



Distilled Spirits Industry Council of Australia Inc

Submission to the Senate Standing Committee on Community Affairs

Inquiry into

Excise Tariff Amendment (2009 Measures No. 1) Bill 2009

and

Customs Tariff Amendment (2009 Measures No. 1) Bill 2009



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Who is DSICA?

The Distilled Spirits Industry Council of Australia Inc (DSICA) is the peak body representing the interests of distilled spirit manufacturers and importers in Australia. DSICA was formed in 1982, and the current member companies are:

- Bacardi Lion Pty Ltd
- Beam Global Spirits & Wine Inc
- Brown-Forman Australia
- Bundaberg Distilling Company
- Diageo Australia Ltd
- Maxxium Australia Pty Ltd
- Moet Hennessy Australia Pty Ltd
- Suntory (Australia) Pty Ltd
- William Grant & Sons International Ltd

DSICA's goals are:

- to create an informed political and social environment that recognises the benefits of moderate alcohol intake and to provide opportunities for balanced community discussion on alcohol issues; and
- to ensure public alcohol policies are soundly and objectively formed, that they include alcohol industry input, that they are based on the latest national and international scientific research and that they do not unfairly disadvantage the spirits sector.

DSICA members are committed to:

- responsible marketing and promotion of distilled spirits;
- supporting social programs aimed at reducing the harm associated with the excessive or inappropriate consumption of alcohol;
- supporting the current quasi-regulatory regime for alcohol advertising; and
- making a significant contribution to Australian industry through primary production, manufacturing, distribution and sales activities.

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List of Abbreviations

ABAC	Alcohol Beverages Advertising Code
ABS	Australian Bureau of Statistics
abv	alcohol by volume (ie alcohol content)
ACS	Australian Customs Service
ADCA	Alcohol and Other Drugs Council of Australia
AERF	Alcohol Education and Rehabilitation Foundation
AIHW	Australian Institute of Health and Welfare
ANZFA	Australia New Zealand Food Authority
ASSSA	Australian Secondary School Students' Use of Alcohol
ATO	Australian Taxation Office
COAG	Council of Australian Governments
DHA	Department of Health and Ageing
DSICA	The Distilled Spirits Industry Council of Australia Inc
GPs	General Practitioners
GST	Goods and Services Tax
ICAP	International Centre for Alcohol Policies
Lals	Litres of alcohol
LMA	Liquor Merchants Association of Australia
MAT	Moving annual total
MCDS	Ministerial Council on Drug Strategy
MJA	Medical Journal of Australia
MP	Member of Parliament
NAC	National Alcohol Campaign
NABIC	National Alcohol Beverages Industries Council Inc
NDRI	National Drug Research Institute
NDSHS	National Drug Strategy Household Survey
NHMRC	National Health and Medical Research Council
NTS	New Tax System
RHS	Right Hand Scale (in graphs)
RTDs	Ready-to-drink alcohol products
TES	Tax Expenditure Statement (Commonwealth Treasury)
WET	Wine Equalisation Tax
WHO	World Health Organisation



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Executive Summary

Who is DSICA?

- DSICA is the peak industry body representing the interests of distilled spirit and ready-to-drink alcohol beverages (RTDs) manufacturers and importers in Australia.

The Senate should prospectively reverse the RTD tax increase

- There is a wide range of credible evidence that the 69% taxation increase on RTDs announced in April 2008 has completely failed to achieve its stated goal of reducing binge drinking among young people.
- The RTD tax increase has substantially failed as a revenue raising measure and will not raise the amount of revenue originally forecast.
- The RTD tax increase is consistently unpopular with the great majority of Australians.
- The RTD tax increase was not based on sound revenue modelling, reliable health or statistical evidence.
- International experience with narrow RTD-only tax increases shows that they fail to address binge drinking due to substitution.
- The RTD tax is based on flawed assumptions if its purpose is to combat underage drinking.
- Accordingly, the Senate should prospectively reverse the RTD tax increase (see recommendations below). This will prevent any refund entitlements arising since the RTD tax increase of 27 April.

The RTD tax increase is unpopular

- There is a widespread and consistently held view by consumers that the RTD tax increase is opportunistic, unfair and ineffective. It has damaged the Labor Government's public credibility when dealing with alcohol issues.
- Various gauges of public opinion, including opinion polls, letters to the editor and online forums have revealed that the tax increase has not been effective at addressing youth binge drinking and that there are better measures to address the issue.
- This view is confirmed by the Government's most comprehensive drug survey, the National Drug Strategy Household Survey (NDSHS), which found that tax increases are one of the least supported policy measures to address harm.

The RTD tax increase is economically unworkable

- The Government has been forced to concede on a number of occasions that there will be a dramatic shortfall against what was originally budgeted for the RTD tax measure.
- The explanatory memorandum to the amendment bills exposes a dramatic revenue shortfall of \$1.5b against the original revenue target of \$3.1b detailed in the May 2008 Budget Papers. Accordingly, the original revenue estimates have been almost halved in just the 10 months since the tax increase took effect.
- Changes in the revenue estimates reflect significant changes in patterns of alcohol consumption and can not be attributed as impacts of the recent global financial downturn.
- Serious flaws in Treasury's original revenue estimates demonstrate the fact that the RTD tax increase was not properly thought through, and how little the Government understands the dynamics of the alcohol market.
- Changes to Australia's alcohol tax system should only be undertaken after a comprehensive assessment of the current regime by Australia's Future Tax System Review Panel (the Henry Taxation Review).

The RTD tax increase is a social failure

- The RTD tax increase was hastily implemented despite reliable evidence confirming that there is no link between the increased popularity and consumption of RTDs and the patterns or incidence of risky consumption amongst young people.
- Furthermore, the Government chose to ignore a range of international evidence confirming that **isolated tax increases** on a single form of beverage (notably RTDs) are not effective in reducing harmful levels of alcohol consumption. The academic research that the Government uses in support of the tax relates to tax increases across the entire range of alcohol products, and as such cannot be used to predict the impact from a narrow increase.
- Observed patterns of purchasing and consumption behaviour since the RTD tax increase demonstrate that the tax increase has not had the desired effect of reducing harmful alcohol consumption by young people.
- Clear evidence of substitution from RTDs to other forms of alcohol (including full-strength spirits and beer) confirms that an isolated tax increase has not achieved the Government's stated aim.
- Data indicating no reduction in alcohol related hospitalisations since the tax change also confirms that the RTD tax increase has failed to achieve its health objective.
- The RTD tax has the strong potential to cause drinking to become riskier as consumers move to larger containers and unmeasured quantities.

Alternative approaches

- Issues of excessive alcohol consumption and alcohol related harm are complex issues that require a variety of targeted and broad-based solutions.
- In considering measures to address this issue, the Government must take into account the best available evidence and consult with the community on what measures are most likely to be effective.
- The Government already has (or has plans for) a range of initiatives that seek to combat alcohol related harm. The most recent is the Government's National Preventative Health Taskforce (PHT) which is examining ways to reduce disease caused by obesity, tobacco and alcohol. DSICA welcomes the opportunities to continue to work with the Government to implement initiatives which can be shown are likely to be successful.
- DSICA recognises and commends the Government's focus on preventative health, and the creation of the PHT. DSICA looks forward to working with the Government within the PHT context to formulate a national approach to minimise alcohol-related harm in the community. DSICA believes that this will be achieved primarily in the context of developing safer and healthier patterns of drinking.
- A volumetric system of taxation should be applied to all alcohol products. This should be examined as part of the current Henry Taxation Review.

Recommendations:

1. **The Committee should recommend that the Senate validate the RTD tax increase for the period 27 April 2008 to the date of Royal Assent of the Amendment Bills. This will prevent any refund entitlements arising since the RTD tax increase of 27 April.**
2. **The Committee should recommend that an amount equal to the amount of the additional tax collected on alcohol beverages in the period 27 April 2008 to the date of Royal Assent be allocated to a new fund (or to DrinkWise Australia) to implement a range of community-based alcohol harm reduction initiatives.**
3. **That the Committee recommend that a new rate for RTDs be implemented from the day after Royal Assent which would see the RTD rate return to the previous rate applying to RTDs prior to 27 April 2008 (indexed by CPI) – currently \$40.82 per litre of alcohol.**
4. **That the Committee make a clear recommendation that a graduated volumetric tax regime which recognises that alcohol is alcohol should be examined as part of the current Henry Taxation Review.**

1. Introduction

1.1 Purpose of this submission

On 11 February 2009, the Senate referred to the Senate Community Affairs Committee (the Committee) terms of reference for an inquiry into the following two Bills:

- *Excise Tariff Amendment (2009 Measures No. 1) Bill 2009*; and
- *Customs Tariff Amendment (2009 Measures No. 1) Bill 2009* (the Amendment Bills).

The Amendment Bills seek to validate the Government's decision to increase the excise and customs duties on RTDs by 69% to the rate applying to full strength spirits (currently \$69.16 per litre of alcohol), effective from 27 April 2008. The rate applying to RTDs before that date was \$39.36 per litre of alcohol (lal) (the same as the nominal rate applying to full strength packaged beer at that time).

The reference to this Committee reflects community concerns that the decision to increase the tax on RTDs was not based on sound evidence and was not an appropriate policy response to combat alcohol related harm, particularly amongst young people.

DSICA welcomes the opportunity to put this submission to the Committee as it firmly believes that the decision reflected in the Amendment Bills should not be legislated.

1.2 Previous Committee Inquiry, May-June 2008

The Committee conducted an inquiry into RTD alcohol beverages in May-June 2008 (the previous Committee Inquiry). DSICA made a submission (and a supplementary submission) to that inquiry and appeared before the Committee at its public hearings.

Evidence and analysis put forward by DSICA at that previous inquiry supports the conclusions and recommendations in this submission. DSICA would ask that the Committee refer to its submission to the previous Committee Inquiry (the first DSICA submission) as part of its submission to this current inquiry. At appropriate points in this submission, DSICA will refer the Committee to relevant parts of the first DSICA submission for further information/elaboration on particular points.

1.3 Structure of this submission

This submission is structured into four core chapters (in addition to the Executive Summary, introduction and concluding chapters).

The three core chapters (Chapters 2, 3 and 4) deal respectively with three key overarching themes that demonstrate that the RTD tax increase has failed and should not be allowed to continue. These three themes are:

1. The RTD tax increase is unpopular (Chapter 2);
2. The RTD tax increase is economically unworkable (Chapter 3); and
3. The RTD tax increase is a social and health failure (Chapter 4).

In Chapter 5, DSICA puts forward its views on alternative approaches to combat harmful alcohol consumption.

1.4 Terminology used in this submission

Please note that in this submission the term "RTDs" refers specifically to spirits-based RTDs unless otherwise indicated.



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2 The RTD tax increase is unpopular

Theme: The RTD tax increase is unpopular and not supported by the Australian population as a measure to address harmful alcohol consumption amongst young people. This lack of support reflects the community's strongly held belief that the tax increase has not been effective in combating youth binge drinking and that the tax increase was designed as a tax grab and not a genuine attempt to combat a serious social issue.

2.1 Public opinion surveys demonstrate the strength of opposition to the RTD tax

Two professionally conducted surveys have confirmed that the RTD tax increase is overwhelmingly opposed by the public.

DSICA commissioned two surveys by respected Australian research and survey firm Galaxy Research into Australians' opinions on the RTD tax increase. One survey was conducted in July 2008, and the other in January 2009.

Galaxy surveys are carried out in accordance with sound statistical and interview principles. Each survey discussed below comprised a statistically significant sample of over 1,000 respondents aged 18 years and over and was weighted to reflect the latest Australian Bureau of Statistics population data. Complete results are available from DSICA upon request.

July 2008 Galaxy Survey

This first survey was conducted three months after the tax increase to gauge people's initial reactions to the effectiveness of the tax and views on alternative approaches.

The two key findings from this survey were:

- 81% of respondents believed that the RTD tax increase should be scrapped in favour of a wider and more comprehensive strategy to tackle binge drinking amongst young people, with 58% "strongly agreeing" with scrapping of the tax.
- 77% of respondents believed that the RTD tax increase is an ineffective measure to address binge drinking.

January 2009 Galaxy Survey

Conducted nine months after introduction of the RTD tax increase, this survey again requested people's opinions on the effectiveness of the tax in tackling binge drinking amongst young people. It also asked whether respondents thought the tax should be voted down by the Senate in light of the additional revenue the measure is expected to raise.

The key results from this survey were:

- 78% of respondents believe that after nine months of the RTD tax increase, the tax has been ineffective in solving binge drinking among young people; and
- 77% of respondents believe that the Senate should vote down the tax increase, even though it was made clear to respondents how much revenue the tax would generate (approximately \$1.7b).

Conclusions

These two surveys give a clear indication that around four-fifths of the Australian population believe that the RTD tax increase has been ineffective at addressing youth binge drinking and should be scrapped in favour of a more comprehensive approach.

More generally speaking, the triennial National Drug Strategy Household Survey consistently shows that increasing the price of alcohol is the least popular policy for combating excessive alcohol consumption, with a marked decline in support since 1998 (from 26.7 per cent to 17.6 percent in 2007).

There has been a specific question on increasing alcohol taxes to pay for health, education and alcohol treatment only in the last two NDSHS surveys - 2004 and 2007 – which has also seen a decline in the share supporting higher taxes from 38.5 per cent to 35.2 per cent. It should be noted that this level of support for a general increase in alcohol taxation and specifically for those purposes is nearly double the levels of support in the Galaxy polls for the RTD tax.

The most consistent and vocal supporters of the tax have been the public health organisations which will benefit from the promised proportion of the tax revenue being used to fund public health activities.

2.2 Significant editorial opinion against RTD tax increase

Major metropolitan dailies voice editorial concern

Major national and metropolitan newspapers have recently publicised firm editorial views on the failure of the RTD tax increase.

This development reflects that informed opinion leaders in touch with policy development and debate have, over the last 10 months, assessed the views on effectiveness of the tax and concluded that it was ill conceived and is not working.

The Australian, 26 February 2009 – “Pop goes the alco tax”

The main national daily, *The Australian*, has maintained a consistent editorial line against the RTD tax increase as an ill-conceived tax grab which plays to a moral panic over binge drinking.

Following introduction of the Amendment Bills into Parliament, *The Australian* launched the latest in its criticisms of the tax in an editorial on 26 February:

The editorial highlights a range of Government and industry evidence which shows that the tax increase was flawed policy and that the Government’s thinking was “badly askew”.

The Australian, 6 February 2009 – “Policy on the rocks”

In an earlier editorial, *The Australian*, has declared that the RTD tax is a “rort that wouldn’t work”.

