

# Submission to Australia's Future Tax System Review Panel

*Alcohol Taxation: a submission made by  
various bodies concerned with alcohol harm  
minimisation*



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## Executive Summary

The various bodies concerned with alcohol harm minimisation (the Group) making this submission have one overriding objective, and that is to get a coherent consistent principles-based alcohol taxation regime established.

There is a suite of regulatory policies and government programs, supported by private sector efforts, to address the issue of trauma and cost consequent to alcohol misuse.

Taxation must play its part in this endeavour not only to raise revenue toward funding the social and economic costs of alcohol, but as it is known to be effective in raising the real price of alcohol, so reducing consumption.

Alcohol taxation is therefore not just a revenue-raising tax on consumption; it is a behavioural tool, a corrective tax.

Australia's Future Tax System Review Panel (the Panel) should establish the principles that should govern the taxation of alcohol and provide a rational explanation of what the consequences of applying those principles will be.

Any deviation from alcohol taxation principles must be evidence-based and must not result in poor social outcomes.

The Group's principles for consideration by the Panel are these:

- Consumer products containing alcohol warrant specific taxation in addition to the taxation applying generally to consumer products and services;
- Optimal taxation design requires a taxation system to be simple, efficient and equitable: the alcohol taxation system should be no different;
- Taxation revenue from alcohol should recognise the real costs (particularly but not only health costs) arising from the harmful consumption of alcohol;
- A limited measure of hypothecation is warranted by the nature of alcohol products;
- Using tax as a behavioural tool requires rate-setting to be evidence-based, supported by the ongoing collection and publication of sales and consumption data;
- Alcohol should be taxed as alcohol regardless of its type or category;
- A premium above the standard rate of excise per unit of alcohol is sometimes warranted;
- The tax regime should encourage less harmful consumption by taxing alcohol content progressively; and
- The current value of alcohol taxes should be maintained and not erode over time, to ensure that the real price effect of taxation remains constant.

To optimise tax settings designed to influence price points as a contribution to safer and healthier consumption of alcohol, continual empirical scientific study is needed on price elasticities, cross-elasticities and substitution effects in the Australian context. Such

research needs to be done independently of vested interests. The Group urges the Government to provide substantial ongoing funding for such work.

The worst distortion in alcohol taxation is the Wine Equalisation Tax (WET). The Group recommends that all alcohol is taxed by volume through customs and excise duties.

The Group recommends that the following Tax Expenditures should be removed:

- Brandy (annual \$5m);
- Brew on Premise beer (annual \$4m);
- Draught beer (2008-09 \$170m);
- Privately produced beer (2008-09 \$40m);
- Microbreweries (\$-);
- Privately produced wine (2008-09 \$15m);
- WET producer rebate (2008-9 \$195m); and
- Ready to drink beverages (2008-09 -\$230m).

The low strength beer concession (annual cost of \$15m) should be retained and should be extended to all other low strength alcohol products.

Imported spirits and RTDs, but not imported beer or wine, are subject to an additional 5 per cent ad valorem customs duty. The Group can see no justification for different tax levels between imported and domestic spirits and RTDs and this distortion should be removed.

The Panel should not attempt to make revenue-neutral recommendations with respect to alcohol taxation reform. The Group notes recent Senate Committee evidence that increased alcohol taxation is warranted and agrees with that view.

The logic of the 'alcohol is alcohol' approach is that a 3 per cent by volume beer wine or spirits product all have the same effect on the human body and therefore should have the same excise tax rate; and so on, up the scale. This would be the Group's preferred approach, but a caveat applies for the highest alcohol products, or products identified as higher-risk products.

The 'alcohol is alcohol' policy approach implies a constant linear progressive alcohol tax scale, moving steadily up as the alcohol content increases. The nature of alcohol means that is the correct approach at the bottom end of the scale, but what is required further on is a non-linear accelerating scale. This is because there are beverage-specific problems from the highest-alcohol beverages, and from higher-risk products.

The Group is aware that Treasury has access to a range of both public and private modelling capabilities, and accepts that it is best placed to make an evidence-based judgement on thresholds and rates, provided the principles the Group has outlined herein are observed.

It is good policy for a very low alcohol content product to be alcohol-tax-free.

It is good policy to have a common low excise rate for low alcohol products. Products other than beer should have access to the low strength tax rate. It is important to encourage

consumers to switch consumption to low strength alcohol products below 3.5 per cent alcohol content by volume.

The present low strength, mid strength and full strength beer settings are suitable for all products in those alcohol ranges but there needs to be a further threshold half way to the present 10 per cent excise threshold to account for high strength beers and some RTD wine and spirit based products. A suggested new excise point of 6.5 or 7 per cent alcohol by volume is suggested.

The Group believes there needs to be a rate to cover the fruit/vegetable wine, still wine and sparkling wine grouping (say from 10 per cent to 14.5 or 15 per cent alcohol by volume).

The Group believes there needs to be a rate above the still and sparkling wine grouping (say from 14.5 or 15 per cent to 22 per cent alcohol by volume) to cover off strong alcohol beverages including fortified wines and liqueur type products.

Spirits typically cover the 37 per cent to 42 per cent range, with liqueur-type products sometimes at lower strength levels than that. The next excise band should cover stronger products such as liqueurs and spirits, from 22 to 40 per cent alcohol by volume.

At the top end of the scale the Group believes there should be a rate for spirits above 40 per cent alcohol by volume.

The Group believes that the Government should consider a temporary discretionary penalty excise rate to give it an ability to target a brand or type of beverage on a rapid-reaction basis.

## Preface

The Group welcome the comprehensive review of Australia's Tax System established by the Australian Government on 11 May 2008. While as organisations we have a keen interest in many features of Australia's tax system, and are happy to be consulted on any aspects Australia's Future Tax System Review Panel may choose to refer to us, we will confine this submission to the taxation of consumer products containing alcohol.

The great advantage of the Henry Tax Review is that it offers a rare opportunity to propose comprehensive tax reform to the Government and Parliament. Alcohol is an area of taxation in need of significant reform.

The taxation of alcohol is bedevilled with inconsistencies and distortions. Its principles are confused. Some of its effects are harmful and not helpful to society.

This submission has one overriding objective, and that is to get a coherent consistent principles-based alcohol taxation regime established.

Once the design is right, the next task is to get the price settings right. This may not be possible at the first attempt, as much more research is needed to gather the evidence necessary to help ensure that the price effects on alcohol consumption are optimal.

The real benefit of the system we propose is that it will provide Government with the levers it needs to adjust alcohol policy to the greatest effect.

Maximising revenue is important and getting the price settings right is important, but we wish to emphasise at the outset that it is vital that the Panel first get the alcohol tax design right.

## Submitting Organisations

### **Alcohol Education & Rehabilitation Foundation (AERF)**

AER was established as an independent public company in October 2001 through a \$115 million grant from the Australian Government to address prevention, treatment, research and rehabilitation for the misuse of alcohol as well as paint, petrol and glue sniffing.

