohol Education and Rehabilitation Foundation
Daily Telegraph
12 June 2008

“One of the common misperceptions is that young people see pre-mixed drinks as cheap, whereas if you speak to any teenager they’ll tell you it’s actually an expensive option. So price will be a barrier for moderate drinkers, but problem drinkers will move to the cheaper alternative, which is commonly spirits.”

Paul Dillon
National Drug and Alcohol Research Centre
Sydney Morning Herald
28 April 2008

Here are some simple facts:

1. RTDs now make up less than seven per cent of the country’s total alcohol consumption
2. Beer, wine and spirits were named by the Government’s own Australian Institute of Health and Welfare report (released in December 2008) as the most popular choices for those who drink at risky levels. Not RTDs.
3. Industry figures show that the alcopops tax has, very simply, caused a straight substitution – young people haven’t stopped drinking – they just mix their own spirits or drink beer or wine.
4. Community advocates, hotel owners and health officials from across Australia have all reported that binge drinking has worsened since the introduction of the alcopops tax.
5. RTDs are not primarily consumed by young women, as the Government continues to allege. The largest group of RTD consumers are men over 35 who drink the bourbon, rum and whisky premixed drinks.
6. The current system of tax on alcohol has no consistency. It taxes products based on whether they come from a grain, a hop or a grape, or, in the case of beer, where they are consumed (in a pub or at home) and what the alcohol is packaged in, or in the case of wine how much it costs, rather than by how strong they are. As a result there are 14 different alcohol taxation levels in Australia.
7. The new excise increase will not generate anywhere near the revenue the Government first said it would. Initially the Government estimated revenue of \$3.1 billion over five years, now they say it will be almost half that at \$1.6 billion.
8. The alcopops tax is failing both as a health measure and a revenue raiser. Experts agree that a volumetric tax regime could more effectively tackle binge drinking and could increase the amount of excise raised from alcohol, also boosting the Government’s financial bottom line.

Some may view this submission, and indeed any commentary on this issue from IDA, as just a company only concerned with its own self-interest. IDA is the nation’s third-largest manufacturer of ready-to-drink (RTD) products. With more than 94 per cent of our business reliant on RTDs, IDA is the company most negatively impacted in a financial sense by the introduction of the new tax.

There is no question that this tax has done serious damage to our business. When IDA has to take the tough decision and make decent, hardworking Australians redundant as a result of a failed piece of politicking, it’s very tough to come to grips with. It may be something we could live with if we truly believed that the tax was actually reducing problem drinking.

But it isn’t.

Binge drinking is an industry-wide problem. Suggesting the way to fix it is a tax on a very small percentage of products is naive. Binge drinking is about how people drink, not what they drink and the solutions to binge drinking cannot be reduced by quick fixes. Binge drinking occurs across all forms of alcohol and therefore a solution must embrace all forms of alcohol.

“It’s a bandaid solution because the tax rates on beer and wine have not gone up. What is needed is a tax rate across all alcoholic beverages – a volumetric tax – that will stop people substituting high-priced drinks with low-cost drinks. Binge drinking rates are the same as they were 20 years ago.”

Dr Christopher Doran
National Drug and Alcohol Research Centre
The Courier Mail
3 May 2008

It is time for this “bandaid solution” to end and meaningful reform to take place.

In our submission to the Senate Inquiry into RTD Alcoholic Beverages last May, IDA said if the Government removed the new taxes on RTDs we would willingly and proactively reengineer our business. This included:

- Maximum of two standard drinks per can
- No products over 9 per cent alcohol content
- In store promotion only
- Modifications to the rules governing advertising, media and sponsorship
- No internet or viral marketing
- Improved labelling around alcoholic content and nutrition
- No case or carton retail promotion advertising
- Targeted education programs developed in conjunction with health and education experts for 14-17 year olds and their parents, ensuring no product placement or advertising of any kind is included

Indeed, many of these activities have already been voluntarily implemented.

We still believe that these initiatives, combined with the introduction of a volumetric alcohol tax would have the following benefits:

- Engender positive health outcomes, in terms of levels and patterns of consumption
- Continue the current downward trend in binge drinking behaviour
- Send appropriate messages to both the alcohol industry and consumers about alcohol intake and drinking behaviour
- Receive strong support from health NGOs
- Safeguard the Government’s alcohol tax forward estimates
- Obtain support from the Australian public
- Place the whole alcohol industry on a fair and equitable taxation footing
- Simplify what must be one of Australia’s most complex and administratively-expensive industry tax arrangements

We would like to thank the Senate Community Affairs Committee for considering our submission and we welcome the opportunity to appear before the committee.