In describing the tax increase as a “triple-distilled fib”, the editorial lamented the Government’s initial decision given it was taken at a time when inflation concerns in the economy were paramount, and the tax increase would further fuel price increases.

It went on to label the tax as discriminatory, because RTDs are often consumed by the “politically powerless” (young people and older workers).

Finally, the editorial was critical of how the Government sought to sell the measure as one which would address binge drinking among the young, and that the estimated additional \$680m in revenue it generated each year was just “entirely incidental”.

***The Australian*, 17 May 2008 – “The real motive in Alcopops tax hike”**

Soon after the RTD tax increase *The Australian* provided the following opinion:

“The move to lift the tax on ready-to-drink alcoholic beverages by 70 per cent was the biggest tax grab on the list of revenue measures announced by Wayne Swan on Tuesday. And it is the one that has drawn the most flak from the Opposition parties, who have the potential to hold it up in the Senate.

Was the alcopops tax motivated by concerns about the health of teenage girls or the health of the budget surplus? Circumstantial evidence points towards the latter.”

***The West Australian*, 24 January 2009 – “Time for Roxon to admit that alcopops tax is not working”**

In another major daily editorial, *The West Australian* believes that “the alcopop strategy has been unravelling since it was announced”.

The West Australian has concluded that the Government did not think through the tax increase. As a result, it has been “caught out”. The editorial criticises the Government for a failure to produce any concrete evidence that the tax increase is succeeding in its efforts to combat binge drinking. It contrasts this to a range of evidence that drinkers are just substituting to more potent beverages.

The West Australian concluded that the tax increase “has been revealed as a ham-fisted attempt to cloak a heavy tax in the guise of a health message.”

2.3 On-line community backlash against RTD tax increase

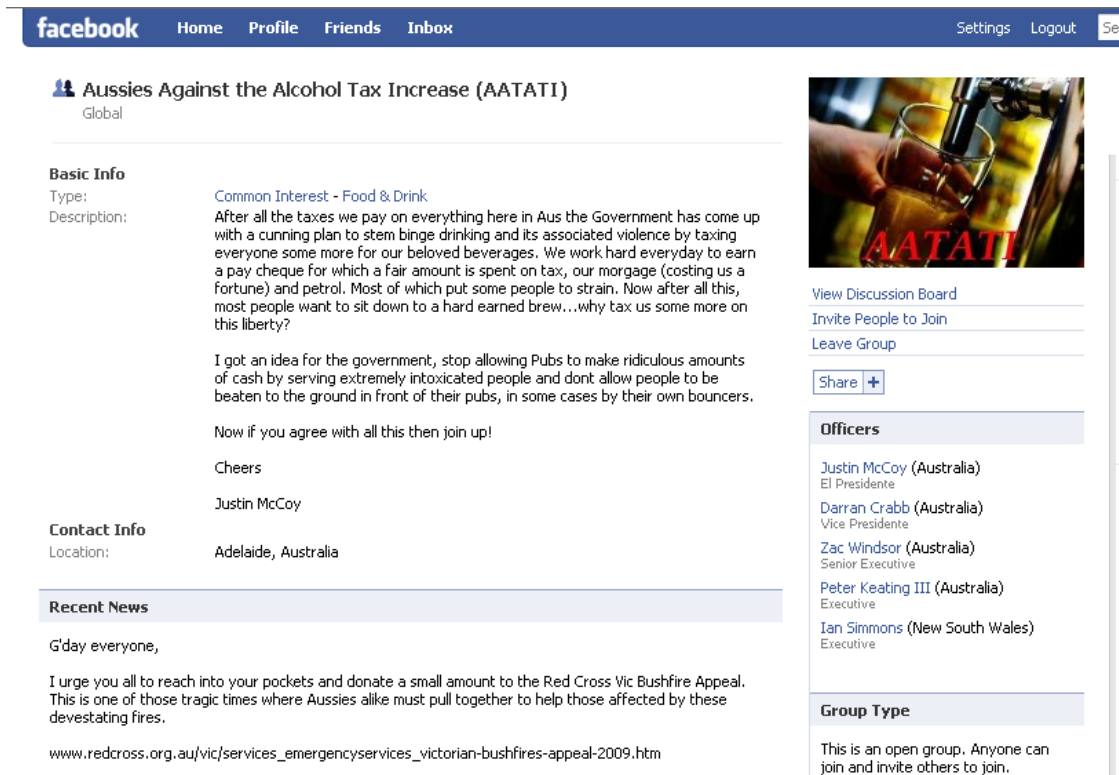
Active Facebook site conveys negative consumer sentiment to the RTD tax

The Australian community is also reflecting its opinion against the RTD tax increase through online media – such as Facebook.

Facebook is a free-access social networking website where users can join networks organised by topic, city, workplace, school, and region to connect and interact with other people. People can also create profiles including photos and lists of personal interests, exchange private or public messages, and join groups of friends.

Aussies Against the Alcohol Tax Increase (AATATI) is a group of individuals vehemently opposed to the tax increase on RTDs. The group formed independently shortly after the RTD tax increase has not been supported or stimulated by the spirits industry. The site’s homepage is shown below in *Graphic 1*.

Graphic 1: Aussies Against the Alcohol Tax Increase



The screenshot shows the Facebook group page for 'Aussies Against the Alcohol Tax Increase (AATATI)'. The page includes a navigation bar with 'facebook', 'Home', 'Profile', 'Friends', 'Inbox', 'Settings', 'Logout', and 'Search'. The group name is 'Aussies Against the Alcohol Tax Increase (AATATI)' with a 'Global' location. Under 'Basic Info', the type is 'Common Interest - Food & Drink' and the description reads: 'After all the taxes we pay on everything here in Aus the Government has come up with a cunning plan to stem binge drinking and its associated violence by taxing everyone some more for our beloved beverages. We work hard everyday to earn a pay cheque for which a fair amount is spent on tax, our mortgage (costing us a fortune) and petrol. Most of which put some people to strain. Now after all this, most people want to sit down to a hard earned brew...why tax us some more on this liberty?'. A post by Justin McCoy says: 'I got an idea for the government, stop allowing Pubs to make ridiculous amounts of cash by serving extremely intoxicated people and dont allow people to be beaten to the ground in front of their pubs, in some cases by their own bouncers. Now if you agree with all this then join up! Cheers Justin McCoy'. The contact info lists Justin McCoy in Adelaide, Australia. The 'Recent News' section features a post about a Red Cross Vic Bushfire Appeal. On the right, there is a photo of a hand holding a glass of beer with 'AATATI' written on it, and a list of officers including Justin McCoy (President), Darran Crabb (Vice President), Zac Windsor (Senior Executive), Peter Keating III (Executive), and Ian Simmons (Executive). The group type is listed as 'This is an open group. Anyone can join and invite others to join.'

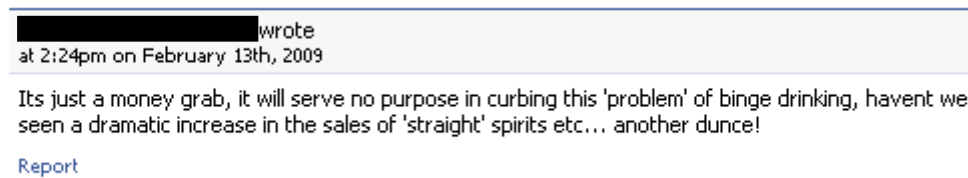
At the time of writing, the group boasts over 70,000 members.

Members can post topics on the discussion board. At the time of writing, there were 75 discussion topics.

Members can also post notices on the groups' wall. There are some 2,548 posts at the current time.

Many posts contain valid points voiced by the youth of the nation in relation to the flaw of the policy. For example:

Graphic 2: Aussies Against the Alcohol Tax Increase – Comment 1



The screenshot shows a Facebook comment from a user whose name is redacted. The comment was posted at 2:24pm on February 13th, 2009. The text of the comment reads: 'Its just a money grab, it will serve no purpose in curbing this 'problem' of binge drinking, havent we seen a dramatic increase in the sales of 'straight' spirits etc... another dunce!'. Below the comment is a 'Report' link.

Others comments highlight perverse reactions which will increase the exposure to harm:

Graphic 3: Aussies Against the Alcohol Tax Increase – Comment 2

██████████ (Australia) wrote
at 5:40pm on February 3rd, 2009

haha watta a joke i just buy a bag of goon for \$10 gives me 30 standerd drinks get way more smashed and its no secret why ecstasy use has gone up 55% in the past year drinks r 2 expensive haha

Report

The bottom line is that the young drinkers see through the flawed attempt to curb binge drinking, and are reacting by substituting to cheaper and higher strength alcohol alternatives or drugs.

2.4 Letters to editors and talkback

Since the tax increase, Australians have written letters to newspapers and called talkback radio to express their deep skepticism of the motivation for the tax increase and its desired impact on underage binge drinking. DSCIA estimates that levels of support or opposition for the tax expressed through these means mirrors that in the two Galaxy polls discussed above.

2.5 Tax increase is seen as a revenue grab

The failure of the RTD tax increase has been clear from its inception. Given that the policy shortfalls of the policy were so apparent, despite deficient modelling by Treasury, it is fair to ask what was the Government's rationale in introducing the tax.

There is no doubt that the opportunity to add \$3.1b to Government revenue would have been most welcome. With many parents holding the widespread belief that Australia was in the midst of an underage binge drinking epidemic, the 'low hanging fruit' of RTD taxation would have seemed an easy target if the product, amounting to only around 10% of total alcohol consumption, could be somehow associated with levels of harmful drinking amongst young people, particularly young females.

However, Treasury officials have acknowledged to a Senate Estimates Committee that no information was received from with the Department for Health and Ageing regarding the patterns of alcohol consumption prior to the announcement of the measure.

So despite strong evidence to the contrary about the impact of RTDs on underage binge drinking, the Government proceeded with the tax increase.

Lots of statements – but no evidence to back up harmful consumption of RTDs

Outwardly the Government has sought to instil fear in the community, particularly amongst parents, regarding the extent of binge drinking.

The Government has often repeated statistics demonstrating the growth of RTDs. RTDs have experienced substantial growth over the past decade, not only as a result of changes to taxation made under the tax reform in 1999/2000, but also changing consumption trends,

similar to the acceptance of wine by the Australian population earlier in the century. There have also been deeper social and economic changes over the past 10 years that manifest themselves in these changed consumption patterns.

However, no matter how often the Government has referred to the increase in RTD consumption, not once has a conclusive link to alcohol-related harm been demonstrated through research or statistics.

On Sunday 27 April 2008, the day the tax took effect, the Minister for Health and Ageing stated on the *Sunday* program that the *2007 National Drug Strategy Household Survey: First Results*, released by the Government on the same day, demonstrated that “there are thousands and thousands of girls, 15 and under, who are drinking [RTDs] to amounts and levels that have never been seen before.”

Upon closer examination, the *NDSHS: First Results* only contained information regarding broad consumption statistics and did not include any data or commentary on RTD consumption by any age group or gender. In fact, a follow up report on the NDSHS, the *2007 National Drug Strategy Household Survey: Detailed Findings* (AIHW 2008c, p 34)), has shown that beer and spirits/liqueurs are the preferred beverage for young males and females respectively who are drinking at risky/high risk levels in the long term.

Given that the results of the most comprehensive and trusted national survey did not contain any reasonable catalyst that would require an immediate change to the structure of alcohol taxation, it is not unreasonable to believe that other circumstances lead to the imposition of the tax prior to Budget night.

2.6 Youth group damns RTD tax as ineffective

Haywire rural youth group voices strong criticism on RTD tax

A recent youth group gathering in Canberra has added its voice to the widespread criticism of the RTD tax increase.

Haywire is a competition run by the ABC to give young people in rural and regional Australia the chance to be heard. Competition winners are brought together to discuss issues of interest to young regional people.

At a recent gathering of the *Haywire* winners in Canberra, some of the participants were interviewed regarding their view on the effectiveness of the RTD tax increase. The interview was aired on ABC Local Radio in Canberra on 12 February 2009.

Some representative *Haywire* opinion

The *Haywire* participants resoundingly voiced their opinion that the RTD tax increase would not be effective at reducing binge drinking.

Some of the quotes from participants included:

“It [the tax increase] pushes them to drink boxed wine and straight spirits, which can potentially be more dangerous.” (Neve from Launceston).

“So, if - if they got rid of the tax and just went back to straight Cruisers, they know how much they’re drinking and what they’re drinking.” (Vox Pop).

Alternative measures

When asked what the participants thought would be more effective measures, suggestions included:

- Inform people about the dangers of drinking.
- Visit schools to educate young people.
- More confronting advertisements on TV, Facebook and MySpace – types of media that young people are watching and listening to.
- Develop safe environments for people to drink.

2.7 Reasons why the RTD tax increase is unpopular

The RTD tax increase is unpopular and not supported by the Australian population as a measure to address harmful alcohol consumption amongst young people. This lack of support reflects the community's strongly held belief that the tax increase is economically unworkable and a social and health failure. These two themes are explored in the following two chapters.



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3 The RTD tax increase is economically unworkable

Theme: The RTD tax increase has been an economic failure and has been shown to have serious flaws that make it unworkable. Beverage substitution, product elasticities and shifts in manufacture to other alcohol based beverages undermine the revenue raising capacity of the RTD tax. In addition, the tax change is inconsistent with the economically sound and well supported principle of a graduated volumetric tax for all alcohol beverages.

3.1 Consumers have substituted to other alcohol beverages

Government revenue projections acknowledge substantial substitution from RTDs into other beverages

Recent revenue projections by the Government in relation to the RTD tax increase change demonstrate what many industry representatives and the general public have been observing since the tax change – that consumers are changing what they drink, switching from RTDs to other, potentially more harmful, forms of alcohol.

Based on the best currently available evidence, including alcohol clearance data referred to in the second reading speech for the two amendment bills, DSICA believes that only a small part of the \$1.6b in additional revenue the Government is currently predicting will be collected in the four years to 2011-12 is attributable to increased collections from RTDs.

In reality, as consumers substitute to other beverages, the vast majority of the revenue now attributed to the RTD tax change will result from additional tax collections on other alcohol beverages that have unaltered taxes (i.e. full-strength spirits, beer and wine).

The Government has acknowledged that the decline in RTD volumes has been partially off-set by a significant increase in sales of full-strength spirits.

On 4 February 2009 Senator Ludwig, responding to a question from Senator Fielding, stated that **full-strength spirits sales** had increased by 19% from May to September 2008 compared to the same period in 2007.

