



Supplementary submission: Senate Economics Legislation Committee

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

1 Introduction

The Distilled Spirits Industry Council of Australia (DSICA) appreciates the opportunity to make this supplementary submission to the Senate Economics Legislation Committee (the Committee) regarding the *Customs Amendment (Fuel Tax Reform and Other Measures) Bill 2006* and other related bills.

This supplementary submission should be read together with the initial submission lodged with the Committee on 31 May 2006. We will refer to this earlier document as “the DSICA Primary Submission”.

In this supplementary submission, DSICA wishes to raise some additional issues and clarify and emphasise some issues in the DSICA Primary Submission following on from the Committee’s public hearings on 5 and 6 June. We also take the opportunity to table a “*Beer and RTD Market Fact Sheet*” which summarises the size and composition of the beer and RTD markets which the Committee may find useful in its deliberations. This document is attached as *Appendix 3*. The appendix identifies Australia’s top selling packaged beer and Ready to Drink products (RTDs).

2 Alcohol consumption patterns: the best available evidence

No worsening trends of harmful alcohol consumption amongst young people

DSICA noted in its Primary Submission (DSICA Primary Submission, p.8) that there is a perception in the community that there is an increasing level of harmful alcohol consumption amongst young people and that RTDs are in some way responsible; a misconception, we believe, being caused by some widely publicised “occasional surveys” which, based on professional review, are not reliable.

As indicated in our Primary Submission, analysis by Professor Ian McAllister has identified the three most reliable surveys of alcohol consumption patterns in Australia (DSICA Primary Submission, Appendix 1, p. 19). These surveys have been used by DSICA to develop its *Indicators of alcohol consumption amongst young people* (DSICA Primary Submission, p. 10). As set out in our Primary Submission, it is clear that there is no reason to believe that there are worsening trends of alcohol consumption amongst young people or any evidence to substantiate the proposition that the increasing popularity of RTDs is causing such a situation (DSICA Primary Submission, p. 11).



DSICA cautions policy makers, and the Committee, to be extremely cautious in relying on occasional alcohol consumption studies/surveys unless (a) they are methodologically sound and (b) they have widespread credibility in health and industry circles (in terms of being national in coverage and Government funded).

Australia Secondary Students Use of Alcohol in 2002 – beverage preferences

The *Australian Secondary Students Use of Alcohol in 2002* monograph (White & Hayman 2004) is highly regarded by Professor McAllister and by DSICA. Amongst other things, it shows that there is no increase in drinking prevalence amongst underage drinkers (DSICA Primary Submission, Appendix 1, p. 7).

One issue addressed in this report is the type of alcohol consumed by young people (White & Hayman 2004, p. 23). Table 12 in the report shows the percentage of current drinkers consuming certain beverages. Two important points are made by DSICA in relation to this table to ensure the correct conclusions are drawn:

- The table does **not** report on “risky” or “high risk” drinkers, it reports on all respondents who reported only consuming one type of beverage. Therefore, no conclusions can be drawn regarding beverage choice and high risk drinking from this Table.
- The table does **not** report on quantity of alcohol consumed, just type. As the report itself concludes:

“..... beer was losing its share of the market of male adolescent drinkers to spirits, while amongst the adolescent female market premixed spirits were taking market share from un-premixed spirits.” (White & Hayman 2004, p. 24)

This table does not provide evidence to suggest that the presence of RTDs in the market is leading to more harmful levels of alcohol consumption.

Indicator 6 of DSICA’s Indicators shows, based on the best available evidence, that the beverage of choice amongst higher risk 14-19 year olds is full strength beer for males and bottled spirits and liqueurs for females (DSICA Primary Submission, Appendix 1, page 16-17).

While there is evidence of a “beverage shift” in recent times by young people, there is no evidence from this survey of increasing quantities of alcohol consumption or increasing levels of risky/high risk consumption by young drinkers.

National Drug and Alcohol Research Centre (NDARC): “Taste and Perception Study”

In April 2006, the National Drug and Alcohol Research Centre released a Technical Report entitled “*Young People and Alcohol: Taste Perceptions, Attitudes and Experiences*” (NDARC 2006).

