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Dear Committee Secretary

At yesterday's hearings of the Committee's Inquiry into *Customs Amendment (Fuel Tax Reform and Other Measures) 2006 & Three Related Bills*, Lion Nathan was invited to provide further information to support certain aspects of its written and verbal submission.

To summarise, evidence was put to the Committee that the creation of tax parity between RTDs and beer (specifically the creation of low and mid strength RTD tax bands) would deliver health outcomes consistent with government objectives to promote responsible consumption.

Lion Nathan cautioned the Committee not to support this assumption without critical assessment and argued that variables other than price should be considered before assuming the likely impact of making lower strength RTDs more commercially attractive to consumers. Our view is that broader issues, such as palatability and the potential of RTDs to act as a gateway to higher a.b.v. consumption, should be better understood before any further economic concessions are provided to the category.

The Committee asked Lion to provide further evidence to support this approach. Also, the Committee asked for references to support my statement:

From the submissions and research around RTDs, it is obvious to anyone that there is no consensus about their role in misuse. Every week it seems new research is released that contradicts previous data. It would be a stretch for any interest to say that there is a firm research base on which to drive any changes in RTD taxation.

For ease of understanding, Lion Nathan submits that this complex issue can be broken down into two inter-related questions:

- Do non-economic issues such as palatability and drinking behaviours unique to RTDs and spirits caution against further encouragement of the RTD category via tax relief?
- Will promotion of a mid and low strength RTD segment via tax relief lead to increased consumption of higher a.b.v. RTD and full strength spirit parent brands?

Lion Nathan further submits that there is little academic or community consensus on the answers to these critical questions and, until that is achieved, tax proposals aimed at driving further growth in the RTD category should be set aside.

What we can say with confidence is that RTDs are a relatively new alcohol type and therefore mapping likely consumption trends is a difficult exercise. However, there is an important and emerging debate about palatability based on high standard qualitative research - i.e. whether the inherent sweetness of RTDs, given their soft-drink base, make them especially attractive to young people – which is particularly relevant to our thinking on this matter. Beer’s taste profile is bitter, and is usually an ‘acquired taste’ as peoples lose their preference for sweetness with age.

As stated in a current UK Government funded Alcohol Concern fact sheet on alcohol issues, “An established control on young people’s drinking has been that youngsters find traditional drinks unpalatable. With alcoholic lemonade, cola, flavoured milk etc, this control has been removed.”¹

Here in Australia, Associate Professor Jan Copeland from the National Drug and Alcohol Research Centre has stated, “Young humans are programmed to like sweet and milky food – like breast milk, for example. The reason they don’t take to alcohol is because of the bitter, burning sensation – these RTD drinks have taken that barrier away.”²

Given the tight timeframes facing the Committee, Lion Nathan would direct Senators attention to the coverage of the academic research into RTD palatability recently provided by the *Inquiry into Strategies to reduce Harmful Alcohol Consumption* by the Victorian Parliament’s Drugs and Crime Prevention Committee.³

The following section summarising the taste issues surrounding RTDs is directly lifted from the Report:

¹ Fact sheet attached.

² As quoted in The Sydney Morning Herald, *Teenagers confused by milkshakes with a kick*, 3 April 2006.

³ Parliament of Victoria, Drugs and Crime Prevention Committee, *Inquiry into strategies to reduce harmful alcohol consumption*, Final Report, March 2006.

Academic concerns

Admittedly much of these views are anecdotal. But similar misgivings are expressed in academic studies. Some academics and public health advocates are concerned that RTDs, particularly those with sweet fruity tastes, have been designed for 'entry level drinkers' and that RTDs are aggressively marketed at young new drinkers. Such marketing may also have a significant effect on the alcohol beverage consumption of underage drinkers even if that is not intended (Jernigan 2005).¹³¹⁵ Casswell, drawing on Scottish research by MacIntosh et al 1997, argues that there are differing needs of 'starter drinkers' (14–15 years old) and 'established drinkers' (16–17 years old). Starter drinkers prefer beverages where the alcohol content is disguised by sweet and fruity flavours, while still being high enough to guarantee rapid intoxication. Fortified fruit wines and sugary vodka based mixers fit into this category (Casswell 2004).