Beer volumes have also risen as a result of the RTD tax increase, with the consistent long-term decline in beer volumes reversed and volume growth (approximately 2.5-3%, or around 1.8m to 2.2m lals - annualized) returning to beer market (based on figures for the half-year and quarter to December 2008)(Fosters 2009 and Lion Nathan 2009). This volume growth must be put into perspective: beer accounted for 45% of alcohol consumed in Australia, whereas distilled spirits accounted for 20%.

If the tax increase is to deter consumption by any individual, three conditions must be met. The individual consumer must be a heavy consumer of RTDs in order to have sufficient impact on their economic resources, the consumer must be restricted in their financial resources so that the tax increase has significant impact, and the consumer must refuse to drink any other type of alcoholic product.

While the first two conditions might be met by young consumers, the last condition is clearly very rare.

Beer market growth

A further consequence of the RTD tax increase has been the shift in preference to beer.

This is demonstrated in at least two ways, despite Treasury's initial prediction that there would be no substitution to beer (and that possibly RTDs and beer were complements, under which a reduction in volumes of one would lead to a reduction in volumes of the other).

Firstly, growth in revenue from beer since the RTD tax increase has been demonstrated in at least two official Government publications, namely the Final Budget Outcome 2007-08 and MYEFO 2009-10.

Secondly, market commentary since the tax increase also provides clear evidence of a growth in beer volumes, as demonstrated by results reported by Australia's two major brewers in recent months.

Macquarie Research Equities estimates, based on AC Nielsen figures, that beer volumes have grown by 1.1% for the quarter to November 2008 compared to the same quarter in 2007.

Financial results released by Fosters Group and Lion Nathan for the half-year and last quarter of 2008 respectively show 3.1% and 2.5% growth in beer volumes (Fosters 2009 and Lion Nathan 2009).

It is clear that beer has been a beneficiary of RTD consumers switching their preferences away from RTDs.

3.2 Development and increased marketing of alternatives to RTDs

Old loophole re-opened

Increasing the rate of taxation of RTDs from that of similar strength products (e.g. full strength packaged beer) to products that are of an average of eight times the alcohol by volume (full strength spirits) has already led to changes in the beer and wine markets. It fails to recognise the reality that products no longer belong simply to a single discreet category but are increasingly a complex continuum which reflects the demands of consumers in the current market. Instead, the government has been forced to make an illogical and non-transparent tax regime ever more complex as a result of its unwillingness to address the fundamental flaws in its current alcohol tax policy. The vast majority of beer and wine products now attract an even greater relative tax advantage since the tax change.

In addition, there are also existing products in the market that closely resemble RTDs, but have a wine alcohol based and are therefore not subject to the higher RTD tax. These products are commonly referred to as 'grape wine products'.

The future development and growth in RTD alternatives is predicted by international experience from other countries that have imposed higher taxes on RTDs in isolation.

In the past, Treasury have recognised the problems a lack of tax neutrality would have on the manufacture of pre-mixed drinks:

"The vastly different rates of excise duties on alcohol beverages create competitive disadvantages. This means that spirits based drinks are at a competitive disadvantage compared to wine based pre-mixed drinks." (Treasurer 1998, p. 73)

For this very reason, in 2000 the then Government – based on sound tax principles – reduced the excise and customs duty rates on RTDs from the same rate as full-strength bottled spirits to a similar rate to full-strength packaged beer. When reversed in April 2008, the same market distortion cautioned by Treasury in 1998 was re-introduced into the alcohol market.

Government forced to table amendments to the Amendment Bills

The introduction of malternatives into the market and the continuing presence of grape wine products has forced the Government to hastily develop and table a series of amendments to the Amendment Bills to help mitigate against the loophole it has re-opened. These amendments were passed in the House of Representatives on 25 February 2009.

DSICA has not had the opportunity to comprehensively assess the effect and implication of the amendments, but it would make the following preliminary comments:

- It is clear from the late tabling of the amendments that the Government did not think through the implications of the initial decision and its unintended consequences.
- The government failed to acknowledge Australian and International experiences where both consumers and manufactures have naturally focused on products with a lower tax burden.
- The fact that the amendments will still permit the taxation of flavoured beers at the lower tax rate, despite being of the same alcoholic strength as spirit-based RTDs, perpetuates an anomalous tax regime.
- The new definition of beers is more complex than the existing one and involves precise measurements of bitters and sugars. It is likely that this will impose higher compliance costs on industry.
- The Government has not yet tabled amendments to the *A New Tax System (Wine Equalisation Tax) Regulations 2000* to implement like changes proposed by the amendments to domestically produced grape wine products. This is a further indication that the Government is rushing these amendments as it has been forced to respond to market developments which it should have considered as part of its original decision.
- The amendments will not prevent the ongoing marketing of piccolo bottles of wine and sparkling wine that compete in the same market as RTDs. These products are priced much lower than RTDs and can have more than twice the typical alcohol content of an RTD.

In the short time since the amendments were passed, participants in the industry have voiced their criticism and concern about the possible impact of the measures. Comments made by long terms participants in the industry like Angoves Family Winemakers have indicated that the amendments could also extend to traditional products like Stones Premium Alcoholic Ginger Beer which have been in the market place for many years. Mr Angove has stated that “not in a thousand years is ginger beer an RTD” (*The Australian*, 27 February 2009).

Retailers have also reacted strongly saying that they may have to reassess and re-price some traditional products that would not meet the minimum standards of bitterness. They have criticised the changes on the basis that they remove any margin for error in specialty offerings. This point links closely with the increased compliance costs mentioned above.

This hasty and reactive approach to market developments is further proof that the RTD tax increase is poor policy and should be reversed prospectively.

Cider developments

In addition, cider products (taxed under the WET), similar in abv to RTDs (around 5%) are being marketed at RTD drinkers in terms of their marketing and taste profiles. Cider manufacturers have openly declared that they are increasing cider promotions and the range of products to take advantage of the market opportunity created by the RTD tax increase. The tax advantage that cider has over spirit based RTDs will continue to aid the current growth occurring in the cider market.

Since the RTD tax increase, in the 6 month period to 31 December 2008, Fosters Group has reported a strong increase in cider sales of 16.5%. It appears that cider, along with beer and full-strength spirits, has also been a beneficiary of the RTD tax increase with consumers switching to this product.

3.3 Flaws in original Treasury revenue estimate

No substitution assumed by Treasury in original modelling

The Government can only justify that its tax decision will result in better health outcomes and a reduction in risky/high risk drinking behaviour if there is a reduction in risky drinking by RTD consumers and that those same consumers do not move to other products.

This assumption is borne out in the Government's budget documents and Treasury modelling tabled in the Parliament on 15 May 2008. It is clear from these documents that the stated health policy rationale for the government's decision was based on:

- an absolute reduction in consumption of RTDs; and
- no change in consumption of close substitutes.

This is clear from the following:

- Treasury modelling tabled in the Parliament explicitly states that Treasury has assumed zero substitution into other alcohol products as a result of the tax change and a very low elasticity of demand for RTDs of -0.4 per cent; and
- the Government's 2008 Budget Papers show that revenue from full strength spirits, beer and wine are growing modestly or falling in real terms across the budget forward estimates.

It is clear from the Government's own documents that any reduction in risky/high risk alcohol consumption and any improvement in health outcomes is based entirely on the Treasury assumption that there is no substitution into other alcohol products and an absolute reduction in the consumption of RTDs.

Revised revenue estimates demonstrate flawed thinking

The absurd nature of this assumption is demonstrated by actual clearance data referred to by the Government since the tax change, and revised estimates of additional revenues under the measure provided in MYEFO 2009-10 and the explanatory memorandum to the Amendment Bills. From these sources it is clear that:

- the Government has acknowledged that actual clearance data demonstrate that for the period May 2008 to January 2009 compared to May 2007 to January 2008, RTD volume has declined by -35% while, over the same period sales of full-strength spirits have risen by +15% to +20%; and

- this data is supported by previous studies on the elasticities of demand for spirits and RTDs which show a high degree of sales responsiveness per 1% rise in price – up to -2.6 per cent for RTDs, compared to a Treasury estimate of -0.4 per cent (CIE 2008).

The assumption underlying the health and social benefits of the Government's decision are therefore invalid because industry data indicates substantial substitution into other products – notably higher full strength spirits and beer– in contradiction to the Treasury modelling.

3.4 Embarrassing revisions to revenue

Repeated revisions to revenue forecasts demonstrate that the Government has failed to conduct due diligence into the social and economic impacts of the tax change.

When the tax was first announced on the morning of 27 April 2008, the Minister for Health and Ageing said the tax increase would deliver about \$2b over four years.

When announced by the Treasurer in the Budget speech on 13 May 2008, the additional revenue attributed to the tax change had increased by over 50% to \$3.1b. The flawed Treasury modelling produced the next day (discussed above) supported this figure.

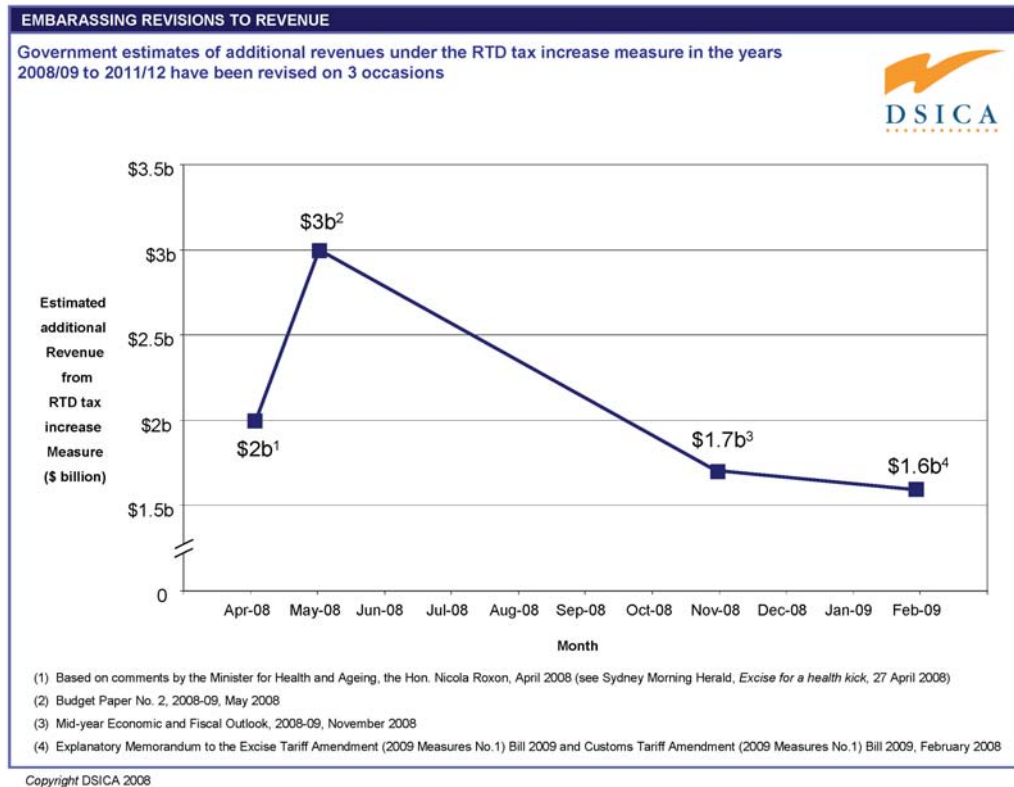
However, the *2007-08 Final Budget Outcome* demonstrated the significant deterioration in RTD volumes (at much larger levels than predicted by Treasury) and substitution to other alcohol beverages.

Following this, the Government was forced in MYEFO 2009-10, to revise downward the revenue impact of the tax increase by \$1.4b, or 45%, to \$1.7b over the four years to 2011-12 (CIE 2008).

Most recently, in figures published in the explanatory memorandum accompanying the Amendment Bills, the Government has revised the estimated revenue down another \$100m over four years.

Graphic 4 illustrates the embarrassing revisions to revenue made since the tax took effect on April 2008.

Graphic 4: Embarrassing revision to revenue



3.5 Inconsistency with previous progress towards a graduated volumetric tax for all alcohol products

The RTD tax increase is not consistent with a volumetric model for alcohol taxation which is widely regarded and supported by economists and health lobby groups.

DSICA believes that there is a very strong case for the application of volumetric excise taxation for all alcohol products. There is also widespread support amongst Australian health and medical groups for this proposal.

The nature of volumetric taxation supports the common sense reality that alcohol is alcohol.

The RTD tax increase is inconsistent with the sound policy reasoning for the 2000 decision to apply the same nominal tax rate to both RTDs and full-strength beer, given their similarity in alcohol content. This decision was one step towards the uniform taxation of these substitute products, although a number of inequalities in the treatment of the two products remained.

Cabinet Minister supports the uniform taxation of RTDs and beer

In 2004, a current cabinet minister, the Hon. Martin Ferguson (then a shadow minister), said in a statement supporting the principle of uniform taxation of RTDs and beer:

“RTDs currently attract an excise at the same rate as full-strength beer, which appropriately reflects alcohol content, and taxing RTDs at a higher rate would be unfair.” (DSICA emphasis added)

This statement was made in response to a suspicion that the Labor Party, then in opposition, were planning to announce a policy to increase the tax on RTDs. From the above statement, it is clear that the Government re-assessed its position and decided to impose an “unfair” tax on RTDs.

Volumetric taxation of all alcohol supported by health advocacy groups

The volumetric taxation of all alcohol is strongly supported by health advocacy groups.

There is common acknowledgment among peak health bodies on the use of alcohol taxation as an effective tool to influence consumption levels. They recognise that the taxation of alcohol based on alcohol content will deliver pricing impacts that will promote the consumption of lower abv alcohol beverages, potentially reducing alcohol related harm in our communities.

The various health groups that support a volumetric tax on all alcohol include:

- Alcohol and Other Drugs Council of Australia (ADCA)
- Australian Education and Rehabilitation Foundation (AERF)
- Australian Drugs Foundation (ADF)
- Australian General Practice Network (AGPN)
- Australian Medical Association (AMA)
- Australian National Council on Drugs
- National Drug Research Institute
- Odyssey House Victoria
- Royal Australasian College of Physicians (RCAP) & Royal Australian and New Zealand College of Psychiatrists (RANZCP)
- The Cancer Council Victoria
- The National Alliance Against Alcohol Related Violence
- Turning Point Alcohol and Drug Centre
- VicHealth

DSICA has put forward a sound base and strong evidence in support of a graduated volumetric tax for all alcohol products in its Submission to the Australia’s Future Tax System Review Panel.

