Australian Government

Department of Health and Ageing

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Submission to the

Senate Community Affairs Committee for the

Inquiry into Excise Tariff Amendment (2009 Measures No. 1) Bill 2009
and

Customs Tariff Amendment (2009 Measures No. 1) Bill 2009 [provisions]

Senate Referral

The provisions of the Excise Tariff Amendment (2009 Measures No. 1) Bill 2009 and the Customs Tariff Amendment (2009 Measures No. 1) Bill 2009 be referred to the Community Affairs Committee for inquiry and report by 13 March 2009, together with the following matter:

The impact of the tax on ready-to-drink alcoholic beverages, the so-called 'alcopops' tax, since its introduction on 27 April 2008, with particular reference to:

(a) the revenues raised under the alcopops tax measure;

(b) substitution effects flowing from the alcopops tax measure;

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

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

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

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

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

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

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

1. Introduction

The Department refers the committee to the previous submission, lodged for the *Inquiry into Ready-to-Drink Alcohol Beverages* (June 2008), which includes trends and data related to alcohol consumption in Australia and notes the Committee's recommendations from that Inquiry:

- 4.21 The Committee supports the introduction of the excise increase on spirit based RTDs, and does so in acknowledgement that it is one in the context of a range of measures undertaken or to be considered to address harmful alcohol consumption by young people.
- 4.22 The Committee notes that some of the additional measures suggested to the Committee will be included in the work being undertaken for COAG but strongly supports the whole range being considered as part of the review.
- 4.43 The Committee notes the potential for alcohol substitution to occur and supports the government's commitment to evaluate the effectiveness of the measure increasing the excise on spirit-based RTDs and all components of the binge drinking strategy.
- 4.74 The Committee supports the call for a review of alcohol taxation and notes that an examination of alcohol taxation will be included in the comprehensive review of the tax system currently underway (the Henry Review).

2. Consumption of RTDs

The Department of Treasury is responsible for matters relating to taxation policy and the Australian Taxation Office (ATO) collects data at the excise duty payment point. Excise clearances represent the most reliable and consistent indicator of trends because they are an index of pure alcohol consumption.

ATO figures show that from May 2008 to January 2009, total spirits clearances decreased by 7.9 per cent compared to the same period in 2007[1]. In the previous three years the average increase was 5.3 per cent.

This change in total spirit clearances includes a 35 per cent decrease in ready-to-drink (RTD) clearances, and a 17 per cent increase in full strength spirits clearances. As excise is levied per litre of pure alcohol, these figures are directly comparable. In contrast, solid growth was recorded for this period in each of the previous three years (12.3 per cent in 2005-06, 8.2 per cent in 2006-07 and 10.1 per cent in 2007-08). As the tax collected on wine is not based on volume (it is a per cent of the wholesale price of wine), there is no ATO data on how wine sales have changed since the excise increase.

The fall in ATO clearance data is reflected in sales data from AC Neilsen research showing that while bottled spirit and beer sales have risen, they have not offset the drop in RTD sales, with total liquor sales falling by 3 million standard drinks per week since the excise increase. An editorial recently published by the Medical Journal of Australia compared estimated national monthly sales of packaged alcohol (sold for

1 The Treasury. 2009. Submission to the Senate Community Affairs Committee for the Inquiry into Excise and Customs Tariff Amendments.

off-premise consumption by liquor licensees across five states) collated by AC Nielsen by beverage type in the three months after the April 2008 tax to the same months in 2007. From May to July in 2008, some 91 million fewer standard drinks were sold as RTDs than in the same months during the previous year. Wine sales also decreased but standard drinks sold as spirits and beer increased. However, the increase in spirit and beer sales was 48 million standard drinks as compared to the 91 million fewer RTD drinks sold, indicating that the decline in RTDs was only partially offset by increased sales of these other packaged beverages. In other words, there appeared to have been some 'substitution' to beer and spirit products but the net effect of the tax excise was 43 million less standard drinks consumed as RTDs.[2]

The consumption patterns of RTDs by sex and age group in Australia are described in Table 1, derived from the 2007 National Drug Strategy Household Survey (NDSHS).[3] The Department has asked the AIHW to publish this as an addendum to the NDSHS *Detailed Findings* report, as short term risk is a more accurate indicator of harm than longer term risk for young people.