While this study reached conclusions regarding “palatability” and the impact of packaging on palatability, it undertook no detailed investigation into consumption trends. DSICA believes that it is not appropriate for policy makers to use this study as evidence regarding consumption trends when developing alcohol tax policy.

Furthermore, an examination of the sample size (which at 350 is considered small) and methodology suggest it is not possible to generalise the findings from the sample to the entire population.



Recent research by NDARC regarding the “taste and perception” of RTDs by young people is not an appropriate source of evidence which policy makers should rely upon in developing alcohol tax policy.

3 Profile of the RTD drinker

As outlined in section 2 above, there are perceptions in the community regarding RTD consumption by young people. We have shown these to be incorrect. A further misconception is that RTD consumers are predominantly young females, drinking at high risk levels.

The fact is that dark spirit-based RTDs – predominantly pre-mixed bourbon, rum and whisky, dominate the RTD market. As outlined in DSICA’s Primary Submission (DSICA Primary Submission, p 26), such products account for 75% of the total RTD market. Furthermore, and in contrast to prevailing opinion, these products are preferred by males 24 years and older.

Whilst it is accurate to state that the remainder of the RTD market (ie 25%) comprises white spirit-based RTDs, Indicator 6 of the *Indicators* reveals that these products are not the preferred beverage of risky and high-risk female drinkers aged 14-19. Rather, this profile of drinker prefers to consume bottled spirits and liqueurs (DSICA Primary Submission, Appendix 1, p 16).

The reality of RTD consumption does not support prevailing views of beverage consumption. Young females drinking at high risk levels do not prefer these products – they are, in fact, overwhelmingly consumed by older male drinkers.

4 Lower strength alcohol beverages are NOT a ‘gateway’ to higher strength products

There has been a suggestion that the excise taxation change recommended by DSICA would not necessarily increase the consumption of lower strength RTDs, but may lead to a greater consumption of full-strength RTD brands. We believe this argument has no reliable evidentiary basis.

In relation to the beer market, alcohol consumption patterns clearly indicate that the increased popularity of lower strength beer has not led to an increase in growth of the full-strength beer market. On the contrary, while mid-strength beer volumes have increased by 26% between 2000 to 2004, full-strength beer volumes have fallen by 6% over the same period (ABS 2005). That is, the growing market for mid-strength beer has been at the expense of full-strength beer.

This can be observed by the market penetration of Lion Nathan’s *XXXX Gold* (a mid-strength beer). According to Lion Nathan, *XXXX Gold* is now Queensland’s most popular brand and also Australia’s third largest brand of beer (Lion Nathan 2006, p 5). So rather than act as a “gateway” to higher content products, *XXXX Gold* competes directly with the full-strength beer market. Indeed, the latest AC Nielsen figures reveal that *XXXX Gold* volumes have increased by 9%, but *XXXX Bitter* (the full-strength equivalent) has fallen by 10% over the past six months (MRE 2006, p 80).

In relation to the RTD market, a leading spirits manufacturer has advised DSICA that there is *no evidence* to substantiate the proposition that the consumption of mid-strength RTDs has contributed to the popularity of full-strength products. Indeed, *Graphic 13* of the Primary Submission (DSICA Primary Submission, p 22) illustrates that the growth in the consumption



of RTDs has been as a result of product substitution from full strength beer and spirits rather than any overall increase in consumption.

DSICA submits that there is no evidence to validate the proposition that encouraging consumption of lower strength alcohol beverages will lead to increased consumption of full-strength products of a similar brand.

Appendix 3 provides a detailed analysis of the consumption trends of beer and RTDs.

5 Higher strength Beer and RTDs

There is a growing concern that the majority of RTDs have an alcoholic strength much higher than full-strength beer. Market analysis confirms that the majority of RTDs have an alcohol content of 5% alcohol by volume (abv), which is comparable with full-strength beer (DSICA Primary Submission, p 23).