Professor Ann Roche of the National Centre for Education and Training on Addiction (NCEITA) has also expressed concern about the proliferation of RTDs, particularly with regard to their uptake by young women. When she spoke to the Committee she pointed out that:

Some of the strategies that are particularly important concern the types of beverages that are being produced. If we look at what has happened in Australia, the data from some of our surveys between 1999 and 2001, which is a very short period of time, showed dramatic increases in the consumption of pre-mix spirits drinks by young females. By 'young' I mean the 14- to 17- year-olds. What we are saying is an important shift in terms of who is consuming and what they are consuming. Price is not going to impact on that tremendously. From a public health perspective there is an issue about having greater control over the types of beverages that are produced. Many of these beverages look like a strawberry milkshake and taste like a strawberry milkshake; they do not look like a strong vodka-laced spirit drink.¹³¹⁶

Academics from the National Drug Research Institute (NDRI) in Perth also expressed their concerns about the consumption of RTDs by young people, although they were at pains to stress that further research and data is needed before conclusive relationships could be made between RTDs and increased consumption among young people. The following comments by Dr Tania

¹³¹⁵ For a discussion of advertising and marketing of alcohol, including its possible effects on youth consumption, see Chapter 8.2.

¹³¹⁶ Professor Ann Roche, Evidence given to the Drugs and Crime Prevention Committee, Inquiry into Strategies to Reduce Harmful Alcohol Consumption, Public Hearing, by telephone, 8 August 2005.

Section Twelve: Strategies to Address Harmful Alcohol Consumption Among Young People

Chikritzhs and Professor Steve Allsop made during a meeting with this Committee reflect the Institute's concerns:

Dr Chikritzhs: We make the point that, among this age group [14 to 17 year olds], 80 per cent of all the alcohol is drunk in a way that puts the person at risk of acute harm. That is telling us that kids are not having a glass of wine with dinner – that is obvious. They are binge drinking in a problematic form.

Professor Allsop: Ready-to-drink drinks have made a huge impact [in this regard]. In terms of sales, we need to be cautious. We do not have evidence saying these have come on the market and caused increased drinking. They were virtually non-existent more than five years ago and now, if we asked underage people what was the last drink they had, three out of five young women would say it was one of those ready-mixed drinks. They are certainly being consumed by young people. It is possible they have resulted in an increase, but we need some better evidence about that.

Dr Chikritzhs: Some surveys have been done – one by the Australian Division of General Practice, which looked at what the drinks of initiation were for young people. Increasingly, it is those sticky alcopop type drinks. When I say ready-to-drink I am referring, among that age group, not to the Jim Beam and Coke, which is more of a man's drink, but more the white spirit-based colourful, sticky, sweet, kind of drink. That often tends to be the first drink that young people try. Young men move away from it rather quickly – I suppose because it becomes a bit uncool after a while – but young women continue drinking those kinds of drinks as they get older.¹³¹⁷

The Report goes on to summarise the views of the community in the following manner:

Concerns from the community and political sectors

Public health and community bodies have also expressed great concerns about the growth in type and number of RTDs, their apparent popularity among young people and the fact that they could operate as a 'gateway' product to other alcoholic beverages such as beer, wine or full strength spirits. For example, a submission to this Inquiry from the Australian Drug Foundation (ADF) includes the following statement

In recent years the industry's appeal to young people has become more blatant, using youthful themes and language in marketing strategies. The proliferation of alcoholic 'soft drinks' is further evidence that the industry is catering to young drinkers. Premixed spirits and 'alcopops' are popular with underage drinkers, especially females, and alcohol companies continue to turn out new variations on an almost weekly basis.¹³¹⁸

Geoff Munro of the ADF and the Community Alcohol Action Network (CAAN) expressed his concerns at the Drugs and Crime Prevention Committee Alcohol Seminar held at Parliament House in May 2004:

¹³¹⁸ Mr Geoff Munro, quoted in the submission of the ADF to the Drugs and Crime Prevention Committee, Inquiry into Strategies to Reduce the Harmful Consumption of Alcohol, June 2004.