Table 1: Type of alcohol usually consumed, recent drinkers aged 14 years or older, by short-term risk status, 2007 (per cent).

		Males		Females	
Age Group	**Type of alcohol usually consumed**	**Low Risk**	**Risky / High Risk**	**Low Risk**	**Risky/ High Risk**
14–19	Bottled spirits and liqueurs	37.3	64.5	54.2	75.9
	Bottled wine	14.5	14.0	20.7	22.5
	Cask wine	4.6	12.4	4.0	12.2
	Cider	2.3	8.3	3.1	6.6
	Fortified wine/port/vermouth/sherry etc	8.4	19.2	7.3	12.5
	Low Alcohol Beer	11.9	6.1	6.9	2.8
	Mid Strength Beer	18.1	18.3	8.7	9.3
	Pre-mixed spirits in a bottle	26.3	39.1	58.9	75.3
	Pre-mixed spirits in a can	48.6	64.7	51.2	73.4
	Regular Strength Beer	39.7	72.3	7.6	20.8
20–29	Bottled spirits and liqueurs	47.4	61.5	51.7	67.6
	Bottled wine	34.3	33.9	57.2	64.0
	Cask wine	5.2	8.8	8.0	14.4
	Cider	3.3	5.3	5.7	8.0
	Fortified wine/port/vermouth/sherry etc	17.1	18.7	15.8	15.2
	Low Alcohol Beer	15.2	6.9	6.2	5.4
	Mid Strength Beer	21.5	17.6	7.6	11.4
	Pre-mixed spirits in a bottle	24.8	28.0	45.9	49.3
	Pre-mixed spirits in a can	38.7	56.4	30.4	46.4
	Regular Strength Beer	57.8	78.3	16.7	38.1

The majority of young people aged 14-19, particularly young females, prefer to drink pre-mixed RTDs in a bottle or can. In addition, young people who drink at risky or high risk levels for short term harm have a stronger preference for RTDs, and more commonly list them as their usual drink compared to those who drink at low risk levels.

2 Chikritzhs T, Dietze P, Allsop S, Daube M, Hall W and Kypri K 2009. The "alcopops" tax: heading in the right direction. *MJA Rapid Online Publication*.

3 Australian Institute of Health and Welfare 2008. *National Drug Strategy Household Survey: First Results*; AIHW cat no PHE 987.AIHW: Canberra.

For females aged 14-19 who drink at risky and high risk levels, 75.3 per cent report that they usually consume RTDs in a bottle, and 73.4 per cent listed RTDs in a can. For females who drink at low risk levels, 58.9 per cent report that they usually consume RTDs in a bottle, and 51.2 per cent listed RTDs in a can.

For males aged 14-19 who drink at risky and high risk levels, 64.7 per cent report that they usually consume RTDs in a can, while 72.3 per cent listed regular strength beer. For males aged 14-19 who drink at low risk levels, 48.6 per cent report that they usually consume RTDs in a can, while 39.7 per cent listed regular strength beer.

3. Substitution effects

It has been reported that some people adapt to price increases by changing to cheaper brands or cheaper types of drink, in order to maintain their alcohol consumption at the same cost following a price increase.[4] This is informally known as the substitution effect and has been recorded in most episodes of price increases.

Proponents of the substitution effect often provide gross figures on sales or consumption following a price increase. For example in the two months following the April 2008 RTD excise increase, the Liquor Merchants Association of Australia reported that there was a 46 per cent increase in sales of full-strength bottled spirits. It was even reported that the industry was profiting from the excise increase by encouraging the consumer to move by its promotion of full-strength spirits and soft drinks in bottle shops.[5] However, it is the net effect that correctly identifies the substitution effect as well as overall changes in consumption. The vast weight of empirical evidence, produced by independent analysts, proves that even in the face of such substitution, overall alcohol consumption is still reduced.[6]

