

# **A Public Health Perspective on Alcohol Excise and Taxation**

## **A Submission to the Senate Economics Legislation Committee**

**Excise Tariff Amendment Bill (No.1) 2002  
Customs Tarriff Amendment Bill (No.2) 2002**

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**NB. This paper has drawn on a range of reputable studies relating to alcohol policy, pricing and taxation (see references), as well as the work of fellow alcohol taxation and health advocates including Prof Tim Stockwell (National Drug Research Institute) and Dr Alex Wodak (Director, St Vincents Hospital, Alcohol and Drug Services).**

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## INTRODUCTION

This brief submission has been prepared for the Senate Economics Legislation Committee to highlight a number of key issues relating to alcohol excise, taxation and public health in Australia.

It is important to note that while the author supports the proposed Excise Amendment Bill (No.1) 2002, and the Customs Tariff Amendment Bill (No.2) 2002, the broader issues associated with alcohol excise and taxation are seen as fundamental to public health interests in Australia.

## EXECUTIVE SUMMARY

1. Low alcohol beer excise and taxation arrangements in Australia have been subject to ad hoc changes in response to other taxation and legislative changes over the last ten years. They have become inconsistent, difficult to administer, and led to increases in alcohol concentrations as a tax avoidance strategy.
2. Streamlining the state low alcohol subsidy taxation and excise arrangements into new excise rates that are applied consistently throughout Australia has real benefits. The proposed new excise rates are an efficient approximation of current rates and result in minimal fluctuations in price while providing national consistency, and maintaining a price differential between low alcohol beer and full strength beer.
3. From a public health perspective, broader reform of alcohol taxation and excise in Australia offers a significant opportunity to reduce the annual toll of more than 3,200 alcohol related deaths, 400,000 hospital bed-days and an estimated \$4.5 billion associated with addressing alcohol related harm.
4. From a public health perspective, excise and taxation on alcohol should be based on alcoholic content and strength of drinks rather than cost of manufacture or the method used to produce the alcohol. Price based taxes, that apply to wine and other products have created incentives for higher consumption of cheap high strength products (e.g. cask wine).
5. From a public health perspective, alcohol taxation and excise need to be collected at a level that at least maintains the real price of alcohol relative to cost of living and income levels. Achieving this goal requires all alcohol taxation and excise to be indexed.
6. Redirecting excise and taxation collected on alcohol products into public health initiatives to address alcohol related harm is a strategy that has been shown to reduce the level of alcohol related harm.

## **BACKGROUND - KEY ISSUES IN ALCOHOL POLICY**

### ***Alcohol is a major public concern***

In a survey conducted for the National Symposium on Alcohol and Violence in 1995, most members of the general public selected alcohol from a list of 14 drugs as their major drug of concern (National Symposium on Alcohol and Violence, Commonwealth of Australia, 1995).

In the last ten years, high profile drink driving campaigns, public recognition that alcohol kills more people than illicit drugs, and growing community concern about violence and public safety have all contributed to awareness of alcohol-related harm across the community.

While recent media and political attention on illicit drugs may have slightly diminished the relative importance of alcohol as a drug of concern, the reality is that most people are much more likely to suffer injury or other harms as a consequence of excessive drinking than they are as a consequence of illicit drug taking.

### ***Alcohol causes significant problems in the community***

Internationally acclaimed studies have quantified some of the social and health costs of alcohol misuse in Australia. These studies clearly show that alcohol misuse has a major impact on crime, violence, accidents, family function, and productivity, not to mention the loss of human life and human potential.

- A report commissioned by the Commonwealth Department of Health and Family Services found that alcohol is associated with: 44% of fire injuries, 34% of falls and drowning, 30% of car accidents, 50% of assaults, 16% of child abuse, 12% of suicides, and 10% of machine accidents (English et al, 1995).
- A later study commissioned by the Commonwealth Department of Health and Aged Care reported that in 1997 alone, the misuse of alcohol resulted in 63,164 person-years of life lost (before 70 years), a total of approximately 3,290 premature deaths and over 400,000 hospital bed days (Chikritzhs et al, 1999a).
- A study conducted for the National Drug Strategy (1999) found that over 50% of adult Australians report that they have been the victims of alcohol-related anti-social behaviour in the last 12 months.
- In a series of extensive consultations conducted as part of a youth alcohol campaign, young women identified unwanted and unsafe sex as one of the problems they experience when drinking. Young men identify increased violence and accidents (Australian Drug Foundation, 1992.; Elliot and Shanahan, Research Report for the National Youth Alcohol Campaign, Department of Health and Family Services, 1999).

