



**RESPONSE TO**

**Excise Taxation in Australia Conference Paper**

presented to the

**AUSTRALIA'S FUTURE TAX SYSTEM**

**Review Panel Conference – June 2009**

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## LIST OF ABBREVIATIONS



ABAC	Alcohol Beverages Advertising Code
ABS	Australian Bureau of Statistics
ABV	alcohol by volume
AFTS	Australia's Future Tax System
AIHW	Australian Institute of Health and Welfare
ANTS	A New Tax System
COI	cost of illness
CVD	cardiovascular disease
DSICA	Distilled Spirits Industry Council of Australia
GST	Goods and Services Tax
NABIC	National Alcohol Beverage Industries Council
NHMRC	National Health and Medical Research Council
OECD	Organization for Economic Cooperation and Development
PHT	Preventative Health Taskforce
RRP	Revenue Replacement Payment
WST	Wholesale Sales Tax

## ABOUT THE BREWERS ASSOCIATION



The Brewers Association of Australia and New Zealand Inc (‘the Brewers Association’) represents Australia and New Zealand’s major manufacturing breweries on regulatory issues and broader public policy issues. Our members produce approximately 98 percent of the beer brewed in the trans-Tasman market.

Formed in 1967, the Brewers Association has a proud history of contributing to public debate across a variety of issues including taxation, advertising, and alcohol education. We have representation in both capitals – Canberra and Wellington.

As well as responding to contemporary public policy reviews or inquiries, the Brewers Association also:

- Manages the regulation of alcohol advertising in Australia through the Alcohol Beverages Advertising Code (ABAC) Scheme;
- Actively supports school based education through *Rethinking Drinking*, an initiative of the Associated Brewers that has funded the development of classroom materials based on harm minimisation and has trialled *Alcohol Information Nights* for students and parents; and
- Has an honorary medical advisor, based in New Zealand, to keep the Brewers Association up-to-date on developments in medical and epidemiological research in the areas of alcohol and health.

The members of the Brewers Association are the major brewers in the Australia and New Zealand marketplace including:

- Coopers Brewery
- DB Breweries
- Foster’s Group
- Lion Nathan Limited.

## EXECUTIVE SUMMARY



Our submission begins with a strong protest about the state of Professor Cnossen's paper ('Excise Taxation in Australia') – commissioned by the Treasury for the *Australia's Future Tax System* (AFTS) Review –and its role in the AFTS Review. We have particular concerns about Table 5 on page 29 of Cnossen's paper; this table is pivotal to the paper and both the age of the references and the obvious data errors within it should render it unfit for purpose.

In one instance, Professor Cnossen wrongly accounts for all of the customs and excise duties paid in New Zealand in 1991 as alcohol taxes and this directly informs the text. For example:

*“While New Zealanders have to pay \$45 per litre of alcohol, the Italian excise authorities are content with just over \$4 per litre.”* (p.30)

On the basis of the remarkable mistakes we have uncovered in both the Australian and New Zealand data in this table, the AFTS Review should have no confidence in the figures for any other country.

As this calculation also directly informs “*tentative conclusion of these results*” (again on p.30), then any such conclusion should be considered as a fruit of the poisoned vine and be disregarded as unreliable.

In our submission we also made the following points:

- It is estimated that Australian drinkers will pay an average of \$403 in 'corrective taxes' in the 2009-10 year.
- Less than 9 percent of drinkers consume at levels that put them at risk for short- or long-term harm
- Professor Cnossen himself has repeated warnings about the robustness of COI studies generally and their use in policy formulation.
- The methodology used by Collins and Lapsley in their two 2008 studies has been challenged directly by Access Economics in Australia and indirectly by academics from New Zealand's Canterbury University and the Institute for the Study of Competition and Regulation, respectively.
- Any calculation of the externalities should be a net figure, taking account of benefits as well as costs.
- What gets people drunk and what they do when drunk have quite different moderating mechanisms.
- There is considerable scope for (non-tax) policies aimed at changing consumer behaviour, e.g. in the area of recidivism in drink driving, which could go a considerable way to reducing social costs without penalising optimal consumer behaviour, that is, drinking in moderation.
- Governments have many, sometimes competing, policy objectives (e.g. trade, employment, tourism). These are equally legitimate; a point which should be acknowledged 'up front'.

## 1. A PROTEST



Unusually, this submission begins with a protest. A formal protest against the poor quality of information – indeed obvious avoidable errors – in the paper entitled “*Excise Taxation in Australia*” which was commissioned by Treasury for the *Australia’s Future Tax System (AFTS) Review* (‘the Review’).

### **Why these errors are alarming**

The context of our protest can be summarised in the following manner:

- Members of the Brewers Association are responsible for approximately 98 percent of beer brewed in the Australian market, and are jointly responsible for the majority of beer excise payments to the Australian Government, which totalled \$2.01 billion in the 2008-09 financial year.
- The Australian Government has referred the issue of alcohol taxation to the AFTS Review.
- As part of this review, Treasury commissioned independent research by Professor Sijbren Cnossen<sup>1</sup>.
- In June, Professor Cnossen provided Treasury with a paper<sup>2</sup> which, amongst other considerations, looks at the aggregate level of alcohol excise/taxation in Australia.
- At the heart of this consideration is a table comparing levels of social costs and excise collection between countries<sup>3</sup>.
- This table has obvious and avoidable errors in it which, in our view, renders it unfit for purpose.