*Contact:*

Daryl Smeaton

Chief Executive Officer

Phone: (02) 6122 8600

Email: [daryl.smeaton@aerf.com.au](mailto:daryl.smeaton@aerf.com.au)

### **The Alcohol and other Drugs Council of Australia (ADCA)**

The Alcohol and other Drugs Council of Australia (ADCA) is a non-government not-for-profit organisation and the national peak body for the alcohol and other drugs (AOD) sector, providing an independent voice for the people working to reduce the harm caused by alcohol and other drugs.

ADCA has a key role in advocating for adequate infrastructure support and funding for the delivery of evidence-based alcohol and other drug policy initiatives, representing the interests of a broad group of AOD service providers, and individuals concerned with prevention, early intervention, treatment, supply reduction, and research.

Contact: David Templeman

Chief Executive Officer

### **Australian Centre for Child Protection**

The Australian Centre for Child Protection is a joint initiative of the Commonwealth Government (Department of Innovation, Industry, Science and Research) and the University of South Australia. The Centre provides sustained coordination and support to the diverse and significant range of child protection initiatives undertaken by government, educational institutions and community organisations.

*Contact:*

Dorothy Scott

Director

### **Australian Drug Foundation (ADF)**

The Australian Drug Foundation is a charitable, not-for-profit, independent organization and is the only non-government organisation in Australia working primarily in the area of prevention of drug problems. The ADF's mission is to work in partnership with the community so as to strengthen their capacity to prevent alcohol and drug problems and reduce alcohol and drug harms.

*Contact:*

John Rogerson  
Chief Executive Officer

**Australian National Council on Drugs (ANCD)**

The Australian National Council on Drugs (ANCD) is the principal advisory body to Government on drug policy and plays a critical role in ensuring the voice of the community is heard in relation to drug related policies and strategies. Membership of the ANCD includes people with a wide range of experience and expertise on various aspects of drug policy, such as treatment, rehabilitation, education, family counselling, law enforcement, research and work at the coalface in community organisations.

*Contact:*

Gino Vumbaca  
Executive Officer

**Cancer Council Victoria**

Cancer Council Australia is the nation's largest non-government cancer control organisation, representing the national interests of its members, the eight state and territory Cancer Councils. The Cancer Council is fully independent of government and provides evidence-based policy advice across the cancer control spectrum.

Cancer Council Australia has a high stake in alcohol control policy, as alcohol is a group one carcinogen (the highest rating) and its consumption is an important cause of preventable cancer in Australia.

*Contact:*

Elissa Campbell  
Legal Policy Officer – Alcohol

**National Drug Research Institute (NDRI)**

NDRI is one of the largest centres of drug research and public health expertise in Australia. and is a designated World Health Organization Collaborating Centre for Alcohol and Drug Abuse and a Curtin University of Technology Tier 1 Research Centre.

NDRI's mission is to conduct and disseminate high quality research that contributes to the primary prevention of harmful drug use and the reduction of drug related harm in Australia.

*Contact:*

Professor Steve Allsop  
Director National Drug Research Institute



### **National Centre for Education and Training on Addiction (NCETA)**

The National Centre for Education and Training on Addiction (NCETA) is an internationally recognised research centre that works as a catalyst for change in the alcohol and other drugs (AOD) field. The promotion of Workforce Development (WFD) principles, research and evaluation of effective practices is NCETA's core business.

*Contact:*

Ann Roche  
Director

### **National Drug & Alcohol Research Centre (NDARC)**

The National Drug and Alcohol Research Centre (NDARC) is a premier research institution in Australia and is recognised internationally as a Research Centre of Excellence. The Centre is multidisciplinary and collaborates with medicine, psychology, social science and other schools of the University of NSW, as well as with a range of other institutions and individuals in Australia and overseas.

The overall mission of NDARC is to conduct high quality research and related activities that increases the effectiveness of Australian and International treatment and other intervention responses to alcohol and other drug related harm. In addition to the research conducted at the Centre, other NDARC activities include an Annual Symposium and a range of special conferences and educational workshops

*Contact:*

Richard Mattick  
Director National Drug and Alcohol Research Centre,  
University of New South Wales

### **National Indigenous Drug and Alcohol Committee (NIDAC)**

The National Indigenous Drug and Alcohol Committee (NIDAC) was formed in 2004 to assist ANCD in providing advice to government on a range of issues that impact on Indigenous communities and ways of addressing the serious drug and alcohol issues that exist for Indigenous Australians, whilst ensuring that Indigenous drug and alcohol issues remain a priority.

NIDAC monitors the implementation of the National Drug Strategy Aboriginal and Torres Strait Islander Peoples' Complementary Action Plan 2003–2009. NIDAC reports to the Australian National Council on Drugs / Intergovernmental Committee on Drugs (IGCD) Joint Executive Committee.

*Contact:*

Ted Wilkes  
Chair NIDAC

### **Public Health Advocacy Institute of Western Australia (PHAI)**

The PHAI is an independent, university-based organisation working towards public health objectives in partnership with leading NGOs and academic institutions.

*Contact:*

Professor Mike Daube  
Professor of Health Policy  
Director, Public Health Advocacy Institute of WA

**Public Health Association of Australia (PHAA)**

The Public Health Association of Australia Inc (PHAA) provides a forum for the exchange of ideas, knowledge and information on public health. The Association is also involved in advocacy for public health policy, development, research and training.

*Contact:*

Michael Moore  
Chief Executive Officer

**Turning Point Alcohol and Drug Centre**

Since being established in 1994, Turning Point has led research and its translation into policy and practice at a local, national and international level. To best respond to emerging issues, Turning Point employs staff from a range of professional backgrounds and collaborates with organisations across the research, health, education and community services sectors.

The organisation integrates activities across a diverse range of specialist knowledge and professional practice. This unique combination enables Turning Point to translate evidence into action. Our work is essential to understanding the complexities of alcohol and drug use in our community and in developing effective approaches to prevent and treat dependence and other related harms.

*Contact:*

Robin Room  
Director

**Victorian Health Promotion Foundation (VicHealth)**

VicHealth, the world's first health promotion foundation, was established by the Victorian Parliament as part of the *Tobacco Act of 1987*. VicHealth (as its best known) works in partnership with organisations, communities and individuals to make health a central part of our daily lives with a focus on promoting good health and preventing ill-health.

*Contact:*

Todd Harper  
Chief Executive Officer

**Youth Substance Abuse Service (YSAS)**

The Youth Substance Abuse Service (YSAS) is the largest youth specific drug and alcohol treatment service in Victoria and has developed a national and international reputation as an innovative service, developing and providing holistic support for young people with drug and alcohol use problems. Services includes enabling clients and their families to deal with a broad range of health concerns, criminal justice issues and social and emotional difficulties. YSAS achieves this through direct service delivery, health promotion, public policy advocacy, research, education & training, community development and prevention.