### ***Alcohol misuse has a significant economic impact on Australia***

A study by Collins and Lapsley (1996) found that alcohol misuse cost the Australian community \$4.5 billion in 1992. This estimate allows for the revenue generated from alcohol, and primarily comprises a range of drug-related harms including premature death, lost productivity, increased hospital and other health costs, road accidents, increased law enforcement costs, etc. It does not include the many costs associated with crime, violence and other anti-social behaviour that takes place as a consequence of alcohol misuse.

### ***Alcohol is a legitimate and accepted source of tax revenue***

Since Australia's early settlers first celebrated the arrival of rum shipments, alcohol taxation has been a legitimate avenue for the collection of revenue. In the late 1800's, 30% of government income was generated from alcohol taxation (rum tax). In the early 1900's alcohol taxation still raised over 10% of government revenue. Currently alcohol taxes contribute only about 2% of all government revenue (including Commonwealth and State revenue).

Studies into consumer spending also consistently indicate that alcohol taxes are progressive in that higher income groups spend more on alcohol and therefore contribute more to taxation revenue (Ashton et al, 1989).

In almost every other country in the world, alcohol taxation is an accepted form of raising government revenue.

Formal studies of public opinion in Australia regarding increased taxation on alcohol have found substantial support for this, providing the proceeds are directed towards treatment, prevention and research on alcohol-related harm (Lang et al, 1995). There is a long tradition of linking alcohol taxation arrangements with concerns over public health and safety issues. In Australia this concern has been notably expressed in a number of ways, including:

- The creation of tax advantages for low alcohol beers in both Federal and State tax arrangements. There is now empirical evidence to support the common-sense view that this has led to a dramatic increase in the consumption of lower strength beers and contributed to the decline in road crashes in the 1990s (Gruenewald et al, 1999).
- The creation of the Living With Alcohol levy by the Northern Territory government in April 1992 on all alcoholic drinks with an alcohol content in excess of 3% by volume. The proceeds of about \$5 million per year were used to fund treatment and prevention programs.
- The recommendation of the National Inquiry into the Wine Industry (1995) that an additional tax be created based on absolute alcohol content to compensate for the "external costs" associated with wine consumption. This

recommendation was supported, if in different forms, by both the chairman and the industry representatives on the committee of inquiry.

### ***Alcohol pricing impacts on consumption***

It is a well-documented general economic principle that as the price of an item rises, consumption of that item falls. The degree to which price has to increase to reduce consumption is expressed in terms of price elasticity. Although there is some discussion about the precise degree of price elasticity exhibited by alcohol products, it is universally agreed that in the lower price ranges, product preferences are significantly influenced by price. As a consequence, most experts in the health field are opposed to any move that would see a real reduction in the price, particularly in the lower price brackets, because of the established connection between price of alcohol and consumption patterns.

Studies of consumption patterns in Australia, New Zealand, Canada, Finland, Ireland, Norway, Sweden, the United Kingdom, and the United States have consistently shown that when other factors remain unchanged, a rise in alcohol prices has generally led to a drop in the consumption of alcohol (Collins and Lapsley, 1996; Osterberg, 1992). There is clear evidence that this basic economic theory of price influencing demand is applicable to the demand for alcohol beverages, despite their dependence-inducing capability (Chaloupka, 1993).

A major review of the international evidence on the price sensitivity of alcohol consumption was conducted under the auspices of the World Health Organisation as part of a wider review of alcohol control policies (Edwards et al, 1994). The review panel comprised 17 leading scientists drawn from 13 countries. They identified 53 adequate studies spanning 17 countries which examined data spanning the years of 1870 to 1991. All of these studies found a negative correlation between consumption and price for wine, all but one did so for spirits and all but three for beer.

Some critics have suggested that price does not impact on heavy drinkers. However, it has been demonstrated that increasing the price significantly will lead to a decrease in consumption of those who drink excessively (Hawks, 1993). One classic study found that during an economic recession, it was the 'heavier' drinkers who reduced their consumption of alcohol the most (Kendell et al, 1983).