Section Twelve: Strategies to Address Harmful Alcohol Consumption Among Young People

They [alcopops] are very new. Australia actually invented these, I think back in 1992, with the Two Dogs alcoholic lemonade, but now if you visit a bottle shop you will be stunned, I imagine, like I am, by the array – this is just a fragment of what is on offer. These drinks, of course, look like soft drinks. They are packaged in bottles that appear to be soft drink bottles, but they are packing the punch of at least 5 per cent alcohol in all of them – largely vodka. I draw your attention to that chocolate milk vodka cocktail in front. Just behind it in the green bottle is Seabreeze vodka cocktail. I make the point that these drinks not only appear to be soft drinks, or are packaged like soft drinks; they taste like soft drinks. One of the traditional barriers to young people drinking alcohol is the taste. A lot of young people simply do not like the taste of beer, wine or spirits. But when you package it in soda water, fruit juice or lemonade then young people – very young people – can drink alcohol.¹³¹⁹

The community agency Society Without Alcoholic Trauma (SWAT) also expresses concern over the 'spread' of 'alcopops' (SWAT's term) in its submission to this Inquiry:

Many of these products are artificially coloured and sweetened and while they contain alcohol between 4–8% by volume, they do not taste at all like alcoholic beverages. The pricing, packaging and marketing are bright, colourful and attractive. While the manufacturers state they are not aiming at the underage drinkers, prices have been as low as \$1.00 retail for a 375 ml bottle with a 5% alcohol content (Roberts 2003). The pricing, taste, packaging all contribute to make these products attractive and accessible to underage drinkers.¹³²⁰

The Report concludes:

Conclusion

The issue of the consumption of RTD beverages is a vexed one. On the one hand there is some evidence that RTDs are particularly attractive to young people, including minors. Less conclusive is the evidence that they may act as initiators or entry point alcoholic beverages of choice, particularly for young women enticed by the sugary content and fruity flavours of the vodka based drinks. On the other hand, it is not necessarily appropriate for governments to proscribe what an industry or manufacturer should produce or market unless the product is clearly and of itself inherently dangerous and contravenes relevant food and beverage laws. If RTDs were banned or even had their alcohol content reduced it is arguable that young people may simply buy or otherwise access full strength spirits to mix their own RTDs. Notwithstanding these very valid considerations, the Committee is also of the view that in the interests of public health, particularly adolescent health, there should be a review of the maximum alcohol by volume limit set for RTDs. As such the Committee makes the following recommendation.

Recommendation

- 94 The Committee recommends that the Victorian Government request the Ministerial Council on Drug Strategy to review the alcohol content of ready to drink beverages, particularly those associated with and targeted to young people, such as those colloquially known as 'alcopops'.

Certainly strategies such as clear labelling of RTDs (and all other forms of alcohol) are essential.¹³³⁵ Alcohol education strategies for young people must also consider why young people find these drinks so attractive and need to inform them as to the dangers associated with their over-consumption.

¹³³⁵ See also Chapter 7.1.

Finally, further research is needed on the development, marketing, promotion and appeal of RTDs, particularly in the context of young people's consumption. The Committee is encouraged that the Federal government has agreed to fund research by the National Drug and Alcohol Research Centre that will examine issues pertaining to the consumption of RTDs by young people, including whether RTDs act as 'gateway products'.

The AMA of Queensland has recently expressed similar concern following their inquiries into the growing popularity of RTDs and called for a complete ban on milk-based alcoholic drinks and pre-mixed 'alco-pops'.⁴

Similarly, the Australian Democrats spokesperson for Health and Ageing, Senator Lyn Allison, has said that "Alcopops that are deliberately marketed and promoted at young people should be banned" and referenced research from the Australian

⁴ *Alcohol Aimed at Children an Outrage*, AMA Queensland Media Release, April 3 2006.

Division of General Practice that revealed RTDs as the most popular alcoholic drink among young people, with children as young as 12 bingeing on 8 or more a night.⁵

Lion Nathan does not necessarily share these views nor would claim to have any greater insight into the questions. However, these opinions do demonstrate that much more research is required into the non-economic factors that impact the attractiveness of the RTD category to new and existing consumers before any further incentives are provided, including tax relief.

The Committee should also note that the Australian Government Department of Health and Ageing recently commissioned the National Drug and Alcohol Research Centre (NDARC) to investigate this issue and the 2005 study on “*Young people and alcohol: taste perceptions, attitudes and experiences*” is attached for your information.⁶

This study was designed “Specifically to: (1) determine which beverages are most palatable to the adolescents and young adults; (2) if this pattern changes with age; and (3) the extent to which packaging affects the palatability ratings.”