Addressing the inquiry terms of reference

a) The revenues raised under the alcopops tax measure

“The measure will result in an estimated gain to revenue of approximately \$3.1 billion over the forward estimates period.”

*Hon. Nicola Roxon
Minister for Health and Ageing
Hansard
13 May 2008*

“[This tax] is needed because it is part of our budget surplus which is required to tackle the inflationary challenge and provide that buffer against international uncertainty...”

*Hon. Wayne Swan
Treasurer
ABC
28 July 2008*

“In 2008-09 and 2009-10, revenue from excise and customs duty has been revised down by around \$500 million and \$700 million, respectively.”

*Mid-Year Economic and Fiscal Outlook
5 November 2008*

“Modelling indicated that there would be a revenue flow of about \$3.1 billion. That estimate has been revised down to \$1.6 billion.”

*Julie Owens
Member for Parramatta
Hansard
25 February 2009*

And on 29 August 2008, Prime Minister Rudd said the money was needed for preventative health measures such as lifting the number of elective surgery procedures.

The Rudd Government and the Federal Treasury significantly under-estimated the effect of the alcopops tax on the industry and massively over-estimated its predicted excise windfall.

When the Government introduced the measure it said it was expected to increase revenue to the Government by \$3.1 billion over five years, because it would cause a slowdown in the sales of alcopops. They have now revised this figure down – twice – as a result of the collapse of the sector.

Tax office figures show that RTD sales have dropped by 35 per cent compared to the previous year. The Government and Treasury estimated the tax would reduce RTD consumption by four per cent, significantly more than the Government estimated.

b) Substitution effects flowing from the alcopops tax measure

"If the price on one alcoholic beverage goes up then some of the customers will switch to another alcoholic beverage that is cheaper."

Professor Robin Room
Alcohol and Other Drugs Council of Australia
Senate Committee Hansard
11 June 2008

"There is no doubt that some people will move to spirits and avoid these drinks. There is no doubt that some people use alcopops as a way to measure what they are drinking. Young people tell me that they also become more confident in their drinks not being spiked."

Adjunct Professor Michael Moore
CEO, Public Health Association of Australia
Senate Committee Hansard
11 June 2008

"I spend a lot of time with young people and what they tell me very clearly over and over again is that they are just substituting. They can't afford to buy their four-pack of alcopops, so they are buying a bottle of vodka instead. They don't know how to measure their drinks or understand what a volume of vodka is. They'll mix it with their orange juice, mix their bourbon with their Coke, rather than buying it pre-mixed in a can, which at least has labels on it saying what standard drink measure it is."

Dr Rosanna Capolingua
President Australian Medical Association
The Australian
12 June 2008

"The reality is that if someone wants to get drunk and that is their No. 1 objective then cask wine is the cheapest option. We cannot escape that fact."

Steven Strachan
Chief Executive, Winemakers Federation of Australia
Senate Committee Hansard
11 June 2008

As you can see from the range of quotes above, the Government must have predicted substitution – everyone else did...

There is no doubt that the major consequence of the alcopops tax has been to push drinkers from pre-mixed products, with a defined alcohol content of about five per cent on average, toward drinks which are between two and seven times that alcohol content. This is of particular concern given the Australian Institute of Health and Welfare's 2007 National Drug Strategy Household Survey, released in December showed that in every age group of both

men and women those who were categorised as risky or high risk drinkers chose beer, wine or spirits, not RTDs as their drink of choice.

It is difficult to show perfect statistics on substitution. However both anecdotally and through industry data from the Liquor Merchants Association of Australia (which tracks manufacturer sales either direct to retail or to wholesale) we can demonstrate tangible substitution from RTDs into full strength spirits and other beverages.

When we compare sales for the nine months since the introduction of the excise increase (May 2008-January 2009) and the equivalent period in the previous year (May 2007-January 2008) sales of key products show strong growth.

Since the alcopops tax was introduced the LMAA sales statistics show:

- Full strength Bourbon is up 32.2%
- Full strength Dark Rum is up 31.6%
- Full strength Light Rum is up 8.1%
- Full strength Vodka is up 18.4%
- Cider is up 14.87%

As we'll see later in our submission, after many years of consistent decline, the beer market has returned to strong growth. This has been directly attributed to the collapse of the RTD category by independent analysts including Macquarie Research Equities and Citi Investment Research.