### ***Alcohol taxes can improve public health and safety***

In 1992, the Northern Territory introduced a harm reduction levy on all drinks with a strength in excess of 3% alcohol by volume which raised an additional \$4 million to \$5 million per year for alcohol prevention and treatment. The Northern Territory has the highest proportion of Aboriginal residents of any Australian jurisdiction and has had a per capita alcohol consumption ranging from 22 litres per person to 15 over the past two decades. A recent evaluation of the impact of this levy identified a 22% reduction in per capita consumption in the first four years, reductions in hazardous drinking patterns and significant reductions in alcohol related morbidity and mortality (Chikritzhs et al, 1999b).

The Northern Territory government also introduced a special levy on cask wine in April 1995 in recognition of its association with high risk drinking and in order to raise funds for prevention and law enforcement initiatives. An evaluation of levels of consumption of cask wine in the Territory demonstrated significant reductions during the brief period of its implementation (Gray et al, 1999). A survey of retail prices conducted by the NT Health Department (O'Reilly, 1998) confirmed that once the levy was lifted, retail prices of cask wine declined by over \$2 per cask – and that the price differential between low and full strength beers decreased.

International experience in Sweden where new alcohol taxation arrangements were introduced in 1992 indicates that when alcohol is taxed more consistently through a volumetric tax, the mean price of alcohol falls, while taxation revenue remains the same (Poniki et al, 1997). The narrowing of the range of prices, with cheaper products becoming more expensive and more expensive products become cheaper, leads to a decline in the consumption of the cheaper products and an increase in the consumption of more expensive products. Sweden does not have super cheap products like cask wine, but if the same pattern could be translated into Australia, the decline in cask wine consumption and increase in premium wine consumption would have real health benefits.

### ***Redirected alcohol and excise can have a beneficial impact***

Along with the Northern Territory Living With Alcohol Program outlined above, the recent creation of the Alcohol Education and Rehabilitation Foundation is a model that offers some scope to improve health outcomes. While rigorous evaluation of the outcomes achieved by the Alcohol Education and Rehabilitation Foundation are not yet available, there is no doubt that some communities are already benefiting through better access to the support they desire in addressing alcohol related harms.

Although the research indicates that reductions in the price of alcohol products is likely to lead to increased harm, it is important to acknowledge that reductions in the price of low alcohol products (under 3.5%) or of products that are relatively expensive (e.g. premium wine) will clearly create less problems than if products that are already relatively inexpensive are further reduced in price (e.g. cask wine, some fortified wines, full strength beer, etc.).

Where reductions in price occur as a result of excise or taxation changes, it is desirable that the alcohol producer benefiting from such a reduction make a substantial allocation to addressing any likely externalities through contributions to bodies such as the Alcohol Education and Rehabilitation Foundation.

## **BACKGROUND – CURRENT ALCOHOL TAXATION ISSUES**

### ***The current alcohol excise and taxation system is, at best, inconsistent***

There are many thousands of varieties of alcoholic drinks available in Australia today. Unlike the situation with tobacco, the level of taxation varies enormously across different varieties of alcohol. Expressed as tax levied per standard drink, present arrangements result in the following unfortunate anomalies: 6 cents for a standard drink of \$9 cask wine versus 26 cents for a standard drink from a \$9 bottle of wine, 28 cents for a standard drink of 2.7% low alcohol beer versus 24 cents for a standard drink of 4.8% regular strength beer. A male drinker can attain the maximum daily level of alcohol intake recommended by the National Health and Medical Research Council for only \$1.40 and a female drinker can do so for just 70 cents if drinking from a 4 litre wine cask. Neither of these amounts represents enough to purchase one standard drink of low alcohol beer.

### ***The Wine Equalisation Tax is a replacement alcohol sales tax***

The recent introduction of the Wine Equalisation Tax (WET) to replace a price based Wholesale Sales Tax has served no real policy purpose other than to protect the interests of cask wine producers (mostly large multinational companies) at the expense of Australia's premium wine producers. It is also at the expense of the health and well being of many disadvantaged communities where the price of cask wine is a primary factor influencing the amount of alcohol consumed.