Linked to the substitution effect is the move by some sections of the alcohol industry to manufacture or import RTD-style products that are based on wine or beer instead of spirits and thereby attract a lower excise rate. For example, Independent Distillers has produced *Bolt*, an RTD-type product that uses beer as a base, and Diageo has stated it is introducing a beer based product called *Smirnoff Platinum*. These products, sometimes called 'malternatives', have been widely publicised in the media as a new product category that young people are turning to as a consequence of the RTD excise increase. However, in reality they are examples of a type of product that has always been available in Australia and other countries. The industry acknowledges this – the Distilled Spirits Industry Council of Australia has stated that these are simply other types of RTDs that have been available in Australia for some time.[7]

The sudden promotion of products such as 'malternatives' and other low selling products that previously would account for less than 1 per cent of the market, has been described as a good indicator of the effectiveness of taxation increases in reducing overall consumption. Although it is true that the more wide ranging the price increase the less potential for substitution, taxing even a few high volume

4 Osterberg E 2001. 'Effects of price and taxation'; in N Heather, T J Peters & T Stockwell (Eds*.), International Handbook of Alcohol Dependence and Problems* (pp. 685-698). Chichester: John Wiley and Sons.

5 Australian, 25/08/08, p.5; Sunday Mail (Brisbane), 24/08/08, p.36

6 Osterberg E 2001. ibid

7 *The Shout*, Wednesday 3 December 2009

products still leads to significant reductions in overall consumption and subsequently harms.[8] [9]

4. Evaluation

The evaluation of the RTD excise increase and the broader National Binge Drinking Strategy is being conducted to account for longer term effects that have been observed in other evaluations. [10] [11] It is anticipated that results from these activities will be available in six months to three years. The Department is also planning modifications to existing surveys and designing new evaluation instruments to capture the full impact of changes in attitudes, behaviour including consumption preference, and harms such as mortality and morbidity.

The first output from the evaluation comes from ATO excise duties (section 2 refers). Further results from the RTD excise increase and the broader National Binge Drinking Strategy will come from the 2008 *Australian Secondary School Students Use of Alcohol Survey* (ASSAD), the 2010 *National Drug Strategy Household Survey* (NDSHS), and other indices of consumption and harms.

The 2005 ASSAD survey results were published in 2006. They show that approximately 10 per cent of 12-17 year old school students are drinking at risky levels. It is important to note that there is great variation across age groups as about 20 per cent of 16-17 year olds are drink at risky levels. An important and reliable indicator of consumption is the average number of drinks consumed per week. Among 12-15 year olds the mean number of standard drinks consumed each week has steadily increased from 4.8 to 5.3 between 1999 and 2005[12].

The 2008 ASSAD fieldwork is complete and the survey findings are currently being analysed to be published late in 2009. It is anticipated that the Department will be able to draw comparisons between findings from the 2005 ASSAD survey and the results from the 2008 survey.

Every three years the Department commissions the NDSHS. The most recent survey was completed in 2007 and found that teenagers who drink alcohol at risky levels have a stronger preference for RTD beverages compared to low risk drinkers[13]. Other key findings from the survey include approximately 35 per cent of people consume alcohol at levels that risk harm in the short-term, and around 10 per cent of people consume alcohol at levels that risk harm in the long-term. Young people aged 18-24 years have the riskiest drinking patterns with almost two-thirds drinking at a risky or high-risk level for harm in the short-term.

8 Gruenewald PJ, Treno AJ, Nephew TM & Ponicki WR 1995. Routine activities and alcohol use: constraints on outlet utilization. *Alcoholism: Clinical and Experimental Research*, 19:44-53.

9 Gruenewald PJ, Ponicki WR, Holder HD & Romelsjo A 2006. Alcohol prices, beverage quality, and the demand for alcohol: quality substitutions and price elasticities. *Alcoholism: Clinical and Experimental Research*, 30:96-105.

10 Babor T, Caetano R, Casswell S, Edwards G, Giesbrecht N, Graham K, Grube J, Gruenewald P, Hill L, Holder H, Homel R, Osterberg E, Rehm J, Room R & Rossow I 2003. *Alcohol: no ordinary commodity – research and public policy*, Oxford University Press, Oxford.

