



**ADCA**

*Alcohol and other Drugs Council of Australia*

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**SENATE ECONOMICS  
COMMITTEE**

**SUBMISSION**

**Customs Amendment (Fuel Tax  
Reform and Other Measures)  
Bill 2006 and three related  
bills**

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## **THE ROLE OF ADCA**

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The Alcohol and other Drugs Council of Australia (ADCA) is the peak, national, non-government organisation representing the interests of the Australian alcohol and other drugs sector, providing a national voice for people working to reduce the harm caused by alcohol and other drugs.

ADCA works collaboratively with the government, non-government, business and community sectors to promote evidence-based, socially just, approaches aimed at preventing or reducing the health, economic and social harm caused by alcohol and other drugs to individuals, families, communities and the nation.

ADCA's membership includes organisations, services, agencies and individual professionals and practitioners engaged in alcohol and other drug services throughout Australia. ADCA's membership also includes: major university research centres; tertiary institutions that offer courses in addiction studies and other programs for alcohol and other drugs workers; officers of the law and criminal justice system; policy analysts; and administrators.

ADCA currently has approximately 390 organisational, associate organisational and individual members. ADCA's member organisations employ almost 10,000 staff Australia wide, of which approximately 2,500 are specifically employed within the alcohol and other drugs sector.

The collective wisdom and expertise of ADCA's broad and diverse membership is drawn upon through ADCA's structure, which provides mechanisms for obtaining input on key strategic issues from members in each Australian State and Territory, through their participation on ADCA's Reference Groups.

ADCA bases its work on the available evidence, drawn from research and practice and ensures collaboration and cooperation with a wide range of partners. ADCA realises the importance of building effective partnerships both within and outside of the alcohol and other drugs sector.

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## **1. INTRODUCTION**

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ADCA commends the commitment of the government to addressing illicit drug use and harm through the allocation of more than a billion dollars to supply reduction, demand reduction and harm reduction initiatives. These initiatives have contributed to reductions in illicit drug related mortality over a number of years and to enhanced treatment, prevention and law enforcement approaches. In light of these successes, ADCA believes that it is now appropriate to refocus our efforts somewhat, in order to give equal emphasis to the burden of death and disease associated with the problematic use of alcohol in the Australian community.

This submission has been developed in consultation with ADCA's eight reference groups and with the ADCA Board of Directors.

## **2. TAXATION INCENTIVES FOR GROWING THE REDUCED STRENGTH ALCOHOLIC BEVERAGE MARKET**

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Alcohol is the most widely used drug in Australia with approximately 9 out of 10 Australians aged 14 years and over having used alcohol at some time in their lives (Australian Institute of Health and Welfare [AIHW] 2005). Alcohol generates significant revenue for the Australian government and its misuse imposes significant costs on the Australian community. Data from the most recent (2004) National Drug Strategy household survey indicates that:

- Alcohol consumption has increased since the previous survey in 2001, with more Australians consuming alcohol on a weekly basis. Greater proportions of the population are at risk of short term harm including injury, accidents and assaults through risky or high risk drinking or 'binge drinking'
- about one third of the population consumed alcohol (on at least one occasion in the year preceding the survey) in a way that was considered, by the National Health and Medical Research Council (NHMRC) to put themselves at risk of alcohol related harm in the short term (eg., assault, death or injury from falls, motor vehicle crashes, drowning etc);
- young men aged 20-29 are becoming more likely to drink at risky or high risk levels at least weekly, increasing from 14.6% in 2001 to 17.4% in 2004. This is a considerable increase in a short space of time and is cause for concern; and
- almost 10% of the population consumed alcohol in a way that was risky or high risk to health in the long term (eg development of cancer, pancreatitis, brain damage, cirrhosis etc).

It is estimated that nearly 5% of the total burden of injury/disease in Australia is attributable to alcohol and in 1997-98 alone the misuse of alcohol resulted in 63,164 years of life lost (before 70 years), a total of approximately 3290 premature deaths and over 400,000 hospital bed days (Chikritzhs et al. 1999). In addition, alcohol is

the major cause of drug related mortality among young people under the age of 35. It is not surprising, therefore, that a study by Collins and Lapsley (2003) estimated that alcohol misuse cost the Australian community over \$7.5 billion in 1998-99.

A recent report sponsored by the World Health Organisation (WHO) states that from a public health perspective 'the difference between good and bad alcohol policy is not an abstraction, but very often a matter of life and death' (Babor, Caetano & Casswell et al. 2003 pg 263). The report highlights what many public health advocates believe -that the potential for improving public health and safety through effective liquor licensing regulations and alcohol taxation policies has not yet been fully realised. The WHO document identifies alcohol taxation as best practice in reducing alcohol-related harm because of: the relatively low expense of implementation; the significant reach of the strategy; and the expected high impacts on public health outcomes.