Key findings (at p139, 4.0 Discussion):

- “This study of 350 12-30 year olds examined the palatability of a range of RTDs, their component beverages and other popular alcoholic dinks. Among the youngest age groups in the study, RTDs were most commonly the first used and the most preferred alcoholic beverage (see Table 91). The mean age of initiation to alcohol use for the total sample was 13.6 years; however, where parents introduced the young person to alcohol their age at alcohol initiation was significantly younger at 12.8 years.”
- “In terms of the present study, however, the milk-and vodka-based RTD may be of particular concern as adolescent drinkers are more prone to be usually drinking and initiating their alcohol use with similar RTD products.(p143)”
- “A second significant part of RTD promotion concerns the actual physical properties of the RTD packaging... An Australian study (Smith, Edwards & Harris 2005) has raised similar concerns with RTD packaging. This study questioned staff members from alcohol retailers on their opinion of the RTD packaging. There was general agreement amongst these members of the alcohol industry that the RTD preparations were for young people under the legal drinking age and often termed “kiddie drinks”.” (p5)

Also of interest, on the marketing (rather than taste) of RTDs is this finding:

“Alcohol beverages such as wine, beer and bourbon are successful at not targeting adolescents, and therefore, attention should be given to the way these

⁵ *Democrats call for new regulations on alcopops*, Media Release from Senator Lyn Allison, 28 February 2006.

⁶ Jane Copeland, Peter Gates, Dick Stevenson and Paul Dillion, “*Young People and Alcohol: Taste Perceptions, Attitudes and Experiences*”, NDARC Technical Report No 241.

products are being promoted and observed in the future marketing of RTDs.” (pg.xiz of the Summary and elsewhere).

Importantly, the study calls for further research given the findings. Similarly, the EU’s Commissioner for Health recently stated, “we believe this is a product (RTDs) that encourage young people to drink. The industry does not agree. That’s something we must discuss.”⁷ Those discussions, and research and dialogue specific to the Australian market, should occur before we contemplate changes to RTD taxation.

This approach is supported in a 2003 report from the Australian Divisions of General Practice:

*The study found that ‘alcopops’... are the most popular alcoholic drink among young people aged 12-21. In particular, these products are most popular among underage drinkers and among females. It found that there is a relationship between Alco pop consumption and risk drinking, with young people whose last drink was an Alco pop reporting a higher incidence of drunkenness than young people in any other drink category... **based on these findings, ADGP recommends further research and community consultation to be undertaken** to determine the relationship between Alco pop consumption and risk drinking among young people and to develop appropriate policy responses.⁸*

The submission of the Australian Drug Foundation to the recent NSW government’s *Review of alcohol beverages that may target young people* also recommended “further research into the relationship between designer drinks and youth drinking practices.”⁹

One view put to the Committee was that if lower strength RTDs were reduced in price, they would move consumers down from full strength to lower strength bands and hold them there. Lion Nathan submits that market behaviour is not so simple to predict.

As Lion Nathan’s experience with Hahn Premium has shown, the introduction and promotion of a lower strength brand (in this case Hahn Premium Light) may lead to corresponding growth and exposure to the parent brand as well. Consumers, once committed to the brand, drink in a range of a.b.v.’s within that brand. Creating lower priced entry points within this a.b.v. range is one way for producers to introduce new and existing consumers to their full brand range which may span a.b.v. rates from low strength to full strength spirits. Creating low and mid strength tax bands for RTDs is likely to assist these efforts.

As highlighted by the discussion on palatability above, the question remains whether this lower pricing entry point for RTDs could result in earlier average take up of alcohol consumption and higher misuse rates by young consumers given their more attractive taste profile. It would also seem reasonable to ask the question of whether

⁷ As quoted in IrishHealth.com, *EU Warning on alcopops*, Mon 7/03/05.

⁸ ADGP, *Ready to Drink? Alcopops and youth binge drinking*, Dec 2003, emphasis added (attached)

⁹ Australian Drug Foundation, “Submission by the ADF to the *Review of alcohol beverages that may target young people*”, Feb 2004.

palatability issues are magnified in low and mid strength RTDs due to the lesser alcohol content?

To restate, Lion Nathan does not believe any interest within the current RTD debate could answer this key question with confidence and with a persuasive academic consensus behind them.

The Committee should also remain sensitive to the differences between RTDs and beer in this respect. The range within which consumers may match brand choice to occasion can typically vary between 3.5 and 5% for beer. The range within which consumers may match brand choice to occasion for spirits is between 3.5 and 37% for rum and rum based RTDs, or 28% for vodka and vodka based RTDs.