*Contact:*

David Murray  
Executive Director

**Professor Margaret Hamilton**

Chairperson Multiple and Complex Needs Panel

Phone: (03) 8601 5223

Email: [Margaret.Hamilton@dhs.vic.gov.au](mailto:Margaret.Hamilton@dhs.vic.gov.au)

**Ross Homel PhD, FASSA, AO**

Professor of Criminology and Criminal Justice

Director, Strategic Research Program for the Social and Behavioural Sciences,

Deputy Director, Key Centre for Ethics, Law, Justice & Governance,

Griffith University|Mt Gravatt Campus

Phone: (07) 3875 5757

Email: [r.homel@griffith.edu.au](mailto:r.homel@griffith.edu.au)]

**Wayne Hall**

Professor of Public Health Policy

University of Queensland | School of Population Health

Phone: (07) 3365 5330

Email: [w.hall@sph.uq.edu.au](mailto:w.hall@sph.uq.edu.au)

**Professor Jake M Najman, PhD, FASSA**

Queensland Alcohol and Drug Research and Education Centre

The University of Queensland

Phone: (07) 3365 5180

Email: [j.najman@uq.edu.au](mailto:j.najman@uq.edu.au)

## Alcohol Taxation in Context

Some still argue for prohibition, or failing that, punitive tax rates and very strict regulation. The Group does not. The trauma and high social and economic cost associated with the misuse of alcohol is undeniable, but experience shows that unless a society fully and broadly supports it, prohibition will fail, and punitive taxes and very strict regulation will be resisted.

That still leaves the issue of trauma, social disruption and cost to be dealt with. Societies allowing the licit consumption of alcohol have therefore devised a suite of regulatory policies and government programs, supported by private sector efforts, to address the issue of trauma and cost consequent to alcohol abuse.

Taxation must play its part in this endeavour as it is known to be one of the most effective levers available to government to influence and moderate alcohol consumption by raising the real price of alcohol. Alcohol taxation is therefore not just a tax on consumption; it is a behavioural tool, a corrective tax. There are studies that suggest the outcomes of increased taxation can be dramatic.<sup>1</sup> There are dozens of studies from all over the world showing that an increase in the price of alcohol reduces consumption.<sup>2</sup>

The Group accepts that the consumption of alcohol is a well-established part of Australian culture and society. The Group's long experience with Australians at large, and with Australian governments and parliaments of all stripes, leads us to conclude that Australians accept the need to address alcohol misuse, and are well aware, sometimes painfully aware, of its nature. There is undoubtedly wide and common agreement on the need to minimise or reduce the social, safety, health and economic costs, and a realisation that much still needs to be done.

The Group proposes higher overall alcohol taxation (and therefore revenue), stronger and better-coordinated regulation, and remediation. The Group has proposed and continues to advocate much stronger action on harm minimisation by governments and society.

The terms of reference for this Review mean that the Panel must take into account social and economic outcomes, and this requirement will no doubt mean the Panel will need to develop and produce qualitative and quantitative data to support the Panel's conclusions and recommendations.

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<sup>1</sup> [http://ec.europa.eu/health-eu/doc/alcoholineu\\_summary\\_en.pdf](http://ec.europa.eu/health-eu/doc/alcoholineu_summary_en.pdf) - page 7 - *Alcohol taxes are particularly important in targeting young people and the harms done by alcohol in all countries. If alcohol taxes were used to raise the price of alcohol in the EU15 by 10%, over 9,000 deaths would be prevented during the following year and an estimate suggests that approximately Euro13b of additional excise duty revenues would also be gained.*

<sup>2</sup> For instance WHO Collaborating Centre for Research and Training in Alcohol and Drug Abuse, *Alcohol Taxation in the Western Pacific Region*, World Health Organisation, 2006.

On the positive side alcohol makes a vibrant and large contribution to the economy and employment. Such a contribution can readily be quantified through Government and industry statistics. We accept that millions of Australians value the role of alcohol in their social lives.

There is a substantial negative side to alcohol consumption, and the economic and social costs of the harmful consumption of alcohol should also be developed and produced by the Panel.

Tangible direct costs include alcohol-related and alcohol-specific crime and health costs, welfare costs, preventative measures like property protection, insurance, safety and security, and lost output and productivity by drinkers and affected third parties. Intangible costs include emotional impact costs for victims of crime or for those affected by domestic violence and abuse, the human costs of drink-driving, and the premature death of drinkers.<sup>3</sup> Other intangible costs include the impact of reduced perceptions of safety for business, especially in major cities.

The total tangible cost of alcohol to society in the European Union in 2003 was estimated to be equivalent to 1.3 per cent of GDP.<sup>4</sup> The intangible costs in the form of pain, suffering and lost life are estimated to be more than twice the tangible costs.<sup>5</sup> It would be hard to argue the situation would be that much different in Australia, and several studies (such as that by Collins and Lapsley) indicate the costs are similar.

Like the Group, the Panel will be fully aware that, while taxation plays a substantial and vital part in influencing consumer behaviour and in the consideration of Government policy on alcohol, it is not the whole story. The Group is cognisant that social mores and habits both generally and of particular high-risk sub-groups, the extent of, or limits to, the regulation of alcohol, the marketing of alcohol, the quality, content and types of alcohol, and the distribution, availability and consumption patterns of alcohol are all elements that must be addressed in developing the most effective and balanced alcohol strategy that includes a goal of reducing costs and harm.<sup>6</sup>

The Group collectively has a considerable store of knowledge on these matters, as does the Government. To try and integrate and relate the role of taxation with and to all these issues can be done, but would lead to a very long submission. The Group believes that the Panel will understand these connections already and can readily access the relevant literature and data, so the Group has preferred to keep this submission more narrowly focussed just on alcohol taxation.

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<sup>3</sup> See for instance an attempt to compute the costs of harmful alcohol use in England and Wales in 2001 -Table 4.2 page 31 OECD CPB Discussion Paper No 76 November 2006 – *Consumption Tax Trends* and Collins and Lapsley <http://www.nationaldrugstrategy.gov.au/internet/drugstrategy/publishing.nsf/Content/mono66>

<sup>4</sup> [http://ec.europa.eu/health-eu/doc/alcoholineu\\_summary\\_en.pdf](http://ec.europa.eu/health-eu/doc/alcoholineu_summary_en.pdf) - page 2.

<sup>5</sup> Page 5 OECD CPB Discussion Paper No 76 November 2006 – *Consumption Tax Trends*.

<sup>6</sup> The Government's National Alcohol Strategy attempts to address such matters.

## Alcohol Taxation needs to be Principles-Based

The Group submits that the Panel should approach the taxation of alcohol *de novo*, as if they were considering the taxation of alcohol for the first time. In adopting that approach the Panel should establish the principles that should govern the taxation of alcohol, and indicate why, and detail what the consequences of applying those principles will be. Wherever feasible and relevant, an alcohol taxation regime outlined on this basis should be supported by Treasury modelling and appropriate cameos or tax profiles.

Separately, if the Panel consider a departure from these principles necessary, the Group suggests the Panel outline any deviation from their alcohol taxation principles that is prompted by sound empirical evidence that ‘demographic, social, economic or environmental challenges’ or ‘Australia’s social and economic outcomes’<sup>7</sup> warrant such deviation.