### **Background to the ADCA Study**

With funding from the Alcohol Education & Research Foundation (AERF), ADCA has conducted a study of the relationship between taxation and the development of a strong market in reduced alcoholic beverages. Within this study, ADCA has had built for it an economic model of the demand for alcoholic beverages in Australia over the past 30 years. This model is now informing ADCA's (and the health sector's) alcohol taxation policy position.

ADCA proceeded with this study because it wants to engage with both Treasury and the industry as part of its policy development. Thus ADCA conducted the study and economic modelling within the context of building an alcohol tax policy that both delivered revenue neutrality in alcohol taxes, and prevented material shifts between the 3 main alcohol types – beer, wine and spirits. The focus of the study has therefore been on the use of taxation to encourage the manufacture, promotion and consumption of alcohol products which are lower in strength than they are today.

Over the past 2 years of ADCA's study, the industry has been consulted, with varying degrees of support. A number of potential changes to the current alcohol taxation system have now been subject to economic modelling for their likely impact on Government revenue, retail pricing, and on changes in demand for beer, wine and spirits.

At this point, ADCA is still working within the health sector to reach a final alcohol taxation policy position to advocate, however, within the sector there is unanimous support for a taxation system which works towards growing the reduced strength alcohol market, at the expense of sales in the full or higher strength alcohol markets.

### **Findings of the ADCA Study and Modelling**

- Internationally, the taxation incentives for growing the reduced strength alcohol market include: volumetric taxation; differential tax rates based on alcoholic strength; tax free thresholds; and targeted tax rebates.

- Each of these incentives are, or have been, used in the Australian alcohol tax system - but never applied uniformly or consistently across all alcohol types.
- Such incentives have been found to be effective in influencing retail price, in particular, creating pricing differentials between alcohols of full and reduced strength.
- Overall, consumers are “price inelastic” (the % drop in consumption is less than the % increase in price) and this is true in the Australian experience. However, levels of price elasticity within certain consumer categories differs markedly. Most significantly, heavy and binge drinkers are the most influenced by alcohol price changes.
- Australian beer taxation policy uses tax incentives for reduced strength alcohol to increase its consumption. Reduced strength beer is now 25% of the total beer market (grown from virtually 1% in the early 1980’s). This is attributed to:
  - Introduction of excise incentives for lower strength beers in 1984, 1988, 2000 and 2002;
  - Random Breath Testing and public anti drink driving campaigns; &
  - General switching from full strength beer to other alcoholic beverages.
- Notwithstanding, there are positive correlations between the 1984, 1988, and 2000 beer excise changes, and the litres of alcohol (from beer) consumed per head of population.

ADCA believes that the success of these reduced strength beer excise incentives could and should be replicated in Ready-to-Drink (RTD) beverages. It may also be possible to do something similar with wine. Distilled spirits and liqueurs however, are subject to prescribed minimum strengths that would preclude this policy.

### **Summary of the ADCA Study**

- ADCA is currently re-visiting certain aspects of its alcohol taxation policy. This policy development work is being informed by the results of economic modelling.
- The current system for the taxation of alcohol in Australia is a collection of ad-hoc policy decisions implemented at differing times over many years for varying reasons.
- Alcohol taxation should instead be a balance between the following types of competing policy considerations:
  - economic efficiency including redress of the social costs of alcohol;
  - equity of the taxation burden;
  - revenue collection; and
  - other economic factors such as the contribution of alcohol to the economy.

- ADCA believes that an alcohol taxation system should have at its core the following principles:
  - Volumetric taxation, or taxation based alcoholic strength and not value;
  - Incentives for manufacturers to reduce the strengths of their products;
  - Incentives for consumers to purchase reduced strength products; and
  - Equivalence in taxation in beverages competing in the same markets.
- Outside of beer, little incentive exists within the current tax system to manufacture, promote and consume reduced strength alcoholic products.
- Economic modelling commissioned by ADCA suggests that taxation is an effective means of:
  - influencing alcohol prices, including creation of price differentials between differing strength alcoholic products;
  - influencing positively the consumption by higher risk consumer categories, notably heavy and binge drinkers; and
  - creating a successful reduced strength market for beer in Australia.

### ***Recommendation***

ADCA recommends that the Committee urge the government to undertake a review of the alcohol taxation system with a view to developing an alternative system that:

1. provides incentives for the manufacture, promotion and consumption of lower strength alcoholic beverages;
2. addresses the inequities of the current system; and
3. balances economic/industry needs with those of population health and safety.

### **3. CONCLUSION**

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As outlined above, ADCA believes that it is now appropriate to refocus our efforts in addressing alcohol and other drug problems, in order to give equal emphasis to the burden of death and disease associated with the problematic use of alcohol in the Australian community. Implementation of the review outlined in this submission would have a significant and sustainable impact on the health and welfare of all Australians. Savings on health expenditure, through reduced alcohol related morbidity and mortality, and to industry, through reducing lost productivity and workplace accidents related to alcohol, would also bring economic benefits to the community.

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