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

d) Changes in consumption patterns of all alcoholic beverages by sex and age group following the introduction of the alcopops tax

"It is not possible when you look at sales data to be able to immediately link that sales data with the age of the purchase, unless you want us to somehow require every single retailer to record the age of the particular person purchasing the product and to get them to come back and report who drank them. It is just not possible."

Hon. Nicola Roxon
Minister for Health and Aging
Hansard
25 February 2009

Melissa Pike from Chancellor State College said she had seen worse binge drinking since the alcopop tax was introduced. "I don't think it's working," she said. "My peers don't think it's working and it's having the exact opposite effect of what it was meant to do. "There's just people now turning up at parties with a bottle of vodka that's gone by the end of the night and they're passed out. "I was at a party on the weekend and girls were being given drinks by the guys and they had no idea how much alcohol was actually in them. "When they can monitor it themselves they know how much they've had and can still have reasonable control. I think responsible drinking needs to be promoted."

Sunshine Coast Daily
2 August 2008

The 70 per cent tax hike on Ready-To-Drink alcohol products has not had an impact on preventing binge drinking among young people. Mrs Wealands (Manager, Walsh's Hotel) said those who were previously buying premixed drinks like rum and Cokes have simply decided to buy separate bottles and mix their own drinks.

Canberra Times
30 January, 2009

Neville Gale, owner of three liquor stores in the Rockingham area, said the tax rise had had an immediate impact and he was seeing young people opting for a bottle of bourbon and a bottle of coke instead of alcopops. He said a six pack of pre-mixed Wild Turkey and cola had jumped from \$22 to \$30. For \$10 more, people could buy a 700ml bottle of bourbon and a bottle of Coke but get five times the quantity of alcohol.

The West Australian
8 May 2008

Both through tracking of manufacturer sales to retail and wholesale, Nielsen consumer sales ex retail, Roy Morgan omnibus surveys of consumer behaviour and anecdotal evidence all points to increased consumption of other forms of alcohol that are cheaper and associated with more risky drinking. It is undeniable that massive substitution has occurred as all the data from various sources confirms.

Anecdotally, we understand – both from our own conversations with customers and from comments on the public record – that increases in beer, cask wine and full strength spirits sales have come off the back of the increase in excise on RTDs.

Roy Morgan Research regularly tracks alcohol consumption as part of its ongoing surveys.

The latest results available show that total alcohol consumption for all Australians aged over 18 has increased by 2.3 per cent, for the six months July to December 2008, compared to the previous year.

The survey showed male drinkers consumed about four per cent more glasses of alcohol, while for women consumption was static.

Roy Morgan reports a considerable increase in consumption for the 18-24 year old age group – a rise of about 17 per cent.

Category	July 2007- December 2007	July 2008 – December 2008
Alcohol consumption (Glasses '000)	583,549	601,222
Men: (Total alcohol consumption)	418,481	436,422
Women: (Total alcohol consumption)	165,068	164,800
18-24 year olds: (Total alcohol consumption)	71,270	85,938

Roy Morgan Research, February 2008
(7000 respondents across all ages)

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

Mike Harber (co-owner of the Ambassador Hotel) said Kevin Rudd's decision to lift the excise on pre-mixed drinks by 70% would only create an underground drinking culture. "It will encourage young people to drink more before going out," he said. "Party goers will still drink the same thing but mix their own drinks at home. This isn't positive because at least when they're buying pre-mixed drinks in pubs, they know how much alcohol is in their drinks."

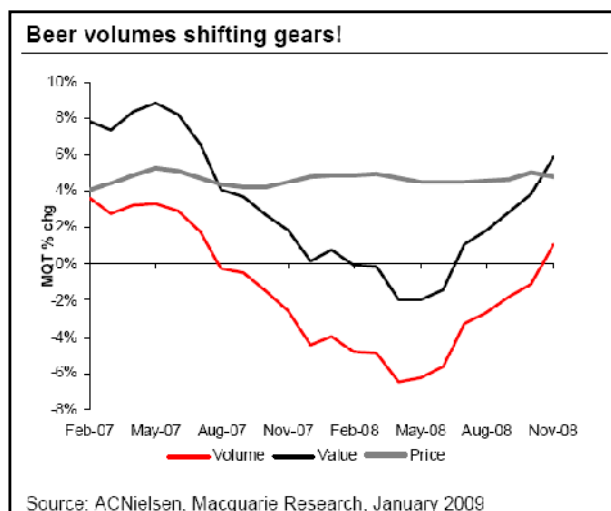
Daily Mercury (Mackay)
29 April 2008

My sister's drink was spiked on Saturday night. Her preference was "alcopops" but she said "champagne was cheaper at \$12 a glass". With premixed alcopops she could easily have guarded against unknown substances by holding her thumb over the top. Her champagne was served in an open glass, an easy target for drink spikers. An innocent girl could have been harmed, but with luck she was okay.