3.6 Treasury Tax Expenditure Statement

A key Treasury publication, the Tax Expenditure Statement (TES) 2008, highlights the dramatic distortionary impact of the tax increase, and re-inforces the long-standing Treasury view that a benchmark excise rate should apply to lower alcohol content beverages (beverages with less than 10% abv) such as beer and RTDs.

In order to assess a ‘tax expenditure’ (which is the purpose of the TES) the Treasury must identify a reference point or ‘tax benchmark’ to compare the prevailing tax treatment of certain activities or goods. A benchmark comprises the regular taxation arrangement that applies to similar taxpayers or types of activity (Treasury 2009).

The tax expenditure F16, *No excise-free threshold for excisable alcoholic beverages (other than beer) not exceeding 10 per cent alcohol*, measures the negative tax expenditure that arises due to

the fact that non-beer beverages (mainly RTDs) are taxed at a higher nominal rate and do not receive the 1.15% abv tax-free threshold applied to the benchmark – full-strength beer.

Graphic 5 below demonstrates the tax expenditure impacts of the significant divergence from the benchmark rate, with the dramatic increases in the negative expenditure from 2008-09 demonstrating the consequence of the RTD tax increase.

Graphic 5: Extract from Tax Expenditure Statement

F16 No excise-free threshold for excisable alcoholic beverages (other than beer) not exceeding 10 per cent alcohol

Agriculture, forestry and fishing (\$m)							
2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
-120	-130	-150	-170	-540	-600	-690	-790
Tax expenditure type:		Increased rate			2007 TES code:		F16
Estimate Reliability:		Medium			* Category		3-
Commencement date:		2000			Expiry date:		
Legislative reference:		Item 1 of Schedule to the Excise Tariff Act 1921					

The Australian National Audit Office (ANAO) recommends the adoption of a uniform benchmark for alcohol

The 2008 TES describes the (un-implemented) recommendation of an ANAO Audit Report of the TES, that states:

'The adoption of a uniform benchmark for alcohol (beer, spirits and wine) would be consistent with the principle that a tax benchmark should represent a consistent treatment of similar activities or classes of taxpayers. It would also provide useful information by better reflecting the preferential taxation treatment (such as lower tax rates for low alcohol products) of some categories of alcoholic beverages compared to others.'

This statement clearly suggests that both Treasury and the ANAO have recognised the distortionary impact of changes to a single isolated product category.

3.7 Precedent for resolution of failed policy

DSICA's key recommendation to the Committee is that the rate of duty on RTDs be prospectively returned to the rate that applied pre 27 April 2008 (allowing for indexation by CPI).

In relation to revenues already collected, DSICA notes the resolution to a similar situation in 2001 whereby a tariff proposal impacting the rate of duty on beer was being resisted by the Senate. The collection should be validated retrospectively. This will prevent any refund entitlement occurring.

2001 circumstances

In 1998, the Government outlined a number of changes to the existing treatment of alcoholic beverages as part of its NTS reform proposals.

Alterations to the Excise Tariff Act 1921 and Customs Tariff Act 1995 were proposed by Excise Tariff Proposal No. 2 (2000), and Customs Tariff Proposal No. 2 (2000), and tabled in Parliament on 21 June 2000.

With regard to the taxation arrangements of beer, the proposal applied new rates of duty to account for the tax changes caused by the introduction of the GST. of alcohol.

The new rates took effect on and from 1 July 2000.

On 8 March 2001, the Government introduced into Parliament the *Excise Tariff Amendment Bill (No. 1) 2001* to validate the changes.

It became clear that the Senate would not pass the bill as it stood due to the fact that the proposed increase in excise and customs duty rates would increase prices of draught beer by more than the 1.9% previously committed to by the Government.

After some negotiation, an agreement was reached between the Government and the Australian Democrats whereby:

1. the Bill would be passed to validate the excise and customs rates advised by the proposal through until 3 April 2001;
2. the bill would be amended prospectively so that rates of excise and customs duty in respect of draught beer were reduced as from 4 April 2001 to be in line with the original Government commitment;
3. it was agreed that an amount equivalent to the additional revenues collected during the period 1 July 2000 to 3 April 2001, being the difference between the excise collections on draught beer during that period (at least \$115m), were appropriated and allocated to the Alcohol Education and Rehabilitation Foundation (AERF). A new Act, the *Alcohol Education and Rehabilitation Account Act 2001*, provided for the allocation of the monies to the AERF, a non-statutory body.

Application to current situation

This resolution in 2001 provides a precedent to resolve the failure of the current policy.

This would involve the same three step process as occurred in 2001, namely:

1. The Amendment Bills be amended to validate the tax increase from 27 April 2008 to date of Royal Assent of the Bill. This will prevent any refund entitlements arising since the RTD tax increase of 27 April.
2. The additional revenues collected from alcohol products for the period 27 April 2008 to date of Royal Assent of the Amendment Bills could be allocated to a new body (or DrinkWise Australia) to design and implement alcohol harm reduction initiatives.
3. The Amendment Bills be amended to implement a new duty rate as from the date of Royal Assent, being the previous RTD rate (indexed for CPI). This would be the same nominal rate as applying to full strength packaged beer (ie. \$40.82 per 1al).



DSICA



4 The RTD tax increase is a social and health failure

Theme: The RTD tax increase has failed to address harmful alcohol consumption amongst young people. Patterns of behaviour since the RTD tax change, together with existing domestic and international evidence showing that RTD sales are not linked to risky alcohol consumption demonstrate the fact that a tax increase on a single product will not result in the health and social outcomes the Government and the community want.

4.1 RTDs are not preferred beverage of young risky drinkers

Key finding of 2007 National Drug Strategy Household Survey

The Australian Government's latest and most comprehensive survey of Australia's alcohol and drug consumption patterns, the National Drug Strategy Household Survey (NDSHS) 2007 confirms that RTDs are **not** the beverage preferred by young (14-19 year old) risky and high risk drinkers. The NDSHS Detailed Findings note that full strength beer is the preferred beverage for all male age groupings, while bottled spirits/liqueurs are preferred by 14-29 year olds and wine being the preferred beverage of risky and high risk females 30 years + (AIHW 2008c, p 34).

Accordingly, the most reliable Australian survey evidence suggests that RTDs are not the cause of risky and high risk drinking, including amongst young people. In fact, RTDs are not the beverage of choice for any age/gender grouping drinking at risky or high risk levels in the long term.

For 14-19 year olds, the results noted above have remain unchanged (full strength beer for males and bottled spirits/liqueurs for females) for the last three surveys since 2001.

NDSHS is Australia's leading alcohol and drug survey

The NDSHS is conducted every three years by the Australian Institute of Health and Welfare (AIHW). It is widely regarded as the leading Australian survey on drug and alcohol consumption patterns.

In terms of major national surveys regarding patterns of alcohol consumption, Professor McAllister of the Research School of Social Sciences at the Australian National University identified the AIHW's NDSHS as the most robust and reliable national survey of alcohol consumption patterns in Australia.

4.2 Minister confirms lack of evidence to support claims of effectiveness

Parliamentary debates – 25 February 2009

In Parliamentary debates on the Amendment Bills on 25 February, the Minister for Health and Ageing admitted that the Government is unable to confirm that the RTD tax measure has been effective at reducing risky consumption by the demographic (young people) that the measure was aimed at:

"What is very difficult to be able to tell – and I agree with this – is who is consuming less". (Hansard, 25 February 2009, p 86).

By this statement, the Minister has confirmed that the Government has made no real endeavour to assess whether the measure has been effective. This is something that the Government should have known prior to introduction of the measure and again points to how poorly thought through it was.

Given that the Minister has now admitted this fatal flaw, it surely must follow that the Government prospectively abandons the RTD tax increase in favour of other measures which are sound, evidence based and capable to objective assessment as to whether they are effective or not.

Senate Question from Senator Cormann, 4 February 2009

In an answer to a question asked in the Senate by Senator Cormann on 4 February 2009, the Government has confirmed:

"The Australian Government has not collected any additional national consumption data on the reduction of risky or high risk drinking and/or at risk behaviour since the introduction of the RTD excise increase in April 2008."

This provides a further demonstration that the Government can show no conclusive evidence since the tax increase that could prove that the RTD measure is effective in reducing harmful alcohol consumption.

4.3 Key Government research organisation confirms no link between sales of RTDs and patterns of risky drinking

AIHW evidence to Senate Committee confirms no link between RTDs and patterns of risky drinking

The AIHW made a comprehensive submission to the Committee's previous inquiry into RTD alcohol beverages in May-June 2008 (AIHW 2008c). That submission made a series of unambiguous statements that there is no evidence that RTDs are a direct cause of increasing patterns of risky alcohol consumption.

Key conclusion by AIHW

Analysis outlined in the AIHW submission (based on assessment of the three most recent NDSHS) led the AIHW to conclude that 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 any increase in risky (and high risk) alcohol consumption (AIHW 2008b, p1).

This contemporary submission by Australia's leading health and welfare statistics agency, based on the best available national survey, is further evidence supporting DSICA's claim that the most reliable evidence shows that trends in alcohol consumption patterns amongst young people were showing positive changes, prior to the RTD tax increase. This is contrary to a great deal of commentary in the media and by some anti-alcohol lobby groups.

Other observations by AIHW

DSICA has reviewed the AIHW's submission and in particular its analysis and comments in relation to alcohol consumption trends amongst young people.

In broad terms, the conclusions of the AIHW submission are in line with DSICA's observations – that there has been no change in harmful alcohol consumption patterns amongst young people between 2001 and 2007.

Key conclusions from the AIHW submission in relation to young people are as follows:

- there has been virtually no change in the patterns of risky drinking over the period 2001-2007 across all age and sex groups, including among young Australians (AIHW 2008b, p 1);
- for some age groups, notably girls aged 16-17 years, there appears to have been a decrease in the proportions drinking at risky or high risk levels in the short term over the period 2001-2007 (AIHW 2008b, p 8);
- analysis shows that in all age groups analysed from 12 to 19, there has been no increase in the proportions of young people drinking at risky or high risk levels in the short term over the period 2001-2007. Proportions have either decreased or remained static during the period (AIHW 2008b, Table 6, p 8);
- during 2001 to 2007, the dominant alcohol beverages for young males (18-29) is regular strength beer followed by RTDs;
- there is no clear trend in preference for RTDs among young males (under 18) in the period 2001 to 2007 (AIHW 2008b, p4);
- for young females, there is roughly an equal preference for RTDs and bottled spirits as their alcohol beverage of choice; and
- there is no clear trend in preference for RTDs among young women (under 18) in the period 2001 to 2007 (AIHW 2008b, p5).

4.4 No decline in alcohol related hospital use by young people

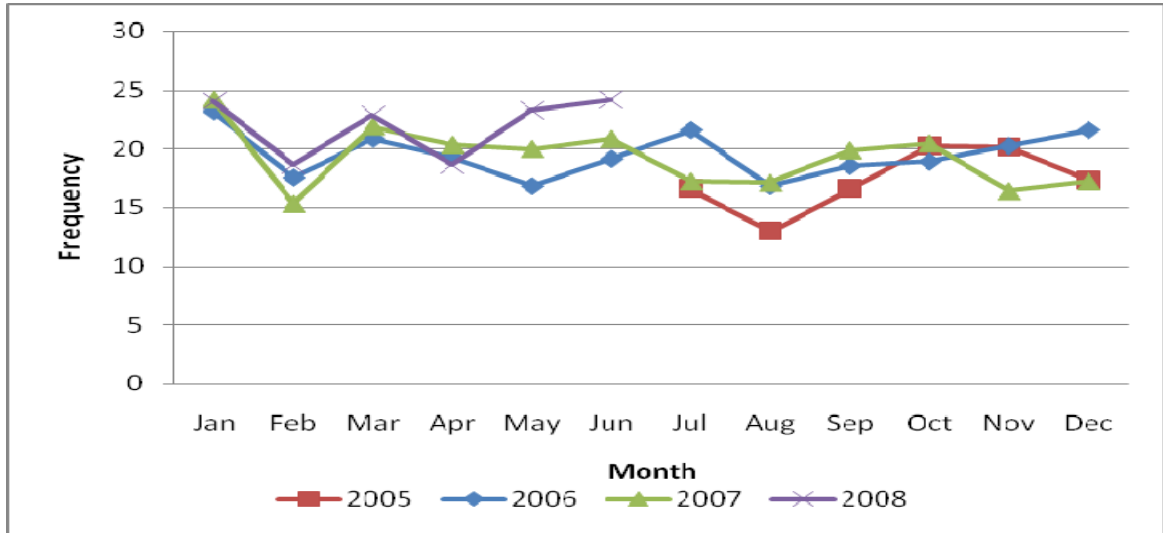
Independent research confirms no decline in alcohol related hospital use by young people

Research by the health economics unit of Access Economics has shown that hospital admissions and emergency department (ED) presentations combined (for those Australian states for which data was available) for people aged between 12 and 24 for alcohol related diagnoses were higher in May and June 2008 when compared to previous years going back to 2005.

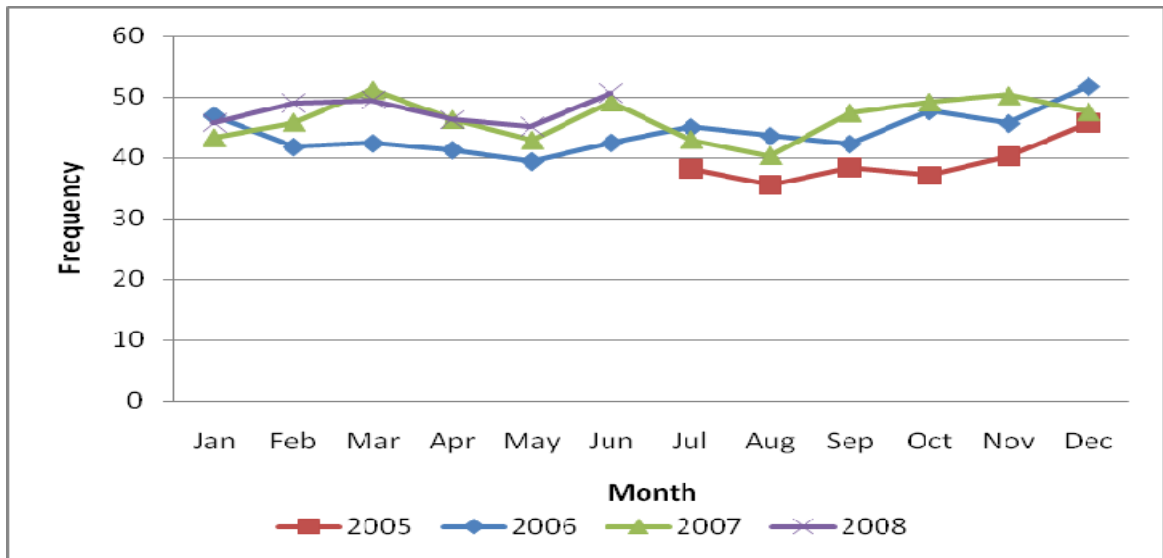
For females, the rates were not only substantially higher but also higher than in earlier months of 2008.