11 Chikritzhs T., Stockwell T & Pascal R 2005. The impact of the Northern Territory's Living With Alcohol program, 1992–2002: revisiting the evaluation. *Addiction, 100*, 1625-1636.

12 White V & Hayman J 2006. *Australian Secondary School Students' use of alcohol in 2005*. National Drug Strategy Monograph Series: No. 58.

13 Australian Institute of Health and Welfare 2008. ibid

The Department is designing a specific RTD module for inclusion in the 2010 Survey questionnaire that will provide a rich source of information on the effects of the RTD excise change on consumption, some harms, and risky behaviour.

A report on the National Binge Drinking Campaign evaluation research will also be available late 2009 and will provide information on consumption patterns, understanding of the harms associated with binge drinking, and harm reduction behaviours undertaken by young people aged 15-25 years.

The main weakness of existing alcohol data collections is the absence of agreed standards for analysing and deriving statistics and estimates. Researchers may choose from a number of analytic options that can lead to disparate conclusions. This has been highlighted in recent media reports where commentators noted that industry and other groups are each able to present data that appears to support their cause and contradict their opponents cause. The case study below refers to this research.

In 2009, the Department is implementing a program that will standardise and improve the quality of alcohol data in Australia. Previously, indicators of harm have come from the National Alcohol Indicators Project (NAIP) which was the sole source of high quality alcohol-related harms data at the national level.[14]

In 2009 the Department will also commission a national drug and alcohol research organisation to develop agreed national standards for deriving alcohol statistics, covering consumption, harms, and ultimately sales and other relevant information. This will enable the derivation of more reliable trends that will add to a better understanding of the extent of risky drinking and the harms it can cause.

The new standardised estimates will be built into an alcohol knowledgebase. The knowledgebase will act much like a clearinghouse and be constructed in an electronic format (ie website) or hard copy document that will hold and display information.

Case study: Access Economic report[15]

The Department has serious reservations about the report produced by Access Economics for the Distilled Spirits Industry Council of Australia. These concerns focus on the following dimensions:

- whether the data Access Economics received is suitable for the purpose to which it has been put
- the quality and comparability of the data used
- the analysis used
- the short time series of data Access have used to draw conclusions, and
- a number of methods used in the analysis.

It is not possible to conduct a simple count of all alcohol-related deaths and hospitalisations. Administrative deaths and hospitalisation data do not provide a reliable link to an individual's alcohol consumption. For example, in Emergency Departments data is generally entered by the busy clinician, usually only one code is entered and there are no consistent national standards. This means that a number of alcohol related

14 Chikritzhs T, Catalano P, Stockwell T, Donath S, Ngo H, Young D & Matthews S 2003. ibid

15 Access Economics Pty Ltd (for the Distilled Spirits Industry Council of Australia) 2009. *Trends in alcohol related hospital use by young people*. Canberra; Access Economics.

incidents may not be identified if the presentation is coded as road trauma or to treat a fracture. With hospital separations, the data quality is better, with greater national consistency.

The Department understands that Access has sought data from states and territories on an informal basis, and this data has not gone through the usual checks prior to formal publication.

The Department has serious reservations about the comparability of data that has been sourced from jurisdictions, particularly using different codes to measure alcohol-related admissions in different states. Relying on a straight count of hospitalisations only presents a small part of a bigger picture. Moreover coding rule changes can also lead to significant changes in hospitalisation and death counts.

Currently, the most appropriate way to measure the impact of alcohol abuse on deaths and hospitalisations is through the 'aetiological fraction' method. The 'aetiologic fraction' method of calculating alcohol-caused deaths and hospitalisations is consistent with methodological recommendations and guidelines for reporting on estimates of alcohol-caused mortality and morbidity as agreed by a consortium of Australian alcohol-researchers.[16]

The population aetiologic fraction for a particular illness or injury caused by low, risky or high risk drinking is the proportion of cases with that condition in the population that can be attributed to such drinking. Since routinely collected morbidity and mortality data provide no information about each individual's alcohol consumption, the only way to calculate the total number of alcohol-caused illnesses or injuries in a population is to multiply the number of people with each particular condition by the alcohol population aetiologic fraction specific to that condition, then to sum the results. For some conditions (such as alcoholic liver cirrhosis and alcohol dependence), the alcohol population aetiologic fractions are 1, because such conditions are - by definition - wholly attributable to alcohol. For other conditions (e.g. assault, road crashes and stroke) the alcohol population aetiologic fractions are less than 1, because they are only partially attributable to alcohol.