Emma Collens, Glen Waverly
Letter to the Editor
Sun Herald
11 January, 2009

Industry beer volumes have shown some signs of recovery. The strong July performance has resulted in 1.4% volume growth over the past three months compared to a decline over the past 12-months. This may be partly reflective of the RTD tax hike resulting in consumers switching into beer.

Citigroup
Beverage Trends Analysis
9 October 2008



Both spirits and beer benefit from lost RTD volumes. While it is evident that the 70% increase in RTD tax introduced in April 2008 has hurt RTD volumes (which declined ~29% for the month on pcp) it is also evident that consumers have switched their preference to both spirits and beer! With all else held constant, on an equivalent pure alcohol volume basis, we estimate that spirits have gained ~42% of the lost RTD volumes whilst beer have captured ~31%. This appears to have returned Australian beer volumes to growth whilst beer sales value increased 6.4% on the pcp due to consistent price realisation.

**Macquarie Research Equities
9 January 2009**

As a consequence of the Excise increase on RTDs, Independent Distillers and one other producer have launched so-called “malternative” products. Our product ‘Bolt’ is a flavoured beer with 5 per cent alcohol, the same as many beers.

Despite the Government’s rhetoric, these drinks are not alcopops with a squirt of beer. They are beer, fermented with yeast made in breweries, exactly the same as more than 100 existing flavoured beers already on the market in Australia.

Fruit-flavoured beers are very popular with sophisticated drinkers in Europe and malternatives constitute the vast majority of pre-mixed drinks in the USA.

The Federal Government has made much of what they perceive to be exploitation of a loophole, but they have failed to explain how ‘malternatives’ are different from the flavoured beers made locally by Fosters and Lion Nathan – such as Hahn Barefoot Radler, Miller Chill, Fosters Beez Neez, imports like Bitburger Lemon and many others from the microbrewery sector already on the market in Australia and not the subject of a politically-motivated attack.

The argument about “closing loopholes” in the alcopop tax is another distraction from any real attempt to address the root causes of binge drinking or to address the fact that the Australian taxation system on alcohol is not working.

The distraction about “malternatives” further highlights the inconsistencies of this excise increase. The fact that the Government has now amended the definition of beer further underlines the nonsense of the current Australian taxation system when it comes to alcohol.

f) **Evidence of the effectiveness of the Government's changes to the alcohol excise regime in reducing the claims of excessive consumption of ready-to-drink alcohol beverages**

"This measure is working."

*Hon. Nicola Roxon
Minister for Health and Aging
Hansard
11 February 2009*

While the Health Minister says the measure is working, there are no statistics or research she can produce to back her claims. The Health Minister has, throughout this debate, relied on phrases like "research shows" and "the evidence demonstrates" without ever actually providing any evidence or research which accurately backs her claim.

As a key player in the industry, we can acknowledge – and there is no question about this – the Government's excise increase has put a massive dent in the sales of RTDs. However there is precisely no evidence that shows this reduction in sales of premixed alcohol has resulted in a reduction in "excessive consumption of ready to drink alcohol beverages". If tangible evidence exists, the Minister and her department have failed to release it.

Indeed, the Australian Institute of Health and Welfare data from the 2007 National Drug Strategy Household Survey (below) demonstrates that the RTD category is not the preferred product by high risk drinkers. The AIHW found that in every age group for both men and women the drinks preferred by high risk drinkers were beer, wine or spirits and liqueurs. Yet, as already established, the excise increase has pushed drinkers to those higher risk products.