Lastly, the Panel will need to indicate the time frame and transitional arrangements (including any justifiable temporary concessions) to smooth the passage to any new regime they may propose.

The Group’s principles for consideration by the Panel are these:

***Consumer products containing alcohol warrant specific taxation in addition to the taxation applying generally to consumer products and services.***

Alcohol should be taxed differently because it is not a normal benign consumer product. The World Health Organisation (WHO) says that alcohol is a drug which needs to be regulated and taxed as such.<sup>8</sup> The Group holds that it is valid and proper public policy to tax consumer products containing alcohol differently from other consumer products, solely because they contain alcohol. There are two main reasons for such an approach. Firstly, cost recovery is warranted. The known negative high economic and social effects from the harmful consumption of alcohol means that cost recovery is warranted to help support budgetary expenditure on alcohol-related public programs. Secondly, taxation is needed to raise the price of alcohol as a means of moderating risky and harmful drinking. Many alcohol products are cheap to produce. That price affects alcohol consumption is well-established. It is necessary to raise the price of alcohol products to restrain consumption: hence the need for a specific alcohol taxation regime.

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<sup>7</sup> These phrases are used in the Terms of Reference for Australia’s Future Tax System.

<sup>8</sup> See WHO 2007 Report [www.who.int](http://www.who.int) where they cite Babor, T et al, *Alcohol No Ordinary Commodity*, Oxford University Press, 2003.

***Optimal taxation design requires a taxation system to be simple, efficient and equitable: the alcohol taxation system should be no different.***

Reducing compliance costs, providing greater efficiency, getting rid of unnecessary complexity, initiating useful harmonisation, and rebuffing rent-seeking by favoured sectors will all hopefully be the result of the Panel's review. At present, alcohol taxation unjustifiably differentiates between some imported and domestic products; between similar products in the same product category; between different pack types; promotes low alcohol beer but not other low alcohol products; taxes some products by volume and others by value; and some producers and consumers get tax concessions and allowances not available to others. Despite significant improvements in alcohol taxation design over the last decade, the alcohol taxation system is still complex and distorted.

***Taxation revenue from alcohol should recognise the real costs (particularly but not only health costs<sup>9</sup>) arising from the harmful consumption of alcohol.***

Regard must be had to the economic and social reality of alcohol consumption and its budgetary consequences. The social and economic costs of the consumption of alcohol can be reliably estimated, and the taxation revenue raised from alcohol products should bear a meaningful relationship to the costs of harmful consumption.<sup>10</sup> The present total taxation of alcohol (estimated for 2008-09 at \$7+ billion) is very much less than the Collins and Lapsley estimated cost of alcohol harm of \$15 billion. On a user-pays basis, if alcohol tax revenue was calculated on a cost-neutral basis (which it is not) this would imply that the economic and social benefits of alcohol consumption make up the difference between \$7 and \$15 billion, which seems improbable. There is plainly room to increase the revenue raised from alcohol taxation to address this shortfall. Not only are many of the harms caused by alcohol borne by others, but there is no reasonable case for the taxation of other non-harmful products and services to be subsidising the costs of harmful consumption of alcohol products.

***A limited measure of hypothecation is warranted by the nature of alcohol products.***

The Group supports the revenue principle that taxation revenue is better added to the consolidated revenue fund so that the Government and Parliament can determine its subsequent use on a flexible and discretionary basis, but allowing for particular and specific hypothecation to occur on a by exception basis. Alcohol taxation is not presently hypothecated, and it is neither wise nor possible to hypothecate alcohol tax revenue for general law enforcement, health or welfare costs consequent to alcohol use. But the very large specific externality costs from drinking warrant a substantial expenditure, to counter

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<sup>9</sup> [http://ec.europa.eu/health-eu/doc/alcoholineu\\_summary\\_en.pdf](http://ec.europa.eu/health-eu/doc/alcoholineu_summary_en.pdf) - page 4 - *Apart from being a drug of dependence, alcohol is a cause of some 60 different types of diseases and conditions, including injuries, mental and behavioural disorders, gastrointestinal conditions, cancers, cardiovascular diseases, immunological disorders, lung diseases, skeletal and muscular diseases, reproductive disorders and pre-natal harm, including an increased risk of prematurity and low birth weight.*

<sup>10</sup> AMA Submission 33 to the 2008 Senate Community Affairs Inquiry – see its Report on *Ready-to-drink alcohol beverages* June 2008 p.6; - that almost three and a half thousand deaths are attributed to alcohol consumption each year, and the financial cost of the misuse of alcohol in Australia is over \$15 billion each year which refers to D. Collins and H. Lapsley, 2007(see note 3)

them, on research, education and public health action (that incidentally, should be independent of vested interests).The Group supports hypothecation for these purposes.

***Using tax as a behavioural tool requires rate-setting to be evidence-based.***

The *ad valorem* VAT/GST is an effective way to tax consumption in general. In contrast, excise is generally a targeted tax by reference to weight, volume, strength or quantity, and in the case of alcohol is not just a revenue-raiser but has a price-corrective and therefore behavioural intention. Excise tax settings therefore need to be evidence-based, and the ongoing collection and publication of quality, reliable and independent sales and consumption data is essential to ensure the most effective and equitable alcohol tax regime.

***Alcohol should be taxed as alcohol regardless of its type or category.***

Alcohol is a psychoactive drug. It can change the way we feel, think and behave. The physiological effects of a unit of alcohol ingestion on the human body are the same regardless of product type, so alcohol should be taxed as alcohol. The value of an alcohol product is irrelevant to its effect – ingesting a 750ml bottle containing 13 per cent alcohol by volume has the same alcohol effect whether it is cheap or dear. If the effects of harmful alcohol consumption are the same regardless of the product category, what justification is there for a tax regime that favours some alcohol categories of the same or stronger alcohol content over others? If alcohol products are to be taxed because they contain alcohol, which is the Group’s view, then they must be taxed according to the volume of pure alcohol in the product. That logical principle also meets the dictates of simplicity, efficiency, and (most markedly compared with the current system), equity.

***A premium above the standard rate of excise per unit of alcohol is sometimes warranted.***

The alcohol is alcohol approach means that products of the same or similar strength should be taxed the same. That should be the general but not universal rule. Where a product category or a product type within a category is targeted at or drunk by immature vulnerable and high-risk drinkers then it is appropriate to discourage the drinkers by applying a premium to the standard tax rate.<sup>11</sup> Spirits presently attract a higher excise per unit of alcohol than beer, because of its different effects, product characteristics and methods of drinking. The present ratio of spirits being taxed about twice as much as beer per unit of alcohol in Australia (just as it is in the EU), should be maintained.