Although there are RTDs with alcohol content above 5% abv, they make up only a small proportion of the total RTD market (14%) (see *Appendix 3*). Furthermore, the development of these products has been as a response to consumer demand for products with a higher alcohol content. This demand has, arguably, been driven by fruity mixed sparkling wines at 9% abv and higher, and beers well above 5% abv.

It is of interest to observe that there are several packaged beer products of higher alcohol content that are readily available and are priced more competitively than lower strength RTDs. For example, a 375ml bottle of *Toohy's Extra Dry Platinum* at 6.5% abv retails for \$2.99 whereas a 5% abv Jim Beam White & Cola is approximately \$4 for the same volume beverage. The favourable tax treatment across all beer products clearly advantages higher strength packaged beer over RTDs with a similar and even lower alcohol content.

Where higher strength RTD products exist, the industry markets these beverages responsibly. For instance, the alcohol content and number of standard drinks per product are clearly displayed on the packaging (compare this with drinkers who mix their own spirits drinks which could be at any alcohol strength). These products are also priced accordingly and are considerably more expensive than higher strength beer and wine with similar alcohol content.

RTDs with an alcohol content above 5% abv make up a small part of the total RTD market and compete directly with a number of packaged beer and wine-based beverages that have similar or higher alcohol content.

6 Appendix 3: Beer and RTD facts

DSICA believes that an understanding of the packaged beer and RTD market in Australia is essential to facilitating discussion on possible taxation policy changes and their impact on consumers, producers and the economy.

DSICA strongly supports the principles of evidence-based policy making. DSICA adopts a rigorous methodology for collecting and evaluating data from the alcohol industry, Government sources (eg Australian Bureau of Statistics (ABS)) and leading market analysis (eg AC Nielsen). *Appendix 3* is DSICA's comprehensive analysis of the Australian packaged beer and



RTD markets in terms of the volume and value of alcohol sales and the Federal Government's excise revenue from these products.

Reader's guide to *Appendix 3*

In analysing *Appendix 3*, please note the following:

- Tables 1 and 2 detail the packaged beer and packaged RTD markets respectively.
- Table 3 is a comparative analysis of different strength beer and RTD products.
- Table 4 profiles the highest selling low, mid and full-strength beer and RTD products.
- Page 5 provides discussion on the current market and sales trends.
- The majority of data (unless stated otherwise) is DSICA estimates for the 2005-06 year based on our methodology outlined above. Where appropriate, this is supported by the latest AC Nielsen *Liquorscan* and Liquor Merchant's Association (LMA) data.

Key insights

Several key insights can be derived from *Appendix 3*:

- Mid-strength RTDs account for only 1% of the packaged mid-strength market by litres of alcohol and 2% of total sales revenue in that market.
- Full-strength RTDs make up 99% of the total RTD market in terms of volume, sales and excise revenue.
- Total beer accounts for 46% of the total alcohol market volume whereas RTDs is only 10%.
- While RTDs continue to perform strongly, its rate of growth has slowed dramatically (and is now less than the current rate of growth in the premium beer market).

7 Conclusion

DSICA is not aware of any compelling evidence presented in the public hearings of this Inquiry which would prevent the Committee from recommending that low and mid-strength packaged RTDs should receive the same excise taxation treatment that currently applies to low and mid-strength packaged beer.

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Contact: Gordon Broderick, Executive Director, DSICA: 03 9696 4466



Additional Bibliography

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Copeland J, Gates P, Stevenson D & Dillon P (2006) (NDARC 2006), *Young People and Alcohol: Tastes, Perceptions, Attitudes and Experiences*, National Drug and Alcohol Research Centre, Sydney.

White V & Hayman J 2004 (White & Hayman 2004), *Australian Secondary School Students' Use of Alcohol in 2002*, Drug Strategy Branch, Department of Health and Ageing, Canberra.