Type of alcohol usually consumed by drinkers classed as risky or high risk in 2007

Males	Risky or high risk
14–19	Regular strength beer (74.3%)
20–29	Regular strength beer (78.6%)
30–39	Regular strength beer (77.0%)
40+	Regular strength beer (61.5%)
Females	
14–19	Bottled spirits & liqueurs (84.9%)
20–29	Bottled spirits & liqueurs (67.6%)
30–39	Bottled wine (69.7%)
40+	Bottled wine (72.2%)

AIHW, NDSHS December 2007

Despite the RTD excise increase being in place for almost 12 months, the Government has failed to produce any evidence of a reduction in arrests, emergency room hospital admissions, police incidents or other indicators of risky drinking. If there had been evidence, surely the Government would have released it, given the significant public interest in this issue.

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

Data for QLD, SA, TAS, VIC and WA show that for males and females aged 12-24, ED presentations per 100,000 population for alcohol related diagnosis were higher in May to August 2008 than for the same months in previous years. Importantly, the series is longer than for hospital separations and shows higher rates in every month for every age group, except 18-24 females for the month of July. There is also an overall increase for the months after the RTD increase relative to those before.

***Trends in alcohol related hospital use by young people
Report by Access Economics Pty Limited for Distilled Spirits Industry Council of
Australia
20 January 2009***

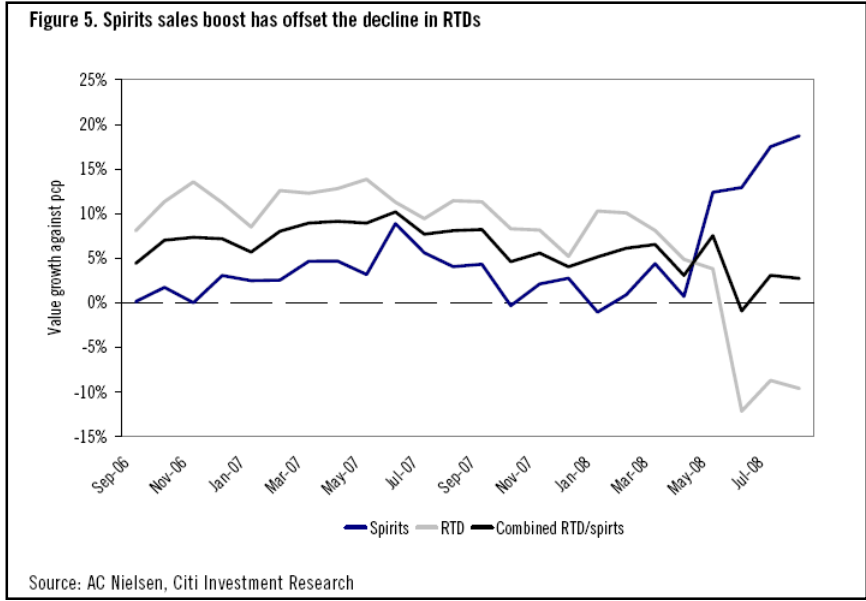
The only evidence we are aware of is data collected by Access Economics on behalf of DSICA (above) which tracks a general uplift in Emergency Room presentations since the introduction of the excise increase.

Clearly, the Government is best placed to produce this evidence, given its ability to access hospital data, police records and the like.

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

“It is unlikely to substantially reduce overall rates of unusual or binge consumption in Australia because spirits comprise a small market share relative to beer and young people will more likely to switch beverage preference.”
**National Drug and Alcohol Research Centre Report
 The Lancet
 30 August 2008**

“We predict – and it’s already been shown – that it will just drive even more under-age drinkers, especially the girls, on to spirits without addressing the fundamental problem of binge drinking in young people.”
**Dr Christopher Doran
 National Drug and Alcohol Research Centre
 Australian Doctor
 21 November 2008**



**Ahead of the Beverage Trends
 Analysts Report
 Citi Investment Research
 5 October 2008**

Minister Roxon, in the debate on these bills in the Lower House, said the Government had no evidence on these issues.

The chart above, from Citi Investment Research, graphically illustrates the direct effect of substitution between RTDs and full strength spirits as measured by AC Nielsen consumer research. The reaction is immediate following the introduction of the excise increase at the beginning of May 2008. This trend is mirrored in the LMAA statistics as referenced earlier.

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

“There is no clear trend in preference for RTDs among young females (aged under 18 years) in the period 2001-2007.”

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*Australian Institute of Health and Welfare
Senate Submission*

Comparable analysis of risky consumption is possible for the 2001, 2004 and 2007 surveys. Across this period, there has been little change in the pattern of risky consumption across all age and sex groups. For some groups - notably girls aged 16-17 years - there appears to have been a decrease over this period in the proportions drinking at risky or high-risk levels for short-term harm.