***The tax regime should encourage less harmful consumption by taxing alcohol content progressively.***

This means that a number of alcohol tax thresholds and rates are required on a scaled basis. Alcohol consumption frequently involves consumption of a number of drinks over a particular time-frame, and drinkers generally tend to a repeat pattern of regular drinking behaviour. On health and safety grounds consumers of alcohol are better off consuming

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<sup>11</sup> Australia has legislation in the Senate at the time of writing to tax ‘alcopops’ because the Government is concerned they are drunk in volume by young (including under-age and female) drinkers. A similar approach has been adopted by Denmark, France, Germany and Luxembourg.



lower-strength drinks than the same number of higher-strength drinks in a given drinking period. Pricing has its part to play in encouraging such behaviour. This means that low-strength alcohol products should attract less taxation than mid-strength alcohol products, which in turn should attract less alcohol taxation than high-strength products, which in turn should attract less alcohol taxation than the highest-strength products.

***The current value of alcohol taxes should be maintained and not erode over time, to ensure that the real price effect of taxation remains constant.***

This means that alcohol taxation should be indexed to the consumer price index, as it presently is in Australia.<sup>12</sup>

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<sup>12</sup> Customs and excise alcohol duties are automatically increased twice a year on 1 February and 1 August to take into account movement in the consumer price index over the previous six months. There is no automatic six monthly indexation of the WET as there is for spirits and beer duties but this is to be expected as the former is a per cent rate, and the latter a dollar rate.

## Reforming the National Alcohol Taxation Regime

Federation in 1901 saw the Commonwealth take exclusive responsibility for collecting customs and excise duties from the colonies, but the States continued to apply sales taxes or franchise taxes on alcohol. After various High Court decisions, negotiated agreements between the States and the Commonwealth, and enabling federal legislation, by the end of the twentieth century all powers to tax alcohol had shifted to the Commonwealth.

Australia's alcohol taxation regime reflects many characteristics common to alcohol taxation world-wide. This is not surprising given the origins and nature of the alcohol industry, Australia's history, the advance of globalisation, increasingly easy international information exchange, and the input of both public and private multi-national organisations.

The Group notes that the Panel's Terms of Reference do not include a requirement for the Panel to examine the harmonisation of Australia's tax laws with other countries. The Group does not see this as a priority, although we have no objection to harmonising Australia's alcohol taxation regime with other countries where it is in Australia's interest to do so, but the Group will expect the Government to continue to put the national interest first.

The Group is well aware, as is the Government, that the harmful consumption of alcohol is an international issue, not just a domestic one. Product types, brands, distribution and marketing techniques are global. The Group notes the moves by the European Union towards a common alcohol taxation regime. Members of our Group have regional and Pacific interests. As a by-product of this Review the Government may wish to consider whether it can persuade its neighbours, particularly New Zealand under the Closer Economic Relations Agreement, to agree to adopt the same alcohol taxation principles and system as Australia.

Customs and excise duties on alcohol, and the wine equalisation tax (WET)<sup>13</sup> on wine, cider, perry, mead and sake, are taxes on consumption. Consumption taxes are typically described as regressive in that the same level of taxation applies to rich or poor. In the case of alcohol that is good policy. A unit of alcohol has exactly the same effect on the body of a poor or rich person.

If alcohol tax was purely designed for revenue purposes it might be designed differently, but governments have long recognised they need to take public health and safety into consideration. Alcohol tax is not a single flat tax, and rightly so. With respect to customs and excise duties alcohol tax varies according to the category of alcohol product, and is progressively more onerous as the alcohol content in a product increases.

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<sup>13</sup> The Australian Taxation Office website states that: *Wine equalisation tax (WET) is a value-based tax which is applied to wine consumed in Australia. It applies to assessable dealings with wine (unless an exemption applies) which include wholesale sales, untaxed retail sales and applications to own use. The WET rate is 29 per cent of the wholesale sales value.*

Alcohol tax should encourage the consumption of lower strength drinks for health and safety reasons. Drinks that contain more alcohol than others should be taxed more. It is good policy for a 750ml bottle of spirits containing 40 per cent alcohol by volume to be taxed much more than a 750 ml bottle of wine containing 13 per cent alcohol by volume. It is good policy for lower strength beer to be taxed less than higher strength beer.

However these basic principles are distorted by alcohol tax policies adopted for other reasons, sometimes validly so, but most often the result of effective sustained sectional or partisan industry pressure. This is most evident in Australia with the wine equalisation tax. This tax favours the wine alcohol industry over the beer and spirits alcohol industries, and has the effect of very lightly taxing high alcohol wine casks and making them very inexpensive.

The motivations behind the taxation of alcohol are common to many countries, and have a long history. In Australia customs and excise duties on alcohol were once a very large proportion of the total revenue, and are still a substantial sum.

If the original and principal motivation for customs and excise taxes on alcohol was the generation of revenue, undoubtedly at least three other motivations have been present.

One prime intention of the alcohol tax regime, supported by extensive scientific studies on the effects of price on alcohol consumption and substitution, is to constrain or influence the consumption of alcohol in general, and of specific alcohol types, by tax increasing or affecting the end price.<sup>14</sup> This tax policy means trying to reduce the consumption of the highest alcohol products such as spirits. However such an intention cannot be punitive. Setting the right spirits price point needs careful management as over-taxing can encourage illegal production or switching from taxed commercial products to tax-free home-made products.

Governments internationally have learnt through trial and error what tax spirits consumers can and will bear before they feel oppressed enough to rebel, or to switch from licit consumption to illicit consumption through illegal stills.

At the other end of the scale governments have learnt through experience what level of tax encourages substitution from full strength to low or mid strength beers.

Governments have learnt that alcohol tax cannot be set at a level consumers consider unreasonable. Australians demand a 'fair go', and in the alcohol context that means that having a beer at the end of a working day needs to be affordable for working people.

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<sup>14</sup>See for instance the Senate Community Affairs Report on *Ready-to-drink alcohol beverages* June 2008 p.10 para 2.32: *The Royal Australasian College of Physicians (RACP) also noted that tax and price controls were among the most effective and cost-effective strategies to reduce rates of alcohol consumption and harm and could have a profound and rapid effect. They pointed to the conclusions from a number of studies which found that, while the effect varied for different countries and beverages, no other single policy had the same potential to reduce the social, health and economic costs of excess alcohol use as much as alcohol taxation.*

This leads to an important point the Group wishes to emphasise. The drinking culture and characteristics of countries vary, as does that of different demographic and psychographic groupings within countries. Trends, behaviour and disposable income change over time. It is necessary to develop relevant data and to continually update that data.

To optimise tax settings designed to influence price points as a contribution to safer and healthier consumption of alcohol, continual empirical scientific study is needed on price elasticities, cross-elasticities and substitution effects in the Australian context.<sup>15</sup> Such research needs to be done independently of vested interests. The Group urges the Government to provide substantial ongoing funding for such work.

Another policy that has been common to many countries has been a protectionist and preferential policy towards certain products, sometimes favouring domestic over foreign interests, and sometimes favouring one domestic alcohol industry over another. Such protectionist and preferential policies have been particularly evident with wine and its producers.<sup>16</sup>

As governments have developed more rational and transparent policy settings, and as free trade principles and global understandings have developed, these protectionist inclinations have become less palatable to governments and parliaments. Nevertheless as Treasury knows well, it takes a concerted effort to end such practices. The Panel has been given an opportunity to make a material and positive difference to alcohol taxation. The Group will be recommending the removal of the many distortions that still characterise alcohol tax.