The graphics below for age and gender breakdown demonstrate these results (Access Economics 2009, p 16-17).

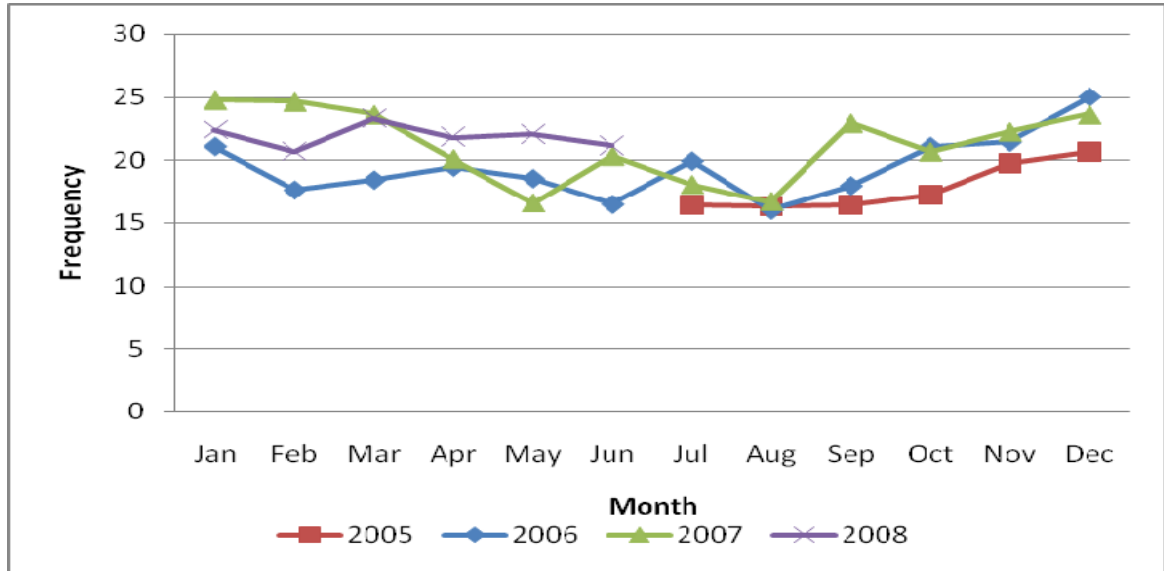
Graphic 6: Combined hospital episodes (per 100,000), females aged 12-17



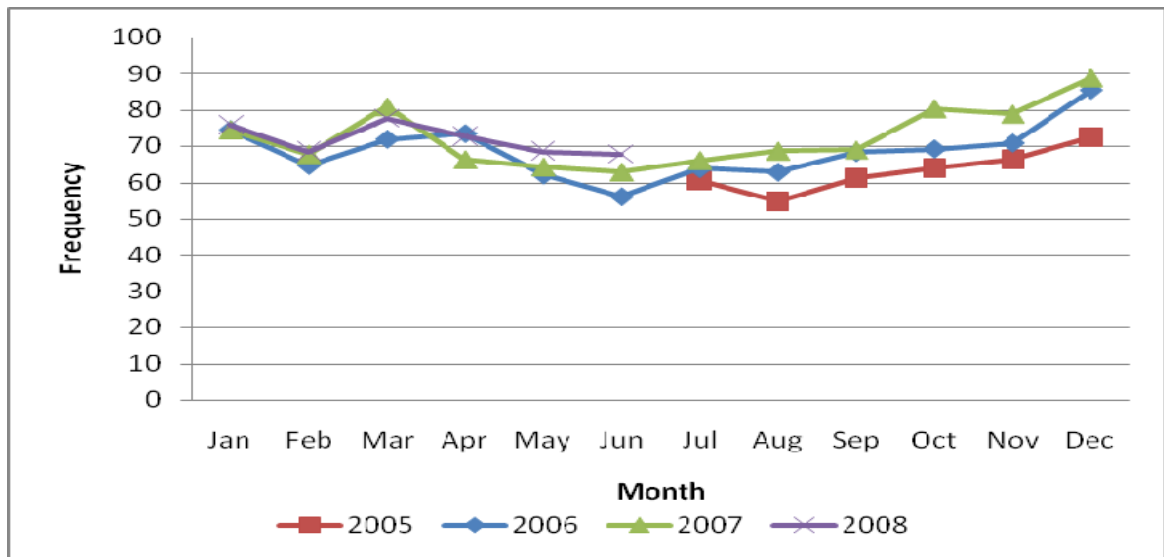
Graphic 7: Combined hospital episodes (per 100,000), females aged 18-24



Graphic 8: Combined hospital episodes (per 100,000), males aged 12-17



Graphic 9: Combined hospital episodes (per 100,000), males aged 18-24



These results indicate that the RTD tax change (effective from 27 April 2008) has been ineffective in stemming the rate of risky alcohol consumption by young people. To quote directly from the Access Economics report (Access Economics 2009, p iv):

“The monthly hospital data collected for this analysis, despite the relatively short time since the introduction of the RTD tax increase, do not support claims that the RTD tax policy has reduced risky drinking by young people.”

Other key findings

Other key findings from the Access Economics report include:

- **Hospital admissions:** For the six states for which data was available, the data shows that for males and females aged 12-24, hospital admissions for alcohol related diagnoses for May and June 2008 were higher than the same month in previous years dating back to 2005.
- **ED presentations:** For the five states for which reliable data was available, the data shows that for males and females aged 12-24, ED presentations for alcohol related diagnoses were higher in May to August 2008 than for the same months in previous years dating back to 2005.

In relation to other policy options in the area, Access Economics made the following observation (Access Economics 2009, p v):

"If the aim is to reduce risky drinking by young people, there is likely to be a package of alternatives including education and other policies that would have a more broad based and direct impact on the drinking behaviours and consequent health of young Australians, and which may be much less costly than the efficiency losses on society from the RTD tax."

Background to the Access Economics report

Access Economics analysed cleaned data available on trends in hospital use – admissions to both public and private hospitals as well as visits to emergency departments (EDs) – by young people for alcohol related diagnoses. Data was sourced from relevant State health departments.

The aim was to assess whether the increase in the tax rate on RTDs from 27 April 2008 had any impact on hospitalisations from high risk drinking by young people, since the purported aim of the policy was to reduce such drinking.

The following extract from the Access Economics report highlights why the analysis conducted in its report can aid in measuring the effectiveness of the RTD tax measure. More importantly, it highlights why analysis of taxation and sales data is ineffective for the purpose (Access Economics 2009, p iii, our emphasis).

"Such an analysis is necessary because it is not possible to draw conclusions from changes in taxation revenue or sales of RTDs about whether the RTD tax increase has been successful in reducing risky drinking among young people. This is because an increase in the price of one type of alcoholic beverage may lead consumers to switch consumption to other types of drinks – with similar or higher alcohol content per drinking episode or per dollar spent. So the impact on health is difficult to predict without knowing how consumers of different ages respond to changes in relative prices of different types of alcoholic drinks (in economic terms, the own price and cross price elasticity of demand).

Moreover, even looking at taxation or sales data for all alcoholic beverages cannot provide any information regarding changes in alcohol abuse, since these data only reflect consumption overall, not the amount of drinking

that occurs at risky levels. Changes in average or total consumption provide no indication of whether or how consumption at risky levels is changing. So it is wrong to conclude that if average or total alcohol consumption falls, that abuse is declining. Abusers/addicts have the least responsiveness to price signals.

Only indicators of health outcomes should be used to determine the success of policies such as the RTD tax policy. Hospital use is one such indicator. "

A copy of the Access Economics report is available at www.accesseconomics.com.au.

4.5 International evidence and experience confirms isolated tax increases ineffective

Overview

International research and experience in those countries that have imposed a specific RTD tax suggests that the disproportionate taxation of a particular alcohol beverage simply encourages consumers to substitute their preference to an alternative alcohol product. This is supported by other research demonstrating that overall consumption levels have remained constant (or in some instances, increased) despite decreased consumption of RTDs. Moreover, an inequitable tax system encourages the alcohol industry to develop similar looking products but which have an alcohol base subject to a lower incidence of taxation.

Readers note: We note that the discussion in this section is broadly a re-statement of the evidence presented in section 7 of the first DSICA submission. We suggest that the Committee refer to that submission for a full analysis of relevant international evidence discussed below.

Undesirable consequences of taxation policy

A British study investigating the effects of government control measures in preventing excessive alcohol consumption found that taxation policy can lead to undesirable outcomes (Popham 1975). This study found that:

- inconsistent taxation measures which taxed spirits disproportionately highly had only a temporary effect on consumption, eventually resulting in substitution to another type of alcohol beverage;
- such inconsistent taxation resulted in increased consumption and alcohol problems;
- other evidence suggests that the general level of alcohol consumption in a population determines the incidence of dangerous drinkers (despite beverage source); and
- a suitable public education program would be necessary to apply the policy effectively.

General themes in international research

In this section, we document the results of two major European studies that examine the impact of an increase in the taxation on RTDs in Germany and Switzerland. These two studies draw out the general themes of research in this area that an increase in taxation of RTDs alone will not reduce overall alcohol consumption.

The general themes that are drawn out from this research are:

- An increase in taxation of RTDs alone will not reduce overall alcohol consumption.
- Consumers maintain their consumption levels by switching preference to alternative alcohol products (substitutes). The substitute products are often cheaper and higher in alcohol content. In some cases, substitution can even occur with more dangerous drugs (for example, marijuana or ecstasy).

"From the fact that the majority of alcopop consumers also drink other alcoholic beverages, it can, in turn, be concluded that reducing the availability of alcopops would most probably have no effect on total alcohol consumption, and hence, alcohol-related problems, so long as other alcoholic beverages remain as widely available as they currently are." (Metzner 2007)

The availability of a broad range of prices for alcohol beverages enables consumers to alleviate the effects of price increases and maintain their consumption level by switching purchases to lower priced alcohol beverages.

Moreover, the alcohol industry tends to respond to exclusive taxation measures by manufacturing products which avoid the higher rates of tax (Metzner 2007).

International research was conducted to analyse this tendency for substitution and the connection between the prices, quality and sales of alcohol beverages over the years 1984-1994 using Swedish price and sales data (Gruenewald 2006). This study's findings included:

- consumers respond to increases in price by varying their total consumption and their choice of brand;
- the effects of price changes for particular types of alcohol were moderated by substantial substitutions between the classes of beverage quality;
- price increases that primarily target more expensive products run the risk of simply encouraging consumers of those beverages to switch to cheaper alternatives.

"Hence, from the evidence provided no significant effects of preventative measures which do not target the total quantity of consumed alcohol can be expected. Strategies which look to impose a specific instead of a general tax increase... permit the alcohol industry to constantly be one step ahead. The alcohol industry has long since responded to tax measures with the manufacturing of alcopops which are wine or beer-based instead of spirit-based, in order to bypass the alcopop tax law." (Metzner 2007)

It should be noted that in Australia, RTDs have always been expensive for the quantity of alcohol they contained.

Harmful drinking and consequences

Some key facts from international research and analysis (Metzner 2007) demonstrate the following points:

- on the grounds of methodological limitations (such as not controlling for total alcohol consumption) evidence of an association between the consumption of RTD products and engagement in further risky behaviours is scarce;

- a study by Wicki et al (2006) does not provide any indication that consumers of RTD products are consuming alcohol at an earlier age, nor that they have earlier experiences of intoxication with an accompanying higher risk of developing alcohol-related secondary problems;
- an investigation by Roberts et al (1999) also contradicts an increasingly occurring pattern of heavy episodic drinking among adolescent RTD product consumers, who were less likely to have consumed large quantities of alcohol at the last given opportunity, or consumed alcohol in the past week;
- in investigating severe intoxications and accidents and emergency admissions, Crossland and Potier de la Morandiere (2001) found no evidence of a significant influence of RTDs for 13-15 year-old adolescent in-patients in England;
- the assumption of increased delinquency among RTD consumers is refuted by the investigations performed by Brain et al (2000) which found that only a few adolescent RTD consumers exhibit delinquent behaviour.

The review of results from investigations of RTD consumption concludes that there is scarce evidence of a relationship between the consumption of RTDs and the impact on an early onset of alcohol use, more frequent alcohol consumption, heavy episodic drinking, and negative alcohol-related consequences.

Case Study: Germany, 2004

The German Federal Centre for Health Education, Cologne, conducted research into teenage alcohol consumption in Germany over the period of 2004 – 2007 (GFCHE 2007). A special tax was levied exclusively on RTDs in August 2004, the purpose of which was to reduce consumption.

As demonstrated in the graphics below, the study showed that while there was an initial reduction in consumption soon after the tax increase, total teenage consumption went on to increase in the later year.