Pg 8

*Australian Institute of Health and Welfare
Senate Submission*

“There is no evidence internationally in support of targeted taxes on RTDs leading to a reduction in alcohol harm.” Ireland, France, Germany, Switzerland and some US states have targeted alcopops with increased taxes in a bid to cut consumption by young drinkers. But overseas experience showed a decrease in RTD consumption had led to an increase in consumption of other liquor.

*New Zealand Ministerial Committee on Drug Policy
The Australian
6 February 2008*

“The evidence is there was a hole in the budget and they needed the money.”

*Bill Healey
CEO, AHA
The Australian
12 June 2008*

Independent Distillers would welcome alcohol policy being made based purely on the hard evidence available to Government. To further quote the Australian Institute of Health and Welfare from their submission to last year’s Senate Inquiry into Ready-to-Drink beverages:

- the overall drinking status of the Australian population has been stable over the past two decades;
- there has been a modest increase in the apparent consumption of Ready-to-Drink (RTD) alcohol beverages over the past five years;
- the preference for RTDs has increased slightly over the period 2001-2007, particularly in older age groups; the trend among those aged under 18 years is unclear;

- there has been virtually no change in the pattern of risky drinking over the period 2001-2007, including among young Australians;
- given the stable prevalence of risky drinking, and the lack of any clear trend regarding preferences for RTDs, the increased availability of RTDs does not appear to have directly contributed to an increase in risky alcohol consumption.

There is a vast range of statistics and evidence available from health groups and community groups which show the current system of alcohol tax is, very simply, not working.

During the past year the industry has been accused of distorting figures and using evidence to suit itself. The Government has talked much about evidence based policy development and industry consultation, but has simply not delivered. Their response to constructive debate has been flippant at best.

"This shameful attempt at manipulation is as dodgy as a three-day-old kebab," she said.

Hon. Nicola Roxon
Minister for Health and Ageing
24 February 2009
Australian Associated Press

"The liquor industry has made a motza out of this. They can go jump," he said.

Hon. Wayne Swan
Treasurer
29 July 2008
The Gold Coast Bulletin

"We have been forced to do this because of the surprisingly low levels to which the distillers are prepared to stoop."

Hon. Nicola Roxon
Minister for Health and Ageing
25 February 2009
Australian Associated Press

IDA believes that evidence-based decision making would acknowledge a few basic facts:

1. Taxation should be based on alcohol content, not on historical deals;
2. Binge drinking is a problem, no matter what type of alcohol the drinker is consuming;
3. Ready-to-drink products, "alcopops" are low in alcohol (85% are 5 per cent ABV or less), compared to spirits (37-40%) and wine (11-14%);
4. There is clear evidence, both from sales statistics and anecdotal reports from pub owners, police and members of the public that increasing the tax on alcopops has simply pushed young drinkers to substitute RTDs for stronger products like spirits.

The Australian alcohol taxation system is broken.

“The current debate about the level of taxes on ready-to-drink “alcopops” shows, in stark terms, how distorted our alcohol taxation system actually is. The taxation system is riddled with loopholes because of backroom agreements between industry and Government designed to boost the liquor industry. As a consequence the system encourages substitution of alcoholic products based on price whereby people switch to alcohol that is only cheaper because there is less tax on it. This clearly demonstrates that taxation can be used as a lever to effect how people consume alcohol and, on the flipside, to reduce consumption. The time is right to look at dismantling these deals by removing all cost benefits of substitution and is achievable with the introduction of volumetric taxation. Put simply, volumetric taxation is when the tax is calculated based on the pure alcohol content in the beverage or package. It differs from the current taxation model which taxes beer, wine and spirits at different rates, often as a result of “sweetheart” deals between industry and Government.

“What this highlights is that the alcohol taxation system is broken. It does not achieve anything other than a revenue stream for Government. I have no doubts that Governments need to maintain revenue, but if we looked at the alcohol taxation system from a public-health perspective, as well as from an economic perspective, then I think we could come up with a much better system that would serve Australia equally well in both areas. This has to be fixed.

“Australia needs to tax alcohol as alcohol, not whether it is in the form of beer, or wine, or spirits. If we are serious about reducing the \$15.3 billion burden of harm associated with risky drinking then a comprehensive suite of measures needs to be employed to bring about lasting change. As the ACE-Alcohol report demonstrates, when volumetric taxation is combined with licensing controls, restrictions on advertising, labelling of products and a public education campaign, we will begin to see a change for the better in Australia’s risky drinking culture.”