Another common policy has been to use alcohol tax as an economic tool to improve or support the viability of particular economic sectors, for instance by providing wine producer rebates or by taxing draught beer preferentially to bottled beer. If the effect of such policies is to favour one set of alcohol producers and consumers over another, such preferences come at a cost, and need rigorous review if they are to be maintained. The Group is of the view that government support for selected business sectors for economic reasons should not have the effect of making alcohol cheaper for those favoured by such support.

#### → **Remove the worst distortion: Tax all alcohol by volume**

In July 2000 the Commonwealth introduced an ad valorem (value-added) tax, the Goods and Services Tax (GST), which is a broad-based tax of 10 per cent on most goods, services and other items sold or consumed in Australia, including all beverages containing alcohol. The GST replaced the Wholesale Sales Tax (WST).

If the GST had replaced the WST on wine (then at 41 per cent) this would have meant the price of wine would have fallen drastically. This was unacceptable to the Government of the

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<sup>15</sup> -See pages 34-39 discussion on 'Optimal Alcohol Excise Duty' OECD CPB Discussion Paper No 76 November 2006 – *Consumption Tax Trends*.

<sup>16</sup> In the European Union in 2006, of 25 countries, all imposed excise on beer and spirits, but only 12 imposed excise duties on still wine – Belgium, Denmark, Estonia, Finland, France, Ireland, Latvia, Lithuania, Netherlands, Poland, Sweden and the UK. Table 2.1 page 14 OECD CPB Discussion Paper No 76 November 2006 – *Consumption Tax Trends*. OECD countries that excise still wine include Canada, Japan, and the USA.

day, but the alternative of substituting an excise tax on the alcohol content of wine (as was already the case with beer and spirits) was unacceptable to major producers in the wine industry, although not to all wine producers, such as the Independent Winemakers Association.<sup>17</sup>

The major producers' views prevailed and the WET was introduced so that *'the price of a four litre cask of wine need only increase by the estimated general price increase associated with indirect tax reform, ie 1.9 per cent'*.<sup>18</sup>

Wine (including fruit and vegetable wine), cider, perry, mead and sake are taxed by value (via WET) and not by volume (via customs and excise duties). Taxing by value through WET means that a set percentage tax applies to the wholesale selling price of specified consumer products containing alcohol (but regardless of the amount of alcohol). The higher the value of the product the higher the revenue raised. Taxing by volume means that regardless of the value of the beer or spirits product it is the per cent alcohol content by volume in the product that is taxed at a set rate per litre of pure alcohol.

In contrast to beer and spirits which are taxed both for revenue generation and to help achieve healthier drinking outcomes, wine is only taxed for revenue reasons. A few cents tax on high-strength low value wines does nothing to influence healthier drinking behaviour. The idea that wine should not be taxed on its alcohol content as is beer or wine because it is not a source of alcohol misuse or abuse is irresponsible and erroneous.<sup>19</sup>

When looking at the like-to-like measure of a standard drink,<sup>20</sup> under the Australian alcohol taxation system a spirits-based RTD pays many times the alcohol tax of a cask wine and several times the alcohol tax of a cider product. A wine-based RTD has to have an alcohol content of more than 8 per cent alcohol by volume before attracting any alcohol tax at all. How does that contribute to revenue-raising or better health outcomes? Such distortions need to be ended.

Taxing alcohol as alcohol through the customs and excise system is a policy the Group strongly advocates for all alcohol products.

→ **Remove distortions in alcohol tax: Tax expenditures (conferring a benefit)**

The Commonwealth Government's Tax Expenditures Statement<sup>21</sup> defines a tax expenditure as a tax concession that provides a benefit to a specified activity or class of taxpayer. The 2007 Tax Expenditures Statement lists the following concessions, benefits and incentives to alcohol producers and consumers:

- Brandy p177 (annual \$5m);
- Brew on Premise beer p177 (annual \$4m);

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<sup>17</sup> Senate Select Committee On A New Tax System Report on Commonwealth-State Financial Arrangement Bills Luxury Car Tax Bills and Wine Equalisation Tax Bills April 1999 p.20 para 2.49: *'IWA [Independent Winemakers Association] also noted that cask wine is a prime cause of alcohol abuse, costing taxpayers \$4.7 billion annually.'*

<sup>18</sup> 1999 A New Tax System document p.87.

<sup>19</sup> In its 1999 A New Tax System document p.87 the Government stated: *The concessional taxation treatment of the alcohol content of cask wine will therefore be preserved.*

<sup>20</sup> A standard drink is a means of comparing the amount of pure alcohol in various alcohol products of differing alcohol strengths. In Australia a standard drink is 10 grams of pure alcohol (equivalent to 12.67mls).

<sup>21</sup> Australian Government: The Treasury: 2007 Tax Expenditures Statement: January 2008.

- Draught beer p178 (2008-09 \$170m);
- Low strength beer p178 (annual \$15m);
- Privately produced beer p178 (2008-09 \$40m);
- Microbreweries p179 (\$-);
- Privately produced wine p179 (2008-09 \$15m);
- WET producer rebate p180 (2008-9 \$195m).

The Statement lists the total estimated value for these alcohol tax expenditures in 2008-09 as \$444 million. In other words, \$444 million less tax is collected annually, than otherwise would be.

**Brandy** is subject to a lower rate of excise per litre of pure alcohol than other spirits and this delivers a tax concession benefit to brandy producers and consumers estimated by Treasury at \$5 million a year. This is a historical anachronism. There can be no valid economic health or social policy justification for favouring brandy spirits producers and consumers over other spirits producers and consumers. This tax concession should be removed.

**Brew on premise beer** is beer produced for non-commercial purposes using commercial facilities or equipment and is subject to a lower rate of excise than beer. It represents a tax concession benefit estimated by Treasury to be \$4 million a year to consumers of these products. Brew on premise allows consumers to brew their own beer at commercial premises rather than brewing it at home. Whether beer is brewed for commercial purposes or not the effect of the alcohol on the consumer is the same. Alcohol is alcohol and like products should be taxed alike. This tax concession should be removed.

**Draught beer** in individual containers exceeding 48 litres is subject to a lower rate of excise than beer packaged in individual containers not exceeding 48 litres. The cost of this tax benefit is estimated by Treasury at \$170 million in 2008-09. This tax concession favours drinkers of tap beer over drinkers of bottled beer in hotels and bars. The effect of the alcohol on the consumer is the same. Alcohol is alcohol and like products should be taxed alike. This tax concession should be removed.

**Low strength beer** that is packaged in containers not exceeding 48 litres and which has an alcohol content of no more than 3 per cent is taxed at a concessional rate relative to higher strength beer. The first 1.15 per cent of alcohol remains free of excise. The annual cost of this tax benefit is estimated by Treasury at \$15 million. The consumption of low alcohol products in preference to higher strength products is of benefit from a health and social perspective and has no negative economic effect. This tax concession is easy to administer and has resulted in safer drinking behaviour. The concession should be retained. There is no obvious reason why the 48 litre restriction should remain. It should be noted in passing that there is a mistaken attitude here. A low strength excise should no more be described as a concession than should a lower income tax rate versus the top marginal income tax rate. Low alcohol beer is a deliberate policy setting that is valid on its own account.