Lion Nathan submits that, if the market behaviour for ‘incentives’ for mid-strength RTDs were to mimic the market behaviour for beer, there is a plausible risk to the ‘net benefit’ of cheaper lower strength RTDs. By comparison all beer is low alcohol.

Again, Lion Nathan submits to the Committee that more information is needed on these non-economic behavioural and consumption issues before tax changes can be confidently pursued.

International trends

Senator Stephens asked Lion Nathan about moves by the US Treasury to close down a loophole whereby ‘malternatives’ (RTDs made with alcohol stripped from beer) are taxed at beer rates rather than spirits rates. At this time, I have not been able to find the outcome of this Treasury proposal¹⁰, but have found more information on the trends in Europe.

Europe is, in the words of Eurocare¹¹ “the continent with the highest consumption, production and export of alcohol”¹² and as such Europe is often a ‘trendsetter’ in public policy responses to alcohol issues.

In the 1990s many European countries created concessional or lower tax rates for RTDs as they became a new trend in packaged alcohol. Australia followed suit in 2000. Some have since ‘reversed’ this policy and increased taxation on RTD’s on public health grounds:

- **UK** 2002 budget – “*Duty on spirits-based coolers – which has until now been set at a concessionary low rate - will be brought into line with spirits*” - Budget Documents 2002, HM Treasury
- **Ireland 2003 budget** – “*The VAT-inclusive excise duty rate on sprit based ready-to-drink products or alcopops’ is being raised by 35 cents per bottle, to*

¹⁰ 2003 Treasury document attached .

¹¹ Eurocare describes itself as “an alliance of 45 voluntary and non-governmental organisations from all over Europe dedicated to promote the prevention and reduction of alcohol related harm in Europe. (Eurocare press release: Landmark EU report shows the full burden of alcohol in Europe.)

¹² Point 2.4, ‘Counterbalancing the drinks industry – A summary of the Eurocare Report on the European Union on Alcohol Policy’.

(www.eurocare.org/projects/counterbalancing/English/index.html).

align the rate with that on spirits.” – Speech by Charlie McCreevy, the Irish Minister for Finance, 4/12/02

Senator Stephens cited a report entitled *Alcohol in Europe*¹³ which was published this week. This report observes that:

“Four countries have also introduced a targeted tax on alcopops since 2004, which appears to have reduced alcopops consumption since.”

That is four more since the UK & Ireland. These ‘targeted tax’ countries probably include Switzerland, France & Germany¹⁴, and there may be more. In our view, it is therefore reasonable to seek further information on whether the proposal put to the Committee to provide tax incentives to the RTD category go against international trends.

Even in the Australian region, there is movement on this point. This very week the World Health Organisation is holding a regional meeting on alcohol policy in Manila, to discuss their *“Draft Regional Strategy to Reduce Alcohol-Related Harm”*.

What is relevant to the question before Senators in this submission is that the WHO – formerly great supporters of the principle of volumetric taxation – now accept that there will be ‘special cases’ which need to be considered separately.

Point 4.3.2 of the proposed WHO strategy states:

“Establish an alcohol taxation system as a means of reducing harmful use of alcohol:

- *without prejudice to the sovereign rights of states to establish their taxation policies, serious consideration should be given to implement an alcohol taxation system as an effective policy mechanism to increase the price of alcohol and thereby to increase the opportunity cost of consumption;*
- *tax alcoholic beverages based on their alcohol content to provide a useful tool to raise the real cost of beverages in direct relation to their potential for alcohol- related harm. Special taxes should be considered for alcoholic beverages targeted at vulnerable groups.”*

It is highly likely, given the recent European trend to reverse RTD concessions, that RTDs are the target of this ‘special tax’ exemption from a general volumetric position.

I trust this information is helpful to the Committee’s further deliberations. The timeframes have been tight and Lion Nathan will develop its advice in anticipation of further discussion on these important matters.

¹³ P9, Anderson, P & Baumberg, B (2006) *Alcohol in Europe*. London: Institute of Alcohol Studies.

¹⁴ Clippings on these three countries attached.

In the meantime, caution should be demonstrated by all interests. Our view remains that supporting tax advantages for the RTD category at this time would precede any clearly identifiable academic and community consensus on the benefits of such change.

Yours sincerely

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