The analysis is severely constrained by the data problems noted above, particularly the conclusions noting an increase in rates of alcohol-related hospitalisation since the increase on RTD excise which have been drawn predominantly by plotting data points on a chart and looking for trends for the two months following the excise increase. Evaluations of second-round effects are generally undertaken using data for a few years, rather than a few months after the policy impact.

5. Evidence base

Excise clearances and sales data can act as indices of both consumption and harm. As levels of risky drinking are strongly related to levels of harm, reducing consumption and particularly abuse is a good way to reduce alcohol-related harm. Alcohol excise taxes are capable of being designed explicitly to target the types of alcohol known to be the subject of abuse, and to discriminate in favour of types associated with lower levels of abuse. Given that young people are more influenced by the price of alcohol, increasing the tax rate on alcoholic drinks which are specifically targeted at, or appeal to the youth market such as RTDs, is likely to be effective in reducing overall consumption.

16 Chikritzhs et al., 2002

The Australian RTD tax measure has replicated the decreases in consumption that have been observed in other countries. Local and international studies using the most powerful available methods to examine the effectiveness of price-related levers on levels of alcohol consumption reliably show that higher prices lead to a reduction in consumption, especially among price sensitive groups such as young people and heavy drinkers.[17] For example, in 2005 the German government reviewed the 'alcopop' tax and found the consumption of spirits-based RTDs by 12-17 year olds dropped by half between 2004 and 2005, and occurred without a noticeable substitution of other drinks following a tax increase. RTD sales declined by 75 per cent after the tax was introduced. The German review attributes this fall in consumption primarily to the effects of the tax, citing in particular the 70 per cent of teenagers who reported buying fewer RTDs, among whom the main reason (63 per cent) for buying less was that they had become too expensive. [18] The scientific literature includes studies that have been repeatedly validated across cultures, alcohol products, and time periods.

Like Australia, Germany and Finland, who have increased RTD taxation, are implementing evaluations that will track consumption and harms in the longer term.[19] Many alcohol-related harms manifest in the longer term and a single 12 month period following the RTD tax increase is not enough time to make an appropriate assessment of its long term impact.

6. Conclusion

Based on NDSHS data, risky alcohol consumption for both short and long term harm remained fairly stable in the general population between 2001 and 2007. However, despite this apparent overall stability, levels of risky consumption are still unacceptable, and remain a concern for the Department, particularly as alcohol is now the third largest contributing factor to injury and disease in high income countries, such as Australia and New Zealand.[20]

Government programs to control alcohol misuse are not limited to the taxation of alcohol products but constitute a balanced package of measures including public education and information campaigns, community prevention initiatives, and treatment programs which all make a contribution to reducing alcohol abuse and related harms.

It should also be noted that the intended outcomes of the excise increase may not be realised for some time due to a 'lag' effect; it is anticipated that results from the evaluation activities will be available in six months to three years. However, the longer term behaviour changes may not be observable in the survey instruments mentioned above for some time because behaviours and their consequences will manifest over years, as was the case with tobacco control.

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17 Loxley W, Toumbourou JW, Stockwell T, Haines B, Scott K, Godfrey C, Waters E, Patton G, Fordham R, Gray D, Marshall J, Ryder D, Saggers S, Sanci L & Williams J 2004. *The prevention of substance use, risk and harm in Australia: a review of the evidence*. Ministerial Council on Drug Strategy: Monograph prepared by the National Drug Research Institute and the Centre for Adolescent Health

18 (Bundesministerium der Finanzen [Federal Ministry of Finance] 2005)

19 Centre for Social and Health Outcomes Research and Evaluation 2006 *Alcohol Taxation in the Western Pacific Region*. World Health Organization Collaborating Centre for Research and Training in Alcohol and Drug Abuse.

20 Centre for Social and Health Outcomes Research and Evaluation. 2006. ibid.