BEER	Litres of Product	Litres of alcohol (lals)	sales revenue	excise revenue
low-strength (packaged) (assumed 2.7% abv) Most popular: Hahn premium light	175m (19m cases) - 12% of packaged beer mkt - 10% of beer mkt <u>AC Nielsen scan data</u> - 159m (17m cases) (MAT to 30 April)	4.7m - 8% of packaged beer mkt - 6% of beer mkt - 3% of total alcohol mkt <i>[appendix 2, table 3]</i>	\$526m - 11% of packaged beer sales - 8% of total beer sales <i>[appendix 2, table 3]</i> <u>AC Nielsen scan data</u> - \$473m (MAT to 30 April)	\$85m - 6% of packaged beer excise revenue - 5% of beer excise revenue - 3% of total alcohol excise revenue <i>[p 25]</i> <i>[appendix 2, table 3]</i>
mid-strength (packaged) (assumed 3.5% abv) Most popular: XXXX Gold	217m (24m cases) - 16% of packaged beer mkt - 13% of beer mkt <u>AC Nielsen scan data</u> - 297m (33m cases) (MAT to 30 April)	7.6m - 14% of packaged beer mkt - 10% of beer mkt - 5% of total alc. mkt <i>[p 24]</i> <i>[appendix 2, table 3]</i>	\$724m - 15% of packaged beer sales - 11% of total beer sales <i>[appendix 2, table 3]</i> <u>AC Nielsen scan data</u> - \$890m (MAT to 30 April)	\$187m - 12% of packaged beer excise revenue - 10% of beer excise revenue - 7% of total alcohol excise revenue <i>[p 25]</i> <i>[appendix 2, table 3]</i>
full-strength + imports (packaged) (assumed 4.6% abv) Most popular full-strength: Victoria Bitter	958m (106m cases) - 68% of packaged beer mkt - 56% of beer mkt <u>AC Nielsen scan data</u> - 1.1bn (122m cases) (MAT to 30 April)	44m - 79% of packaged beer mkt - 59% of beer mkt - 27% of total alcohol mkt	\$3.4 bn - 72% of packaged beer sales - 52% of total beer sales <u>AC Nielsen scan data</u> - \$4.8bn (MAT to 30 April)	\$1.2 bn - 80% of packaged beer excise revenue - 67% of beer excise revenue - 47% of total alcohol excise revenue
Sub-Total packaged	1.4 bn (155m cases) (82% of beer mkt) <u>AC Nielsen scan data</u> - 1.6 bn (177m cases) (MAT to 30 April)	56m (76% of beer mkt)	\$4.7 bn (72% of total beer sales) <u>AC Nielsen scan data</u> - \$6.2bn (MAT to 30 April)	\$1.5 bn (83% of beer excise revenue)
Total beer (packaged + draught)	1.7 bn (189m cases) <u>AC Nielsen scan data</u> - 1.8 bn (200m cases) (MAT to feb 06)	74m (46% of total alcohol mkt)	\$6.5 bn <i>[p 14]</i> <u>AC Nielsen scan data</u> - \$6.5 bn (MAT to feb 06)	\$1.8 bn (70% of total alcohol excise revenue) <i>[p 13]</i>