**Low strength wine, low strength pre-mixed spirits, and other low strength alcohol products** do not enjoy a concessional rate relative to high strength wine; high strength pre-mixed spirits and other high strength alcohol products. Alcohol is alcohol, and like products

should be taxed alike. While there may be technical reasons why low strength wine for instance may at present be difficult to produce<sup>22</sup>, the tax system should not act as a disincentive to the development and marketing of low strength products when the health and social benefits are so clear. Like beer, any product which has an alcohol content of no more than 3 per cent should be taxed at a concessional rate relative to any higher strength product, and if the 1.15 per cent threshold is to be kept for beer, then it is equitable that for all alcohol products the first 1.15 per cent of alcohol should remain free of excise.

**Privately produced beer** is beer made for personal use by private individuals and is exempt from the payment of excise. The cost of this tax benefit is estimated by Treasury at \$40 million for 2008-09. Whether beer is brewed for private purposes or not the effect of the alcohol on the consumer is the same. There is no case for the consumer of home-brew to be tax-preferred to the consumer of commercial brews. Alcohol is alcohol and like products should be taxed alike. We assume the difficulty lies with the Tax Office trying to assess the quantity brewed by each home-brewer and then trying to ensure compliance with the excise. For practical reasons this concession may have to remain, but that should be stated as the reason for the concession, not the preferment of one type of beer drinker over another.

**Privately produced wine** is wine made for personal use by private individuals and is exempt from the wine equalisation tax. The cost of this tax benefit is estimated by Treasury at \$15 million for 2008-09. Whether wine is made for private purposes or not the effect of the alcohol on the consumer is the same. There is no case for the consumer of home-made wine to be tax-preferred to a consumer of commercially made wine. Alcohol is alcohol and like products should be taxed alike. We assume the difficulty lies with the Tax Office trying to assess the quantity made by each private person and then trying to ensure compliance with the tax law. For practical reasons this concession may have to remain, but that should be the reason for the concession, not the preferment of one type of wine drinker over another.

**Microbreweries** producing less than 30 000 litres of product per annum receive excise concessions in the form of a refund of excise paid. The refund paid in any financial year cannot exceed the lesser of \$10 000 or 60 per cent of the excise payable. Treasury does not provide an estimate of the cost of this concession. This tax concession favours drinkers of microbrewery products over drinkers of larger brewery products. The effect of the alcohol on the consumer is the same. Alcohol is alcohol and like products should be taxed alike. This tax concession should be removed.

**The Wine Equalisation Tax (WET) producer rebate** means that wine, cider, perry, mead and sake receive a rebate of the first \$500 000 of WET paid annually. Treasury estimate the cost of this tax benefit as \$195 million in 2008-09. The difficulty with WET is that it does not tax each litre of pure alcohol as excise does, but instead taxes the value of products that contain alcohol, so products with the same alcohol content but of different values attract a different tax quantum. This rebate measure confuses two distinct policy matters - supporting certain

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<sup>22</sup> Although it should be noted that a number of OECD countries do have incentives for the production of low-strength wine. Table 4.2 page 59 indicates 12 OECD countries have a low alcohol wine excise rate: OECD 2006 *Consumption Tax Trends VAT/GST and Excise Rates, Trends and Administration Issues*.

categories of business and the taxation of products containing alcohol. In introducing this rebate the Government stated that it wished to support small business and rural and regional tourist related businesses. It is not desirable to achieve this goal by making alcohol cheaper. This tax concession favours certain drinkers of wine, cider, perry, mead and sake over other drinkers of the same products, based on the place of purchase and the size of the business concerned. The effect of the alcohol on the consumer is the same. Alcohol is alcohol and like products should be taxed alike. This tax concession should be removed.

→ **Remove distortion in alcohol tax: Negative tax expenditure (conferring a charge)**

The Commonwealth Government's Tax Expenditures Statement<sup>23</sup> defines a negative tax expenditure as arising when an additional charge rather than a benefit is imposed. The 2007 Treasury Tax Expenditures Statement lists Ready to drink p179 (-\$230m for 2008-09) as being in this category.

**Ready to drink beverages** (RTDs<sup>24</sup>) are subject to an additional tax charge rather than a tax benefit, resulting in an additional cost to RTDs estimated by Treasury at \$230m for 2008-09.<sup>25</sup>

The policy principle to be considered is the question of thresholds. Alcohol's effects on individuals escalate in direct proportion to the absolute alcohol present in the product by volume. That is why it is good policy to tax a 750 ml bottle of spirits at a far higher rate than a 750 ml bottle of beer.

The Group supports a progressive scale of alcohol taxation commencing at its lowest for low-strength products, and climbing higher through a number of bands within which a taxation rate is applied by volume per litre of pure alcohol.

The Group reiterates that alcohol is alcohol. Therefore any product, be it a beer, wine, RTD, cider, or sake product that is in the same alcohol taxation band, such as not exceeding an alcohol content of 10 per cent, should be subject to the same tax rate. Ingesting a wine product, or a beer product, or an RTD product – each containing 10 per cent alcohol – has the same effect on the consumer. There is no justification for an RTD product containing 10 per cent alcohol by volume to be taxed more than a beer product containing 10 per cent alcohol by volume. There is no justification for a wine or cider product containing 10 per cent alcohol by volume to be taxed less than a beer or RTD product containing 10 per cent alcohol by volume.

However there is the question of a premium to be added to the standard excise rate when evidence indicates that a product category or a product group within a category are

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<sup>23</sup> Australian Government: The Treasury: 2007 Tax Expenditures Statement: January 2008.

<sup>24</sup> RTD as a drinks category (it is more narrowly targeted as an excise) refers to spirits, cider, fruit-flavoured wines, and fruit-flavoured beers that are pre-mixed with non-alcoholic mixers, so producing a measured drink with a known alcohol content. Such drinks can be based on spirits, wine, both spirits and wine, or other alcohol sources. This category is sometimes referred to as 'Designer Drinks' or more colloquially as 'Alcopops'.

<sup>25</sup> Until such time as the Senate decides whether to support the RTD excise changes, as introduced in the May 2008 Budget, this submission will assume that the law applies as prior to May 2008.



provoking a higher level of risky behaviour. In its proposed principles the Group has indicated it supports adding a premium to the standard rate when a high-risk category is identified.. That principle has been asserted by the Government with the proposed new RTD rate presently before the Senate because of the Government’s concern with at-risk young drinkers – but that is not the subject of this tax expenditure described here.

→ **Remove the protective tariff distortion**

Imported spirits and RTDs, but not imported beer or wine, are subject to an additional 5 per cent ad valorem customs duty. This is a protective tariff and is estimated to raise \$18 million revenue annually.