Darryl Smeaton
Alcohol Education and Rehabilitation Foundation
The Canberra Times
30 July 2008

We agree... And so do all the major public health groups who have previously contributed to this debate. The only people who don't are the brewers and the Winemakers Federation of Australia who have historically benefitted from the inconsistencies of the tax regime.

A volumetric approach to taxation

"Evidence around the world shows that volumetric taxation is one of the most effective levers for reducing excessive consumption"

John Rogerson
Australian Drug Foundation
The Age
19 May 2008

The most effective taxation strategy to prevent and reduce alcohol related problems is one where all alcoholic beverages are taxed according to their alcohol content.

National Drug Research Institute
Senate Submission

The PHAA advocates a broader volumetric system as part of a comprehensive approach but also recognises the positive impact of this first step.

Public Health Association of Australia
Senate Submission

We would support a volumetric tax because it seems to be fairer and have a clearer rationale than the situation we have at the moment, which is very mixed.

National Drug and Alcohol Research Centre
Senate Committee Hansard
11 June 2008

The AMA is of the view that alcohol products should be taxed according to the volume of alcohol they contain, both in terms of a price deterrent for consumers and a financial incentive for manufacturers to produce lower alcohol products.

Australian Medical Association
Senate Submission

In the context of harm minimisation, there is support for a tax system that provides incentives for the production, sale and consumption of lower alcohol content beverages and for using taxation and price to maximise harm minimisation outcomes. The evidence indicates this can have the impact of reducing overall alcohol consumption and correspondingly reducing related problems for individuals and communities.

Department of Health and Ageing
Senate Submission

We should move from ad valorem to volumetric taxes.

Royal Australian College of Physicians
Senate Committee Hansard
11 June 2008

I think there are a whole range of models that should be looked at, but they must all have one fundamental element to them—that is, they must tax the alcohol as alcohol and not as wine, beer or spirits... It should not be based on how the product is made, who makes it or what its economic benefits or disbenefits are; it should be reviewed from a public health perspective.

Daryl Smeaton
Alcohol Education and Rehabilitation Foundation
Senate Committee Hansard
11 June 2008

Clearly there is overwhelming support for a system of volumetric taxation. IDA has for some time advocated a volumetric approach to alcohol taxation. IDA made a submission to both the Government's Henry Taxation Review and the Opposition's Ergas Review calling for a new system of alcohol tax.

Currently, consumers are incentivised by the tax system to purchase higher alcohol products. The complexity of 13 different excise rates in addition to a separate Wine Equalisation Tax (WET) does not encourage or support the development of lower alcohol products by industry.

The current confusing system of alcohol tax has been established and maintained under a system of historic deals and out-dated policies of protectionism. An example of this can be seen from the 2006-07 tax year. That year excise on beer (half of the total alcohol volume consumed) bought in three per cent of all tax revenue on goods and services, excise on spirits (which represents just 10 per cent of total alcohol consumption) also bought in three per cent and excise through the wine equalisation tax bought in just one per cent.

It is IDA's view that it is both morally and fiscally appropriate that manufacturers should be incentivised to provide lower strength alcohol products to the market though a taxation regime that taxes higher strength alcohol at a higher rate, irrespective of what the product is made from, packed in or where it is consumed.

As last year's Senate inquiry into Ready-to-Drink beverages clearly showed, there is wide agreement from both industry and the public health lobby that a system of taxation which taxes products based on their alcohol content is not only more equitable to manufacturers but also gives the flexibility for Government to, in effect, promote lower alcohol products by reducing their tax imposition, resulting in better health outcomes.

There are a number of different ways a volumetric tax can be introduced but the choice basically breaks down to whether or not Government takes a decision to impose a flat tax model across all forms of alcohol or a stepped version, where higher strength beverages attract a higher rate. In this stepped model, the number of steps and the difference in price between each step become the key points for debate.

Clearly there are benefits for both versions.

Independent Distillers asked consulting firm Allen Consulting to model a variety of forms of volumetric tax for our submission to the Henry Review. The results of that modelling are attached as Appendix 1.

We – and all major contributors to the public health debate – believe the way forward is through a system of volumetric taxation: a system that locks in Government revenues but also provides the right strategic policy platform for better health outcomes.

We formally request the Senate to block these bills.