RTDs	Litres of Product	Litres of alcohol (lals)	sales revenue	excise revenue
mid-strength (Diageo scan data) <i>Most popular:</i> <i>Bundy Gold & Cola</i>	3.7 m (400,000 cases) - <1% of RTD market <u>AC Nielsen scan data</u> - 2.1 m (200,000 cases) (MAT to 30 April)	128,000 - 0.8% of RTD market - 0.1% of total alc mkt [p 24] <i>[appendix 2, table 3]</i>	\$18m - <1% of RTD sales <i>[appendix 2, table 3]</i> <u>AC Nielsen scan data</u> - 12.8 m (MAT to 30 April)	\$5m - 0.8% of RTD excise revenue - 0.2% of total excise revenue <i>[p 25]</i> <i>[appendix 2, table 3]</i>
full-strength (including high abv RTDs) (Diageo scan data) <i>Most popular:</i> <i>Jim Beam White</i>	316 m (35m cases) - 99% of RTD market <u>AC Nielsen scan data</u> - 320 m (36m cases) (MAT to 30 April)	16 m - 99% of RTD market - 10% of total alcohol mkt <i>[appendix 2, table 3]</i>	\$2 - 2.4 bn (due to difference prices) - 99% of RTD sales <i>[appendix 2, table 3]</i> <u>AC Nielsen scan data</u> - \$2.5bn (MAT to 30 April)	\$591m - 99% of RTD excise revenue - 23% of total alcohol excise revenue <i>[appendix 2, table 3]</i>
high abv RTDs (6% abv and above) <i>Most popular:</i> <i>Jack Daniels Old No. 7</i>	<u>AC Nielsen scan data</u> - 47m (5m cases) (MAT to 30 April) - 14% of RTD market		<u>AC Nielsen scan data</u> - \$507m (MAT to 30 April) - 20% of RTD sales	
Total RTDs	320 m (36m cases) <u>AC Nielsen scan data</u> - 322 m (36m cases) (MAT to 30 April) <u>LMA data</u> - 360 m (40m cases) (MAT to mar 06)	16.2m (10% of total alcohol mkt) <i>[p 21]</i>	\$2 bn - \$2.4 bn [p 14] <u>AC Nielsen scan data</u> - \$2.5bn (MAT to 30 April)	\$596m [p 13] - 24% of total alcohol excise revenue - 14% of total alcohol non-gst revenue [p 22]

Table 3: Beer and RTD market comparisons (2005-06) (estimate)

Markets	Litres of Product		Litres of alcohol (lals)		sales revenue		excise revenue	
	Beer	RTDs	Beer	RTDs	Beer	RTDs	Beer	RTDs
low-strength (packaged)	175m (19m cases)		4.7m		\$526m		\$85m	
	- 10% of packaged mkt		- 7% of packaged mkt - 3% of total mkt [appendix 2, table 3]		- 8% of packaged sales - 3% of total packaged sales [appendix 2, table 3]		- 4% of packaged excise revenue - 3% of total alcohol excise revenue [appendix 2, table 3]	
mid-strength (packaged)	217m (98%) (24m cases)	3.7m (2%) (400,000 cases)	7.6m (99%) [p23]	128,000 (1%) [p23]	\$724m (98%)	\$18m (2%)	\$187m (97%)	\$5m (3%)
	Total = 221m (24m cases) - 13% of packaged mkt		Total = 7.7m - 11% of packaged mkt - 5% of total mkt [p24] [appendix 2, table 3]		Total = \$742m - 11% of packaged sales - 5% of total alcohol sales [appendix 2, table 3]		Total = \$192m - 9% of packaged excise revenue - 8% of total alcohol excise revenue [p25] [appendix 2, table 3]	
full-strength (packaged)	958m (74%) (106m cases)	316m (26%) (35m cases)	44m (73%)	16m (27%)	\$3.4bn (63%)	\$2bn - \$2.4bn (37%)	\$1.2bn (67%)	\$591m (33%)
	Total = 1.3bn (144m cases)		Total = 60m		Total = \$5.4 bn (approx)		Total = \$1.8bn	

**Table 4: Popular packaged beer and RTD beverages
(AC Nielsen data, unscaled)**

BEER	Price	Excise paid	Litres sold	Sales revenue
Hahn premium light (low-strength beer) <i>2.7% abv</i>	\$1.31 (can) \$10.98 (6-pack) \$26.34 (case)	\$0.18 (can) \$1.08 (6-pack) \$4.32 (case)	39m (MAT to 30 April)	\$115m (MAT to 30 April)
XXXX Gold (mid-strength beer) <i>3.5% abv</i>	\$2.03 (can) \$11.54 (6-pack) \$28.86 (case)	\$0.33 (can) \$1.98 (6-pack) \$7.92 (case)	106m (MAT to 30 April)	\$337m (MAT to 30 April)
VB (full-strength beer) <i>4.9% abv</i>	\$2.53 (can) \$13.88 (6-pack) \$35.50 (case)	\$0.52 (can) \$3.12 (6-pack) \$12.48 (case)	239m (MAT to 30 April)	\$947m (MAT to 30 April)