### ***Price based alcohol taxes are unhealthy***

Sales taxes like WET favour cheap products that are more likely to be misused. Under current arrangements, there is a continuing failure to tax the alcohol content of drinks or to provide incentives for drinkers to choose low alcohol varieties. There are also no disincentives for heavy drinkers to choose products like cheap high strength cask wine that attract minimal taxation.

### ***Recent positive changes to alcohol taxation***

From a health perspective, the most positive change in recent decisions relating to alcohol excise and taxation has been the decision to bring into line the excise rates on alcoholic beverages with an alcohol content of less than 10% by volume. No longer are 'designer drinks' and alcoholic sodas greatly advantaged over other drinks of exactly the same strength, particularly pre-mixed spirits and expensive beers. The only exception to this consistent approach is the provision of the 1.15% tax free threshold currently provided to all beer products, but not other ready to drink products, and the fact that apple cider is treated the same as wine although it is clearly in the same category as other ready to drink products.

***Current taxation favours products associated with high levels of harm***

If alcohol is taxed higher than other products in recognition of the likely costs of externalities resulting from alcohol related harm, those products associated with the highest level of harm should attract higher taxes.

Data from Western Australia (Stockwell et al, 1998) has shown that local rates of per capita consumption of cask wine and high strength beer are most highly associated with local rates of violent incidents and alcohol-related hospital admissions. This was a comprehensive study of all liquor sales, violent incidents and alcohol-related hospital admissions for the whole state over one year. By comparison, rates of consumption of bottled wine and low strength beer are weakly or not at all related to local rates of alcohol related violence and hospital admissions.

In practice, the current alcohol taxation system clearly favours cask wine and full strength beer over competitors that are less likely to be associated with alcohol related harm.

***Increased pre mixed spirit sales may not be harmful***

Some interest groups (including competing alcohol producers) have argued that recent changes in excise and taxation in the ready to drink segment of the market has reduced prices of pre mixed spirits resulting in more consumption of pre mixed spirits. Their argument suggests that the increased consumption of pre mix spirits is by young inexperienced drinkers seeking intoxication. Although this argument may sound appealing, there has been no real evidence presented that these shifts in consumption patterns represent anything more than a slight decrease in the consumption of full strength beer (around 2%) and an equivalent uptake in pre mixed spirit sales by a similar consumer group. There is no evidence that overall per capita alcohol consumption has increased, and no indication that there has been a significant increase in per capita consumption among particular age or sex groups (e.g. young women).

## RECOMMENDATIONS

1. The changes to alcohol excise under the proposed Excise Amendment Bill (No.1) 2002, and the Customs Tariff Amendment Bill (No.2) 2002 should be passed by the Senate.
2. Indexation of alcohol excise and taxation to the Consumer Price Index should be retained and expanded to all alcohol products.
3. Further consideration should be given to offering a low alcohol exemption to all alcohol products under 10% provided that:
  - any reduction in alcohol taxation income is offset by increases in other alcohol taxes (revenue neutral),
  - the price differential between products above and below 3.5% does not result in the marketing of products that are significantly cheaper than low strength beer and other competitors (maintain existing minimum price),
  - any windfall to particular producers is significantly offset by a levy that would be redirected to the Alcohol Education and Rehabilitation Foundation (as occurred with excess beer excise).
4. The current Wine Equalisation Tax should be phased out over a period of time and replaced by an excise based on alcohol content with incentives for lower alcohol wine products.
5. Further consideration should be given to developing a comprehensive alcohol taxation reform strategy that is based on treating all alcohol products as alcohol products and taxing them volumetrically rather than the current system of individual products of similar strength being subject to separate taxation arrangements. Such a system would provide clearer incentives for consumers to choose lower alcohol content products. It would also promote the production of better low alcohol products, raise the price of cheap bulk products, continue to raise high levels of government revenue, save government expenditure on alcohol related problems, and would be administratively simple to apply.
6. Further consideration should be given to a small increase in overall alcohol taxation. Such a move would be strongly supported by the community if it were shown that the extra revenue was to be spent on prevention and treatment services. An extra cent levied for each standard drink (10g of alcohol) would raise approximately \$100 million per year. A levy of 5 cents per drink was introduced in the early 1990s in the Northern Territory and was estimated to have saved 129 lives, prevented over 2000 hospital admissions and saved \$124 million in health care costs and lost productivity.

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