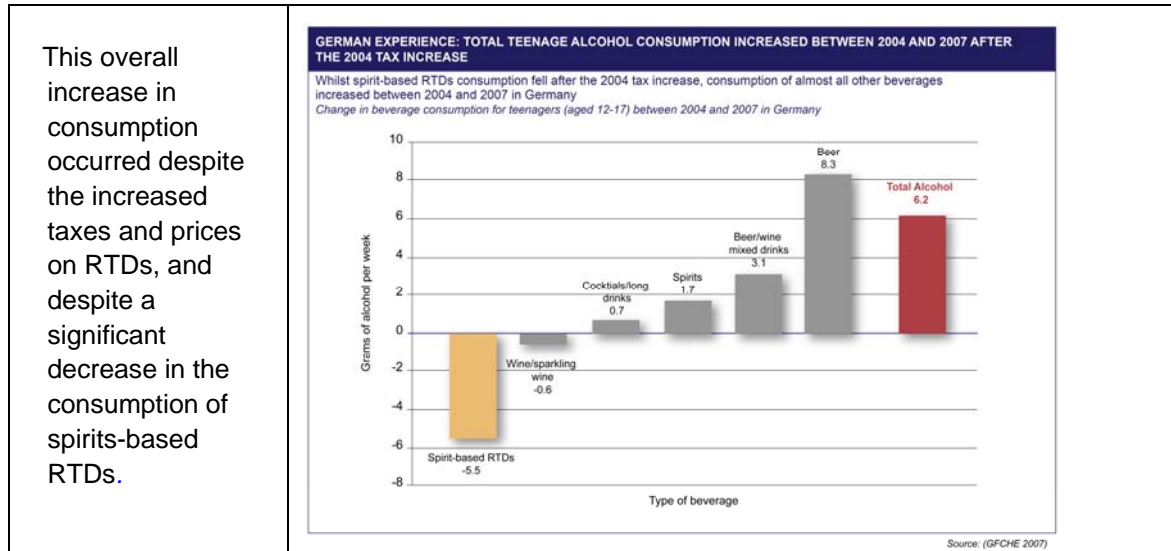
Graphic 10 : German experience: Total teenage alcohol consumption increased after the 2004 tax increase

GERMAN EXPERIENCE: TOTAL TEENAGE ALCOHOL CONSUMPTION INCREASED AFTER THE 2004 TAX INCREASE				
Although average consumption of spirit-based RTDs has fallen, consumption increased across almost all other categories of alcohol by 2007 in Germany				
Average alcohol consumption by teenagers (aged 12-17) for specific beverages in Germany				
Type of beverage	Year			Change from 2004-2007
	2004	2005	2007	
Spirit-based RTDs	8.3	4.6	2.8	-5.5
Beer/wine mixed drinks	3.9	5.4	7	3.1
Beer	19.4	17.7	27.7	8.3
Wine/sparkling wine	4.6	3.4	4	-0.6
Spirits	3.6	2.8	5.3	1.7
Cocktails/long drinks	3.9	3.1	4.6	0.7
Total Alcohol (grams)	44.2	34.1	50.4	6.2

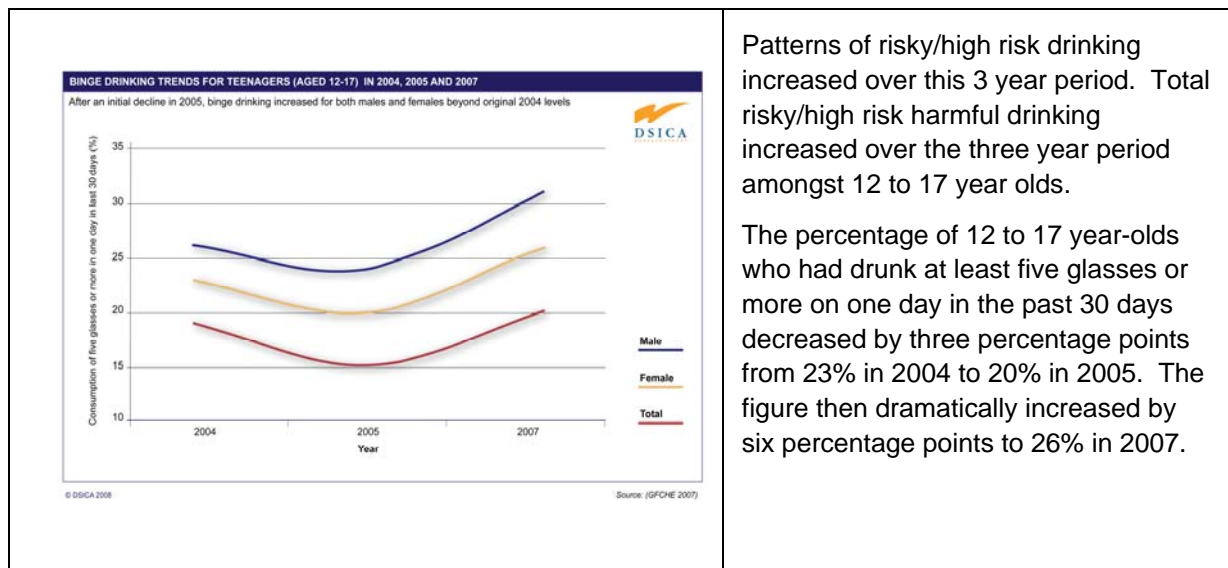
Source: (GFCHE 2007)

Total overall regular consumption of alcohol amongst teenagers aged 12-17 years decreased in 2005, but increased by 2007. From 2004 to 2005, weekly per capital total consumption of pure alcohol among 12-17 years-olds decreased by 10g from 44.2g to 34.1g, but later increased significantly to 50.4g in 2007.

Graphic 11: German experience: Total teenage alcohol consumption increased between 2004 and 2007 after the 2004 tax increase



Graphic 12: German experience: teenage harmful drinking increased beyond pre-tax 2004 levels in 2007



Case Study: Switzerland, 2004

The government of Switzerland enacted a 300% increase in taxes on RTDs in February 2004. The impact of this increase was examined in a study by Wicki in 2005 (Wicki 2005).

A study was conducted with the objectives of determining whether consumers of RTDs compared to consumers of other beverages have riskier drinking patterns and more alcohol-

related consequences and to determine the association of RTD consumption with patterns of risky drinking.

The study involved interviewing a cross-sectional national representative sample of 5,444 drinkers between the ages of 13 and 16 years by means of an anonymous self-report questionnaire.

The research concluded that there is no indication that the RTD taxation measure also resulted in a decrease in general alcohol consumption among adolescents or in alcohol-related consequences.

Moreover, it concluded that the alcohol industry in Switzerland circumvented the taxation restraint on RTDs by opting to create new designer drinks, which fell outside the ambit of the special tax measure.

Furthermore, the research reiterates that there is little evidence to validate the notion that a reduction in the availability of a specific beverage (for example, RTDs) is linked to a decline in general overall consumption if all other alcohol beverages remain available.

4.6 New Zealand Government declares no evidence to support RTD tax increase

RTD tax increase considered by NZ Government and rejected

During 2008, the New Zealand Ministerial Committee on Drug Policy (MCDP) considered the issue of whether a targeted tax on RTDs would lead to a reduction in alcohol related harm. Advice to the MCDP was that there was no international evidence to suggest that such a targeted tax policy would achieve this outcome. To quote the minutes from the 2 September 2008 meeting of the Committee (NZMCDP 2008, p 4):

"The Committee noted that there is no evidence internationally in support of targeted taxes on RTDs leading to a reduction in alcohol-related harm. The Committee noted the overseas experience outlined in the paper where a reduction in RTD consumption has led to an increase in the consumption of other liquor".

This conclusion is consistent with other international evidence discussed in section 4.7 above. In making its decision to increase the tax on RTDs in April 2008, the Government either ignored the available evidence or negligently failed to consider the implications of its decision which many believe was implemented in a rush.

Broader comment on use of alcohol taxes

In the minutes of the same meeting of the NZ MCDP referred to above, the Committee expressed a note of caution on the use of alcohol excise tax as a tool to address alcohol related harm. The minutes note (NZMCDP, p6):

The Committee:

a)

c) agreed that the use of alcohol excise tax as a tool to reduce alcohol related harm needs to be applied to all alcohol products and take into account the likely impact this will have on overall consumption patterns.

This comment is a very instructive note to all policy makers who are considering the use of taxation as part of any range of policy initiatives to combat harmful alcohol consumption. As a very blunt instrument, and bearing in mind behavioural changes in humans to such measures, extreme care needs to be taken in using taxation as a health policy measure.

DSICA encourages the Government to diligently consider all harm reduction measures before implementing them. The current Preventative Health Task Force process and the Henry Review of taxation provide two mechanisms to ensure proper consultation and evaluation of possible alternative measures. This would have been the proper process to consider the RTD tax change, rather than rushing through a measure that was not supported by evidence and was not properly evaluated.

4.7 UK Government admits isolated tax increases ineffective in addressing harmful drinking

UK Government refuses proposal of isolated tax increase

In May 2008, the UK Government refused to legislate proposals that would have permitted tax increases on particular alcohol beverages. In the parliamentary debates on the relevant Bill, the following telling point about the ineffectiveness of such a measure was made by the Exchequer Secretary to the Treasury:

"Some hon. Members have argued that tax changes could be targeted at particular alcoholic drinks, but it has been our experience that increases in the price of a specific drink in isolation are not effective in reducing overall harmful alcohol consumption. Problem drinkers simply move on to other products." (UK Parliament, 13 May 2008, column 212)

It is interesting that this point is made by the same Government that increased taxes on RTDs in 2002 supposedly to combat binge drinking.

UK Government refers to German study to support position

The Exchequer Secretary went on in her remarks in the debate to refer to a German study which provides academic support for her conclusion quoted above.

"I am anxious to make the point about the German example, of which the hon. Lady made a great deal in her speech. In that case, the specific tax on alcopops did not stop young people drinking; they simply drank something else instead. One year after the introduction of the German tax, alcopop sales reduced—the hon. Lady was right to point that out—but sales of other drinks, such as wine-mixed beverages and beer-mixed beverages, went up by 250 per cent. and 19 per cent. respectively." (UK Parliament, 13 May 2008, column 212)

We have been unable to confirm if the survey to which the Secretary refers is the same German study we refer to in section 4.7 above, however we suspect it is. In any case, the key point to note is that the UK Government has recognised that targeting specific taxes are ineffective at reducing harmful consumption and it has an evidence base to support this contention.

4.8 Some Australian academics doubt the RTD increase will be effective

Opinion in *The Lancet* doubts Government's RTD decision

Two prominent local researchers, Christopher Doran and Anthony Shakeshaft from the National Drug and Alcohol Research Centre at the University New South Wales, had an article published in the medical publication, *The Lancet*, in August 2008 which strongly questioned the effectiveness of the RTD tax measure to curb binge drinking (Doran and Shakeshaft, 2008).

The authors' key conclusion is summarised in the following quote (Doran and Shakeshaft 2008, p 702):

"Although the Australian Government's recent decision is likely to arrest the increased sales of premixed spirits, it is unlikely to substantially reduce the overall rates of usual or binge drinking."

Authors suggested alternative approach

In their article, the authors suggested an alternative approach to addressing alcohol related harm. Their view is expressed in the following quote (Doran and Shakeshaft, p 702):

A sensible public health strategy would be to aim to be comprehensive by combining fiscal measures of volumetric taxation with other supply and demand initiatives. The Government could adapt a battery of strategies, such as the provision of incentives to encourage manufacturers to market mid-strength and low-strength beer, the imposition of restrictions on the availability of drinks with high alcohol content, and more effective regulation of advertising codes of practice."

Interestingly, but not surprisingly, the authors also suggested that an "obvious solution" (as part of the fiscal measures) is to have a standard tax on all beverages sold (a volumetric tax). The views expressed above are commonly held by many in the medical and public health arena.

4.9 National Preventative Health Taskforce supports need for alcohol tax reform

Taskforce acknowledges flaws in current tax system

The Australian Government's National Preventative Health Taskforce recently released a comprehensive discussion paper (PHT 2008a) on reform of Australia's approach to prevention of illness and promotion of health. The Discussion Paper devotes significant time to alcohol, with the Taskforce also preparing a Technical Report on Preventing alcohol-related harm (PHT 2008b).

The Taskforce is clear in its criticism of the current system (PHT 2008a, p 33) (emphasis added):

In Australia, different taxes are applied to different products ... These different taxation arrangements influence the prices of different categories of alcohol products unevenly, often in ways that do not promote low-risk consumption."

The Taskforce has therefore added its name to the list of many organisations who acknowledge the complexities and anomalies in the current alcohol tax system and its failure to act to produce socially desirable outcomes.

Support for reform

DSICA supports the Taskforce's call to the Henry Review to examine ways of reforming the current tax system to ensure a more equitable treatment of alcohol beverages (see PHT 2008a, p 38).

4.10 Australian Medical Association questions RTD tax increase

AMA concerned that RTD tax increase will result in more harmful behaviours

The Australian Medical Association (AMA) is the nation's peak health advocacy group, and is committed to achieving a reduction in the incidence of hazardous and harmful levels of alcohol consumption in Australia.

The AMA noted in its submission to the Committee's Inquiry into Ready-To-Drink Alcohol Beverages that rather than reducing teenage drinking, the new tax could have the opposite effect, serving to turn young drinkers to harder liquor. This was reported in the media at about the time of the Committee's inquiry – refer media excerpt below.

'Government and AMA clash over alcopop strategy', *The West Australian*, 9 June 2008:

"A political row has broken out between the Government and the Australian Medical Association... [the AMA] condemned Kevin Rudd's new 70 per cent tax rise on ready-to-drink alcohol."

"AMA president Rosanna Capolingua has questioned the Prime Minister's strategy and says a more considered and multifaceted approach to tackling drinking is required."

AMA views

The AMA supports measures sending price signals to encourage consumption of products with **lower alcohol content**.

The AMA believes that alcohol products should be taxed according to the alcohol volume contained (as a price deterrent for consumers and financial incentive for manufacturers to produce lower alcohol products).

The AMA was particularly critical of the RTD tax increase, as evidenced from the following quote from the AMA submission to the previous Committee Inquiry (AMA 2008).

"The AMA believes that the Federal Government's focus on RTDs alone may provide perverse incentives for young people to shift their preferences to potentially more harmful behaviours or alcohol substitutes (eg., cheaper cask wines, self-mixing of spirits)."

"The Federal Government's proposed RTD tax increase alone will not solve the problem, and it is simplistic to suggest otherwise. It is important also that the 70% level that has been set of this proposed increase be justified, especially in relation to levels applying to other beverages. Currently, it is not clear how this level has been derived."

The AMA believes a stronger and multi-faceted approach is required to impact potentially harmful drinking, including:

- Volumetric alcohol tax according to beverage alcohol volume to achieve appropriate price signals and ensure no incentive for shifting of consumer preferences to cheaper, high alcohol volume products (particularly amongst price sensitive young drinkers);
- Adequate funding for programs of prevention and treatment of harmful or risky alcohol use through the whole use of the revenue generated from the alcohol volumetric tax; and
- A comprehensive range of measures to discourage excessive alcohol consumption and early onset drinking, including: regulation for opening hours of licensed premises and alcohol marketing and advertising; examining pricing at drinking venues; prominent high risk consumption warnings on alcohol products and at drinking venues; and media campaigns and education regarding excessive consumption.

4.11 Liquor store owners and managers find RTD tax ineffective

Research conducted on behalf of DSICA by independent research firm Enterprise Marketing and Research Services (EMRS) in August 2008, concluded that liquor retailers overwhelmingly believe the RTD tax increase is a complete failure. Rather than reduce alcohol consumption, it has encouraged consumers to turn to other, often stronger, forms of alcohol.

The survey revealed strong opposition to the RTD tax hike from liquor retailers, most notably that:

- only 4% of liquor retailers believe the tax trial introduced in April 2008 had led to a reduction in the level of alcohol consumed by their customers;
- 88% believe the tax has failed to reduce alcohol consumption and 87% believe it will continue to be a failure in the long term;
- 80% report the majority of RTD drinkers are now buying other forms of alcohol (often more potent varieties) as a result of the tax.