The Group can see no justification for different tax levels between imported and domestic spirits and RTDs and this distortion should be removed.

## Setting Alcohol Thresholds and Tax Rates

The Panel should not attempt to make revenue-neutral recommendations with respect to alcohol taxation reform. The Group notes recent Senate Committee evidence that increased alcohol taxation is warranted.<sup>26</sup> The Group agrees.

Introducing a new alcohol tax regime will mean that some prices may rise and others fall. Provided the principles spelt out earlier are observed that is not a problem for products that are already expensive, but one point deserves emphasis. The Group do not envisage its suggestions having that effect, but the effect of tax reform should not have the perverse result of alcohol that is consumed by high-risk drinkers falling in price.

There has been recent controversy over the Government's May 2008 budget decision to increase the tax on RTDs. The Group believes that more revenue (both general and hypothecated) is needed to address the harm caused by risky and high-risk drinking behaviour, but the Group is of the view that the difficulty of that particular RTD tax increase was that it was done in isolation of and was not balanced by other necessary alcohol taxation reform.

Once the decision is made to tax all alcohol products above a minimum alcohol content by volume, without exception, then the next question is whether to tax by category and type as at present; or to introduce tiered or scaled rates for each type (ie low mid and full strength beer; low mid and full strength wine; and so on); or to disregard how a product is made and just focus on alcohol content and scale rates progressively upwards as alcohol content increases.

The logic of the 'alcohol is alcohol' approach is that a 3 per cent by volume beer wine or spirits product all have the same effect on the human body and therefore should have the same excise tax rate; and so on, up the scale. This would be the Group's preferred approach, but a caveat applies for the highest alcohol products.

The 'alcohol is alcohol' policy approach implies a constant linear progressive alcohol tax scale, moving steadily up as the alcohol content increases. The nature of alcohol means that is the correct approach at the bottom end of the scale, but what is required further on is a non-linear accelerating scale. This is because there are beverage-specific problems from the highest-alcohol beverages. Just to take two examples - it is very difficult to die from an overdose of beer – almost all alcohol poisonings are with spirits. Head and neck cancers are particularly associated with spirits drinking. As a consequence of these traits nearly all countries discourage spirits drinking by taxing it more heavily, which helps to drive down the spirits share of the market, but considerably lift the spirits share of alcohol tax revenue.

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<sup>26</sup> The Senate Community Affairs Report on *Ready-to-drink alcohol beverages* June 2008 p.33 para 4.2: *...the majority of submissions argued that raising alcohol taxes needed to be part of a comprehensive approach to address the harmful and hazardous use of alcohol...*

The present ratio of spirits being taxed about twice as much as beer per unit of alcohol in Australia (just as it is in the EU), should be maintained. The group is not opposed to it widening, if the Panel so decides, but the ratio should not fall below the 2:1 it is at present.

By their nature, alcohol products have characteristic alcohol groupings – for instance wine may range from 9.5 to 15 per cent alcohol by volume. Without the full consultation and modelling that should accompany such decisions, the Group hesitates to propose precise thresholds for alcohol taxation. The Group as a whole does not have sophisticated and comprehensive alcohol behavioural price modelling, but has access to advanced modelling originally commissioned by AER<sup>27</sup>, which the Panel is welcome to use if it wishes.

The Group is aware that Treasury has access to a range of both public and private modelling capabilities, and accepts that it is best placed to make an evidence-based judgement on thresholds and rates, provided the principles the Group has outlined herein are observed.

There will be arguments that the fewer excise rates the simpler the system. The Panel should avoid such thinking. It should consciously attempt to introduce excise rates that encourage the consumption of lower alcohol spirits to higher alcohol spirits, and the same distinction for wine, beer and other alcohol products.

In general, we have some observations: starting at the bottom, it is **good policy for a very low alcohol content product to be alcohol-tax-free**.<sup>28</sup> This should apply to all products containing alcohol, which in Australia it does not at present. If this were done, to retain present excise price effects, (which is desirable), this means some alcohol categories will need their excise rates adjusted upwards by the same amount.

Secondly it is **good policy to have a common low excise rate for low alcohol products**. Products other than beer should also have access to the low strength tax rate. It is important to encourage consumers to switch consumption to low strength alcohol products below 3.5 per cent alcohol content by volume.<sup>29</sup>

It would seem to the Group that **the present low strength and mid strength and full strength beer settings**<sup>30</sup> **are suitable for all products, not just beer, in those alcohol ranges** but that there needs to be a further threshold half way to the present 10 per cent excise threshold to account for high strength beers and some RTD wine and spirit based products.

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<sup>27</sup> In relation to the tax model, it is an Australian alcohol market tax model developed by Mr. Rob Preece of the Centre for Customs and Excise Studies at the University of Canberra and Econtech for the Alcohol and other Drugs Council in 2005.

<sup>28</sup> In Australia the first 1.15 per cent of alcohol in beer is free of excise. The legal definition of alcohol varies, but in the European Union on average it is 1.2 per cent alcohol by volume: see footnote 8 page 11 OECD CPB Discussion Paper No 76 November 2006 – *Consumption Tax Trends*.

<sup>29</sup> At present low alcohol beer is 2.7 per cent alcohol by volume and is estimated to have 3.3 per cent of the total alcohol market as measured in total litres of pure alcohol. As it is a low-strength product that means its share of drinks is far higher.

<sup>30</sup> 2.7 per cent, 3.5 per cent and 4.9 per cent alcohol by volume respectively.

**A new excise point 6.5 or 7 per cent alcohol by volume is suggested.** There are fruit wine, wine, cider, RTD and beer products that fall below this point, and above 5 per cent, and some cask wine, wine and beer products that are above the 8 per cent point.

The Group believes there needs to be **a rate to cover the fruit/vegetable wine, still wine and sparkling wine grouping (say from 10 per cent to 14.5 or 15 per cent alcohol by volume).**

The Group believes there needs to be **a rate above the still and sparkling wine grouping (say from 14.5 or 15 per cent to 22 per cent alcohol by volume)** to cover off strong alcohol beverages including fortified wines and liqueur type products.

Spirits typically cover the 37 per cent to 42 per cent range, with liqueur-type products sometimes at lower strength levels. The next excise band should cover stronger products such as **liqueurs and spirits, from 22 to 40 per cent alcohol by volume.**

At the top end of the scale the Group believes there should be **a rate for spirits above 40 per cent alcohol by volume.**

As a means of influencing consumer behaviour alcohol taxation is a blunt instrument as it affects all producers and consumers regardless of their particular profile. There is a need for an additional policy mechanism that allows for a targeted, even temporary, policy reaction where appropriate.

The Group believes that the Government should consider giving itself access to a temporary discretionary penalty excise rate to give it an ability to target a brand or type of beverage on a rapid-reaction basis. To be made permanent this should require parliamentary approval within twelve months. Such a ministerial discretion will obviously need to be tightly drafted.

The Group makes this recommendation because of recent experience with legal products targeted at vulnerable groups, so that the Government has the ability to react rapidly to products that are legal but that are designed for and marketed to underage drinkers.