RTDs	Price	Excise paid	Litres sold	Sales revenue
Bundy Rum Mid 3.5 & Cola (mid-strength RTD) <i>3.5% abv</i>	\$3 (can) \$12.73 (6-pack) \$43.54 (case)	\$0.49 (can) \$2.94 (6-pack) \$11.76 (case)	1.3m (MAT to 30 April)	\$7.5m (MAT to 30 April)
Jim Beam White (full-strength RTD) <i>5% abv</i>	\$4 (can) \$18.26 (6-pack) \$58.82 (case)	\$0.69 (can) \$4.14 (6-pack) \$16.56 (case)	47.5m (MAT to 30 April)	\$387m (MAT to 30 April)

Beer and RTD trends

• Beer

- ↳ **Volume:** Decrease of 1.6% between 2000-2004 (*ABS Apparent Consumption of Alcohol*)
 - Growth in total volume of 0.7% over past year (MAT to feb 06) (*AC Nielsen*)
 - Growth of *packaged beer* of 0.07% over past year (MAT to 30 April) (*AC Nielsen*)
- ↳ **Sales:** Growth total beer sales of 5.2% over past year (MAT to feb 06) (*AC Nielsen*)
 - Growth of *packaged beer* of 4.3% over past year (MAT to 30 April) (*AC Nielsen*)
- ↳ **Per capita consumption:** Declining - per capita beer consumption fell 9% between 1999-2005 (*DSICA analysis from ABS consumption and population data*).
- ↳ **Low-strength beer market:** Steady – slight fall in volume by 0.5% between 2000-2004 (*ABS Apparent Consumption of Alcohol*)
 - BUT low-strength *packaged beer* fell over 10% by volume and almost 7% by value over past year ((MAT to 30 April) (*AC Nielsen*))
- ↳ **Mid-strength beer market:** Increasing – average annual growth of 6% between 2000-2004 (*ABS Apparent Consumption of Alcohol*)
 - Mid-strength *packaged beer* grew by 3% by volume and 6% by value over past year (MAT to 30 April) (*AC Nielsen*)
- ↳ **Full-strength beer market:** Decreasing over recent years with an average yearly fall in consumption of 1% between 2000-2004 (*ABS Apparent Consumption of Alcohol*)
 - Full-strength *packaged beer* fell 0.5% by volume over past year while increasing 3.5% by value (MAT to 30 April) (*AC Nielsen*)
 - *Premium packaged beer* increased by 10.3% in volume and 12.3% in value over past year (MAT to 30 April) (*AC Nielsen*)

• RTDs

- ↳ **Volume:** Overall consumption of RTDs in volume has been increasing (9.6% in 2004-05, *AC Nielsen Liquorscan data*)
 - RTDs growth in volume of 9.9% over past year (MAT to feb 06), which is the highest percentage growth rate in the liquor market (*AC Nielsen*)
- ↳ **Sales:** Sales growth of 9.2% over past year (MAT to feb 06) (*AC Nielsen*). This has slowed dramatically from 75% growth in 2000-01 (*DSICA calculation*) [*see submission, p 27*].
- ↳ **Per capita consumption:** Overall consumption of RTDs per capita is increasing at the expense of beer and spirits (*DSICA analysis*) [*submission, p 22*]. While per capita beer consumption has fallen by 9% between 1999 and 2005, RTD consumption has increased by over 200% over the same period (if we take out 1999-00, the growth is 88% from 2000-01 to 2005).
- ↳ **Mid-strength RTD market:** Increasing - average yearly growth of 12.7% (2001-2007), estimated growth of 8.7% for 2006-2007.
- ↳ **Full-strength RTD market:** Increasing - average yearly growth of 11.7% (2001-2007), estimated growth of 7.7% for 2006-2007.
- ↳ **Pre-mix bourbon** is most popular RTD base, followed by **pre-mix vodka** and **pre-mix rum**. These three make up 80% of total RTDs sold in cases. (*LMA scan data*). [*see submission p 26*]
- ↳ **High abv RTDs** (6% and above) make up 14% of RTD in volume and 20% of RTD sales (MAT to 30 April) (*AC Nielsen*).