Furthermore, acting as a barometer of the views of their patrons, 90% of the retailers surveyed held the belief that the majority of their customers considered the tax to be an unwarranted tax grab and 81% held the belief that their customers have an unfavourable view of the RTD tax increase.

4.12 Security firm cautions Government on impact of RTD tax

Gatecrash Security is a professional security company specialising in providing tailored security for parties, private functions and corporate events. The firm has noted that the difficulty of securing the functions had risen as the product preferences of young people has changed as a result of the RTD tax increase.

Based on a detailed report from Gatecrash staff, including type and amount of alcohol beverages taken into the functions, the security firm reported that prior to the tax increase the “average” beverage composition at a young people’s party was made up of approximately 80% RTDs and 20% beer. At the same time full-strength spirits were rare. According to Gatecrash Security, the introduction of the tax increase has resulted in a considerable change with full-strength spirits now accounting for approximately 60% of liquor brought to these parties. The remaining 40% is split between RTDs and beer.

On the “9am with David and Kim” program, Mr Ellis, a former Queensland police officer and director of Gatecrash Security, described the “massive difference” the RTD tax has made on the drinks being consumed by young people at parties. Mr Ellis stated that while RTDs had been very prevalent prior to the RTD tax increase, but since the change the prevalence of straight spirits and drugs had increased. Furthermore, more violence and more intoxication had also appeared.

4.13 Mix your own drinks heightens risk of drink spiking

The RTD tax increase is in direct conflict with public education campaigns aimed at minimising the risk of drink spiking.

The rise in price resulting from the tax increase has led to consumers mixing their own drinks or purchasing mixed drinks over the bar.

Self-mixing can lead to drinkers consuming more alcohol than they realise as the volume of alcohol being served and consumed is often misjudged. In a study of college students conducted in the United States it was found that students tended to over-pour shots by 26% compared to the standard drink measure (White et. al. 2003).

Substitution away from canned and bottled RTDs to other alcohol beverages served in open glasses heightens the risk of drink-spiking, not only through the addition of illicit substances but also through the addition of further alcohol without the knowledge of the drinker. This has been acknowledged in the Government’s National Alcohol Strategy (MCDS 2006, p 13).

The Government’s National Alcohol Strategy states that:

...the public be encouraged to drink bottled or canned beverages at licensed premises to make drink-spiking more difficult.”

The RTD tax increase works against this sound piece of advice offered by the Government’s Alcohol Strategy.

The Director of St Vincent’s Hospital emergency department Professor Gordian Fulde also identified that “drink-spiking virtually always occurs in glasses.”

4.14 Medical Journal of Australia

The Medical Journal of Australia (MJA) recently published on their website a brief editorial piece that claims that the RTD tax increase “is a step in the right direction” (MJA 2009).

This MJA editorial relies on figures including a Nielsen report, released in September 2008, that analysed only the first 3 months after the tax increase. Nielsen state in the report that, “Due to seasonality and a short time frame since the RTD tax increase, a clear conclusion of the full impact on consumer off premise liquor sales will be able to be assessed in the coming months” (Nielsen Company 2008).

The nature of the Nielsen data collection methods also means the reported figures covered only off-premise sales and specifically excludes draught beer.

The MJA editorial also looks at absolute consumption changes by category only – it does not try to differentiate changes caused by the RTD tax increase and what is just a continuation of an ongoing trend. For example, wine consumption has been in decline for the last three years, mainly as a consequence of the largest wine producers moving away from the cask wine market.

5 Alternative approaches to limit excessive alcohol consumption

Theme: DSICA recognises and commends the Government's focus on preventative health, and in particular the creation of the Preventative Health Taskforce, to raise awareness of and encourage discussion between stakeholder on the best ways to address alcohol-related harm. DSICA is committed to reducing the incidence of excessive consumption of alcohol and supports the on-going work in this area, by both Government and private organisations. The industry continues to support DrinkWise, including recent initiatives to use advertising to provide credible and helpful advice and resources for parents.

5.1 Introduction

The Government has a range of initiatives already in place that seek to combat excessive alcohol consumption. DSICA supports the ongoing work in this area and looks forward to working with Government in further implementing these initiatives. We summarise below the current initiatives, with a particular focus on young people.

Readers note: In the first DSICA submission, DSICA documented a range of currently active and possible alternative approaches to combating harmful alcohol consumption. We refer readers to chapter 8 of that submission. We outline a summary of the relevant content from the first submission below.

National Preventative Health Taskforce

DSICA welcomes the opportunity provided by the National Preventative Health Taskforce (PHT) to develop a comprehensive approach to address health issues related to alcohol. DSICA acknowledges that in order to maintain high health standards, specific attention should be paid by Government and the community to addressing risk factors for chronic disease.

DSICA has made a submission in response to the PHT discussion paper, and looks forward to working with the Taskforce to further develop a comprehensive set of alcohol harm reduction measures.

DSICA's overarching theme is that to achieve positive health outcomes and minimise harm requires formulation and implementation of a national approach to alcohol that minimises alcohol related harm to individuals, families and the community in the context of developing safer and healthier patterns of drinking in Australia. DSICA's submission to the PHT discussion paper outlines a range of specific actions that could aid in achieving this goal.

DSICA commends the Government for its PHT initiative and the significant funding it has committed to a new strategy. We look forward to working with the Government to develop a comprehensive national approach that aims to achieve positive health outcomes and reduce the extent of alcohol related harm in the Australian community.

The National Alcohol Strategy 2006-2009

DSICA is supportive of, and was involved in, development of the *National Alcohol Strategy 2006-2009*. The Strategy, formally approved by the Ministerial Council on Drug Strategy

(MCDS) in May 2006, is a plan for national action on reducing alcohol-related harm in Australia.

Goal of the Strategy

The Strategy has identified a national goal of preventing and minimising alcohol-related harm to individuals, families and communities in the context of developing safer and healthy drinking cultures in Australia (MCDS 2006, p2). DSICA strongly supports this goal.

The best available evidence shows that the Strategy has been working. Levels of alcohol-related harm, especially amongst young people, have been declining (see DSICA 2009, p 27 and DSICA 2006). However, DSICA agrees that more should be done.

DSICA believes that the Strategy should be given support and time to work to achieve its goals. Separate, isolated and tangential actions should not be taken which could put at risk the overarching and co-ordinated approach to achieving the Strategy's goals.

DSICA supports the revision of the Strategy by MCDS, with input from the National Preventative Health Task Force.

National Binge Drinking Strategy 2008

DSICA commends the Government on and supports the initiatives comprising the National Binge Drinking Strategy announced by the Prime Minister on 10 March 2008.

We agree that harmful alcohol consumption "is a community wide problem that demands a community wide response". We also agree that there needs to be an emphasis on young people taking more responsibility for their behaviour.

DSICA believes that the Strategy's initiatives delivered effectively and with co-operation across all stakeholders will be far more effective tools to achieve desired health and social policy outcomes rather than the more "blunt" instrument of taxation which can produce a raft of unintended and often detrimental consequences.

5.2 Alternative means of limiting excessive alcohol consumption and levels of alcohol-related harm among young people

There is no simple answer to excessive alcohol consumption and alcohol-related harm amongst young people. These are complex problems which will not be solved by the tax increase on RTDs.

In contrast, the *National Alcohol Strategy* has identified a number of non-price related measures to achieve the goal to prevent and minimise alcohol-related harm in the context of developing safer and healthy drinking cultures in Australia.

DSICA has identified below a number of alternative policies that are already in place or could be implemented to limit consumption and/or reduce levels of alcohol related harm among young people. Seven major areas of policy options have been identified in the research literature (Loxley 2007). In this submission, DSICA has considered the following:

- availability;
- modifying the drinking context; and
- education.

These areas were documented in detail in chapter 8 of the first DSICA submission and we comment on them briefly below.

5.3 Availability and modifying the drinking context

The ability to regulate and control the physical availability of alcohol has been identified as one of the most significant powers available to governments (Loxley 2007).

The Government is taking action in this area through the COAG reference to the MCDS to review, amongst other things, reckless secondary supply of alcohol and the responsible service of alcohol.

Reckless secondary supply to minors

Under current laws, there are many restrictions in place to ensure that alcohol can only be purchased by adults over 18 years of age. These laws are the cornerstone to restricting minors from having direct access to alcohol. These laws include:

- minors under 18 years of age are prohibited from purchasing alcohol on or at a licensed premise;
- it is an offence for licensed premises to sell alcohol to minors;
- minors are restricted from entering a licensed premise without being accompanied by an adult;
- licensed premise staff are obligated to demand identification to prove legal age to purchase alcohol;
- the onus of proof is on the purchaser to prove their age to be over 18 to purchase alcohol;
- penalties apply to those people purchasing alcohol for minors; and
- heavy penalties apply to licensees who break these laws.

Few breaches of these laws have been detected and acted upon by enforcement agencies, and the heavy penalties combined with high community awareness are a strong deterrent.

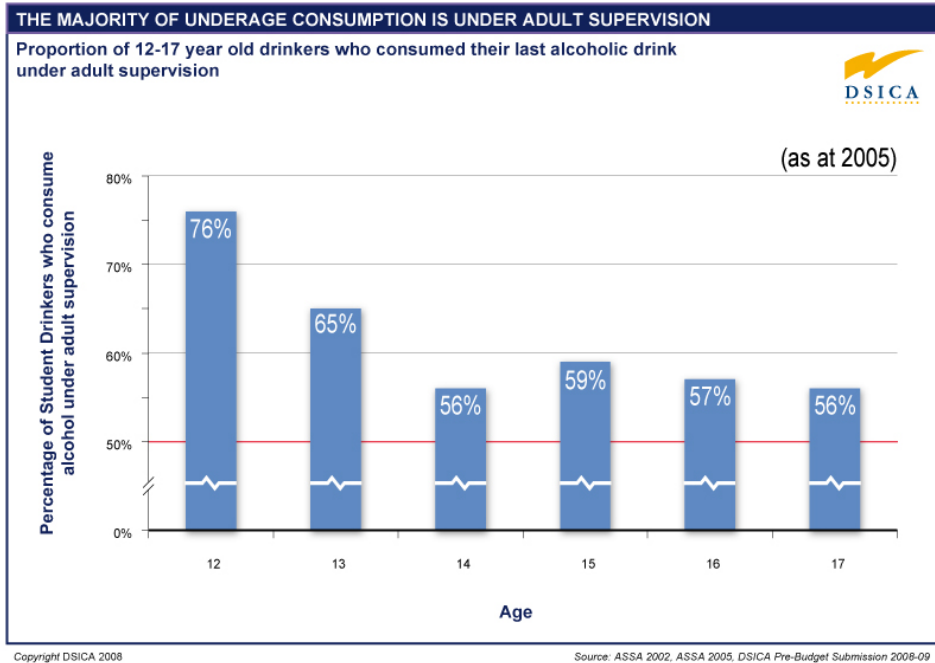
Manufacturers and retailers of alcohol beverages are fully supportive of the restrictions placed on the supply of alcohol to minors. DSICA commends the Australian Liquor Stores Association (ALSA), which has introduced the *ID-25* campaign aimed at reducing the incidence of underage drinking by warning customers that if they look under the age of 25 years, they can be asked for identification.

Secondary supply by parents and family members

It is a commonly held misconception that underage drinkers are consuming alcohol without adult supervision.

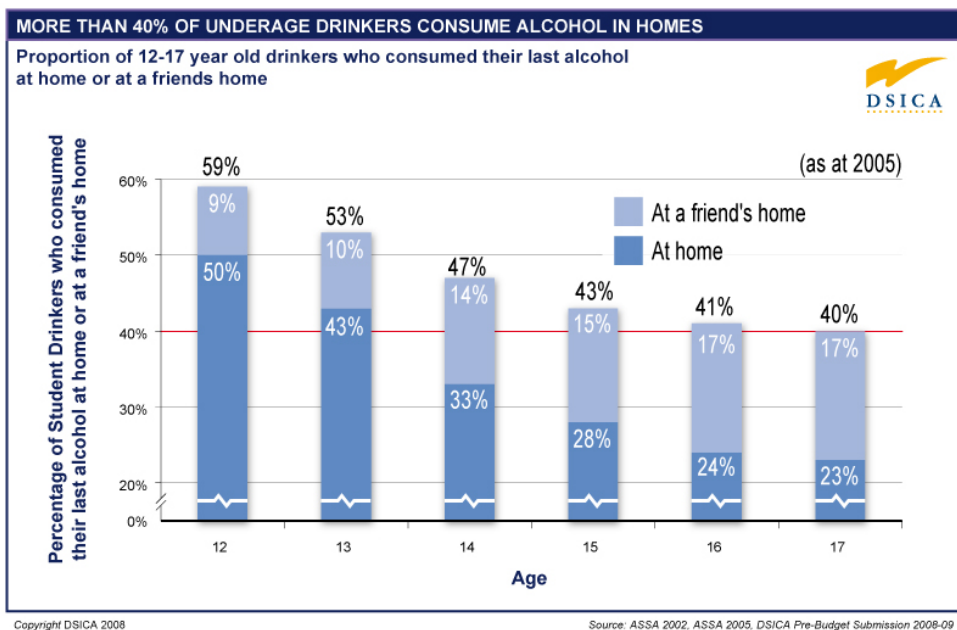
The 2005 *Australian Secondary School Students Use of Alcohol* report (ASSSA) shows that across all age groups - from 12 to 17 years old - the majority of current underage drinkers consume alcohol under adult supervision - see the *Graphic 13* below.

Graphic 13: The majority of underage consumption is under adult supervision



In addition, more than 40% of underage drinkers consume their alcohol either in their own home or at a friend's home.

Graphic 14: More than 40% of underage drinkers consume alcohol in homes



Commentators often stress the need for industry to ensure against consumption of alcohol by young people. However, following the sale of alcohol beverages to an adult, there is little that the industry can do, in its own right, to prevent consumption by young people. The ASSSA report shows that 45% of alcohol consumed by students aged 12-17 years was not purchased by the student, but provided by a parent or sibling. Only 6% of the alcohol consumed by students was purchased by the student themselves (White & Hayman 2006). As the graphic above shows, the majority of underage consumption is under adult supervision.

Parental Responsibility

Given the large proportion of alcohol supplied to young drinkers by parents and family members, these people are well placed to constrain consumption by limiting, or completely discontinuing, the purchase of alcohol for consumption by their own child/children or peers of their child/children.

There is a clear requirement for societal change in the community's attitude to alcohol consumption by minors. Long term education campaigns combined with strict enforcement of the existing heavy penalties for breaches, in some jurisdictions, are required.

Effective models that incorporated these facets are the drink driving campaigns that have significantly changed Australia's drinking culture in a short timeframe.

The ALSA recently launched the '*Don't Buy It For Them*' initiative aimed at educating parents against supplying their underage children with alcohol.

Responsible service of alcohol

All Australian jurisdictions have in place responsible service of alcohol (RSA) laws. These include training to restrict the serving of alcohol beverages to intoxicated persons and minors.

Given the widespread implementation of RSA laws, it is important to consider how the current system can be most effectively leveraged to reduce excessive consumption of alcohol and minimise alcohol-related harms.

DSICA would welcome and support further initiatives in this area including education campaigns aimed at increasing awareness of RSA laws and strategies to achieve outcomes consistent with these laws.

5.4 Education

DSICA believes that a broad-based education campaign is an important cornerstone of any robust strategy to address excessive alcohol consumption and to reduce alcohol-related harm among young people.

Evidence demonstrates that 'social marketing of alcohol prevention messages through the mass media holds considerable promise as a means of reaching and persuading people to adopt safer drinking practices, particularly if undertaken in conjunction with other well-regarded prevention interventions' (Loxley 2005).

Education initiatives address the personal responsibility of drinkers to restrict consumption of alcohol to levels that minimise negative impacts, both on the individual and on the community.

Community education

DSICA recommends that consideration of a revised community education campaign take place as part of a review of the current *National Alcohol Strategy* and also in the context of the development of the National Preventative Health Strategy.

Parental Responsibility and Education

DSICA believes that the most effective means of reducing alcohol-related harm amongst young people must be to support those adults, often parents and/or guardians of the young drinkers, who are there at the time and place of consumption.

DSICA has identified parents and guardians, as best placed to influence the consumption patterns of young people. First and foremost, parents can themselves set an example of healthy and responsible consumption of alcohol, both in and outside the home. Secondly, parents and guardians can influence behaviour through direct discussion and dialogue with their own child/children, as well as the peer group of their child/children.

DSICA support of DrinkWise

Perhaps the most significant industry action in terms of promoting moderation is the alcohol industry's establishment and financial contribution to DrinkWise Australia. DrinkWise Australia is an independent organisation focused on promoting change towards a more responsible drinking culture in Australia, co-funded by the Federal Government and industry.

The industry supports recent DrinkWise initiatives to use advertising to provide credible and helpful advice and resources for parents. DrinkWise has launched a 10 year Australia-wide campaign "Kids Absorb Your Drinking" in recognition of the significant role parents can have on young people. DSICA supports this campaign.

In addition, DrinkWise has called on the Australian Government to set up a toll-free nationwide hotline to provide much needed assistance and support to parents trying to deal with the problems of underage drinking.

DSICA believes there is a role for Government in funding education programs to further complement the measures of the National Binge Drinking Strategy and industry initiatives in this area.

Education strategies utilising general practitioners

One possible educational strategy is the development of an extensive public awareness campaign through the media and the Australian General Practice Network (AGPN). This could be aimed at educating and informing 'parents, friends and other family members' of the dangers and inappropriateness of supplying alcohol to minors and of broader strategies to minimise harmful alcohol consumption, especially amongst young people.

The AGPN have a potentially critical role to play in educating families about the dangers of harmful alcohol consumption. General Practitioners (GPs) are "usually viewed as an important means of delivering programs, since they counsel patients on a regular basis, are in a position to provide health advice, and occupy a position of moral authority" (McAllister, I & Makkai, T 1996, p. 68).

DSICA strongly recommends that the AGPN be involved as a key component of any public awareness campaign to reduce harmful alcohol consumption (and on specific issues, such as supplying alcohol to minors and the risks of alcohol consumption for those women who are planning to become, or who are, pregnant).

Standard drinks education

DSICA believes that there is potential for further reductions in harmful consumption if consumers obtain a better understanding of how their individual consumption levels compare with the current NHMRC *Australian Alcohol Guidelines*.

A recent survey for the Australian National Council on Drugs' magazine *Of Substance* (Of Substance 2008) found that only 17% of Australians had any knowledge of the current guidelines. Awareness of the Guidelines was even lower among young people, with only 14% certain that they had heard about the Guidelines (Of Substance 2008).

The federally funded public education campaign *drinking nightmare*, funded under the National Binge Drinking Strategy, seeks to change consumer behaviour in relation to alcohol consumption levels. Hopefully, this campaign will be effective and further strengthen communication of the standard drink concept and guidelines for consumers.

Industry led labelling developments

An innovation from one of DSICA's member companies, Diageo, has been the development of a 'standard drink' logo. The logo clearly indicates to the consumer the number of standard drinks in the container in the most simple form (see *Graphic 15* below). The size of the logo is significantly greater than the minimum font size currently required under the Food Standards Code. The presence and size of the standard drinks logo readily identifies beverages as containing alcohol, differentiating alcohol beverages from non-alcohol beverages.

Graphic 15: Standard drinks logo being applied voluntarily by DSICA members to product labels



Copyright DSICA 2008

Source: DSICA Pre-budget Submission 2008-09

The logo has been adopted on a voluntary basis by all DSICA member companies. Significant progress has been made in this regard since the voluntary introduction of the logo, and almost all products of DSICA members now carry the logo.

Similar logos have now been developed by the wine industry and the beer industry and are being progressively implemented.

5.5 Conclusion

Issues of excessive consumption of alcohol and alcohol-related harm amongst young people are complex issues that require a variety of targeted and broad-based solutions. In considering any measure to tackle these problems, the Government must take into account the best available

evidence and should consult with key community partners and audiences, including the alcohol beverage and hospitality industries.

DSICA recognises and commends the Government on the creation of the Preventative Health Taskforce. DSICA looks forward to working with the Preventative Health Taskforce framework to address issues of alcohol related harm and with the Henry Review process to design a world's best practice alcohol tax policy framework..

6 Conclusion

RTD tax increase should be immediately prospectively reversed

The RTD tax increase has failed as a health measure, will not raise the amount of revenue originally forecast and is unpopular with the general public. Accordingly, the tax increase should therefore be reversed prospectively.

The RTD tax increase has drawn widespread condemnation from consumers and the media. This view is confirmed by the Government's most comprehensive drug survey, the National Drug Strategy Household Survey (NDSHS), which found that tax increases are one of the least supported policy measures to address harm.

Repeated revisions to revenue forecasts demonstrate that the Government has failed to conduct due diligence into the social and economic impacts of the tax change. The Government has been forced to revise on a number of occasions estimates of the revenue impacts of the decision. Revisions, reducing the budget estimates by nearly 50%, have been required as a result of a total failure to properly account for the dramatic decline in RTD sales and a corresponding substitution into sales of full-strength spirits, beer and wine.

Observed patterns of purchasing and consumption behaviour since the RTD tax increase demonstrate that the tax increase has not had the desired effect of reducing harmful alcohol consumption by young people.

Data showing no reduction in alcohol related hospitalisations since the tax change also confirms that the RTD tax increase has failed to achieve its health objective.

Accordingly, from both the perspective as a health measure and a revenue raising instrument, the RTD tax change has failed and accordingly should be prospectively reversed.

DSICA believes that the Senate should validate the RTD tax increase retrospectively for the period 27 April 2008 to the date of Royal Assent of the Amendment Bills. A new rate for RTDs should be implemented prospectively from the day after Royal Assent which would see the RTD rate return to the previous rate applying to RTDs prior to 27 April 2008 (indexed by CPI)(i.e. \$40.82 per litre of alcohol).

An amount equal to the amount of the additional tax collected on alcohol beverages in the period 27 April 2008 to the date of Royal Assent could be allocated to a new fund (or to DrinkWise Australia) to implement a range of community-based alcohol harm reduction initiatives.

DSICA recognises and commends the Government's focus on preventative health, and in particular the creation of the Preventative Health Taskforce. DSICA looks forward to working with the Government through the Preventative Health Taskforce framework to address issues of alcohol related harm and with the Henry Review process to design a world's best practice alcohol tax policy framework.

March 2009



DSICA



Appendix A – Access Economics supplementary comments

This appendix is included primarily to correct the record in relation to allegations regarding our report “Trends in alcohol-related hospital use by young people”. The Minister for Health The Hon Nicola Roxon appears to have been ill-advised in relation to our report.

Statements made by Secretary for Health Jane Halton to the Parliament were not factually correct. In particular, her assertion that data supplied by the State Health Departments “were not cleaned or scrutinised by anyone” is inaccurate. Indeed, one State supplier has written (prior to data provision) that “the data have automatic quality edit checks performed and the output will be of a high standard”. States routinely rely on the same quality of data for their analyses.

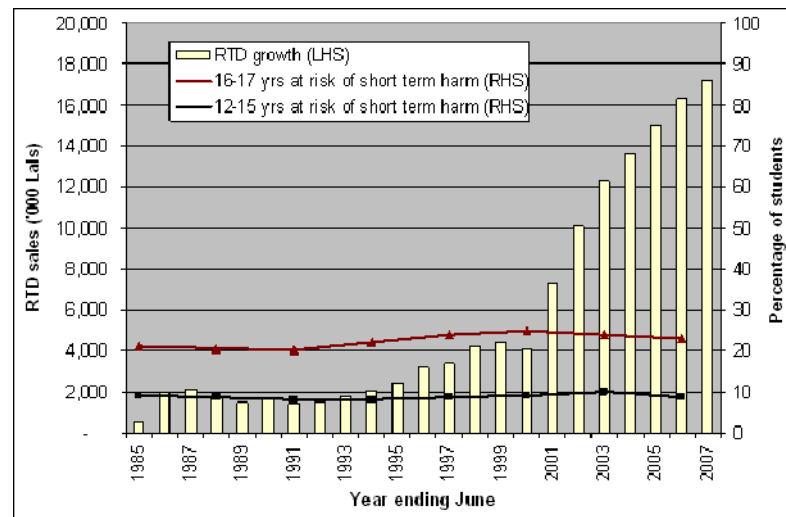
Ms Halton’s further claim that “this data would not have been processed appropriately and properly for many, many months” is also factually incorrect. The admitted patient data supplied are based on a census of hospitals and data were only able to be released for months where states were confident that the data had been appropriately processed (hence the variation in months). Moreover, any further revisions are only to the most recent months to include late hospital returns which *in all cases revises the most recent months upwards*. As such, the effect of any further revisions would make it *even more likely* that hospitalisation rates have been unaffected by the tax. Minister Roxon in her press release claimed that the data “uses just one diagnosis code for most of its data, excluding others and distorting the statistics”. This is also inaccurate and Table 3 of our report shows the 24 codes that have been used, all of which are the appropriate International Classification of Disease codes and were agreed as such in conjunction with the State Health suppliers. Codes that were excluded were ones inappropriate to the age group under consideration – eg, codes that were for newborn or foetal illness due to maternal use of alcohol (codes in blocks O and P) or that would be expected to be close to zero for the age group since they are health issues that take many years to develop — niacin deficiency (E52), alcoholic gastritis (K29.2), alcoholic liver disease (K70). Other codes were excluded if they had both extremely few observations and ambiguity; as we say in the report “While the external cause codes (X45, Y90 and Y91) might help to identify alcohol-related assaults, road accidents or other incidents related to alcohol, there is ambiguity surrounding these data (eg, alcohol use might be only ‘suspected’ and/or the level unknown and X45 is defined as ‘accidental’, rather than purposeful).”

Access Economics allowed for volatility and seasonality by comparing means and by reviewing the same months for previous years. Contrary to claims made, caveats around the hospitalisations data that are made in the report do not reduce the quality of the analysis or render it flawed in any way. The qualifications were:

- ‘Monthly hospital data are subject to revision over time, as not all records are submitted on time, and some records may initially only be partially complete.’ As noted above, the risk here is that the recent months will be revised up not down.
- ‘The tax change was made in April 2008 — and the most recent data currently are generally for June to October 2008. Given that a time trend of up to six months is relatively short, further data may be required to **ensure** statistical significance’ (emphasis added). We have emphasised that it is important that trends be monitored further and the need for solutions that have been shown to be effective and cost effective.

We conducted the analysis with no *a priori* expectation of the findings. Had our analysis been for the Government, it would have come to the same conclusion that alcohol-related hospitalisations show no statistically significant impact in the months immediately after the RTD tax was introduced. This is important preliminary evidence in relation to evaluating the tax policy measure over time. What we tend to see when other effective interventions are introduced (for example, in occupational health and safety work that we undertake for the Department of Education, Employment and Workplace Relations) are immediate and sharp changes in health outcomes measures. No such changes were evident in this case.

To explain the apparent lack of effectiveness of the tax in reducing hospitalisations, we note that there is a lack of evidence about the link between alcopops and risky drinking and this has been noted by other high quality research units such as the Australian Institute of Health and Welfare (as described elsewhere in this submission). Although RTD consumption has increased, like the AIHW we also found from ASSAD data, that the increase is not associated with any increase in youth risky drinking – see the chart below.



Source: Access Economics based on Department of Health and Ageing's Australian School Students' use of Alcohol and Drugs (ASSAD) survey data.

Importantly, high risk drinking is associated in young (14-19) males with consumption of full strength beer and in young (14-19) females with bottled spirits/liqueurs. RTDs are the preferred drink of low risk drinkers (AIHW, based on the National Drug Household Survey). Depending on cross-elasticities of demand, economic theory thus suggests that an RTD tax increase may lead to more standard drinks consumed on average for the same budget. **Importantly, reductions in average consumption do not say anything about risky drinkers**, who have the least elastic demand. The literature suggests that the effect of a price change on one type of alcohol is extremely limited in changing behaviour of risky drinkers, as documented elsewhere in this submission, and this is also the view of people we have spoken to who work in the youth harm prevention and alcohol rehabilitation field, and a commonly expressed view on talk-back radio that we have undertaken in relation to this issue.

In Access Economics' view, a higher tax on RTDs is not likely to form part of a solution to binge drinking problems. The pure position is equal volumetric tax, which suggests reduction in the tax on RTDs, and increase in tax on full strength beer (which is where most of the teenage risky drinking occurs given the male-female ratio). Moreover, because alcohol (unlike cigarettes) produces health benefits in low-risk drinkers and because taxation produces society-wide efficiency losses, it needs to be established if we have not already passed the point where

incremental costs of a tax instrument outweigh incremental benefits. A cost benefit analysis should be undertaken prior to the introduction of new taxes that aim to correct externalities.

Access Economics supports the recommendations of DSICA in this submission and welcomes the industry's suggestion to forgo potential tax returns and, instead, to see such money spent on teen alcohol abuse prevention, early intervention and harm minimisation strategies.





DSICA



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