### **Why protest a draft?**

Professor Cnossen’s paper was one of ten presented to a conference organised on behalf of Treasury as part of the AFTS Review. Four of these papers, used the word ‘draft’ to describe their work.

However, Professor Cnossen’s paper is remarkable for an extensive front page disclaimer:

*“Paper prepared for a conference on Australia’s Future Tax System to be held in Melbourne, 18-19 June 2009. The paper intends to provide an economic frame of analysis for excise taxation in order to evaluate Australia’s excise tax system. It should be noted that the sections on environmental taxation, road user charges and gambling have not yet been written and that the references still have to be provided. Furthermore, all information has to be double-checked.”*

In our view, a paper in such a state with need for such a broad disclaimer should not have proceeded to conference.

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<sup>1</sup> Australia’s Future Tax System Consultation Paper p.275.

<sup>2</sup> See <http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/conference.htm>

<sup>3</sup> Cnossen, S. (2009). *Excise Taxation in Australia*. Draft paper presented to Australia’s Future Tax and transfer Policy Conference, Melbourne, July 2009. (Table 5, p.29)

The timeline for the Review says the final report will be handed to Government by December 2009. Therefore, it is necessary for us to assume that Treasury, working backwards from this deadline, will have to take into consideration this ‘rough cut’ in drafting its own recommendations to Government and we cannot expect the timeline to be varied to provide sufficient time for a stakeholder response on a later version of this commissioned paper.

To do otherwise than to comment on the draft, given the current high revenue burden borne by our member companies would be imprudent.

### What’s the beef?

The paper’s stated aim is to “*provide an economic frame for analysis for excise taxation*”.

On alcohol taxation, the core frame for analysis advanced by Professor Cnossen as suitable for use in determining the optimum level of revenue from alcohol taxes is consideration of aggregated tax levels against estimates of the costs of harm, shown by country in the following table listed on page 29:

Table 5. External Costs of Harmful Alcohol Use in Australia and Some Other Countries

Country <sup>a</sup> and year of cost	Costs as % of GDP		Costs (\$ per adult (aged 15+))		Costs (\$) per litre of pure alcohol		Excise duty collections (\$billion)	Collections (\$ per adult (aged 15+))	Effective duty (\$ per litre of pure alcohol)
	High	Low	High	Low	High	Low			
Australia 1998/99	1.0	0.9	509	458	49	46	1.7	111	11.1
Ireland 2003	1.6	0.8	1,211	621	82	42	1.7	558	23.2
England & Wales 2001	1.6	0.9	923	519	67	37	17.0	219	33.3
US 1998	2.1	0.6	1,548	442	163	47	20.4	88	9.1
France 1997	1.3	0.7	721	393	58	33	5.3	104	9.1
New Zealand 1991	1.9	1.1	674	390	63	37	1.4	456	44.8
Germany 1995	1.1	0.7	595	353	46	26	6.5	91	7.5
Canada 1992	1.1	0.7	574	342	62	37	.	.	.
Italy 1994	0.7	0.4	348	223	37	21	15.8	33	4.2

#### Sources

Author’s calculations based on table 3.3 in Anderson and Baumberg (2006), which surveys the following individual country studies: Australia – Collins and Lapsley (2002 [to be updated]); Ireland – Byrne (2005); England & Wales – UK Cabinet Office (2003); US – Harwood, Fountain and Livermore (1999); France – Fenoglio, Parel and Kopp (2003); New Zealand – Devlin, Scuffham and Bunt (1997); Germany – Bergmann and Horch (2002); Canada – Single, Robson and Xie (1996); and Italy – Collicelli (1996). GDP cost percentages have been applied to 2003 GDPs to calculate the external costs per adult and per liter of pure alcohol. Low cost estimates exclude costs (if shown in the individual Member State studies) attributable to lost productivity from lost life, absenteeism and unemployment.

GDPs for 2003 and exchange rates: OECD (2006).

Alcohol consumption: Table 1 in Cnossen (2008). Unrecorded consumption per annum is 0.5 liter per adult for New Zealand and assumed to be 1 liter per adult for Australia, Canada and the US. Currencies conversion rates used are 1€ = \$1.75517; 1US = \$1.26351;

#### Note

<sup>a</sup> Ranked in descending order of lower-bound external costs per adult.

We have significant concerns about this theoretical approach (discussed later in our submission). We have even greater concerns about the obvious errors within this key table.

It is clear that the information in this table is quite old, with six of the nine examples citing figures that are not even in the past decade, which presents its own particular problems e.g. the Australian duty regime is pre-ANTS.

Notwithstanding this, which we could conceivably work around, **we believe it is a reasonable minimum entitlement that any data in any discussion paper published by Treasury is factually correct.**

As a trans-Tasman association, with representation in both Canberra and Wellington, it was immediately obvious to us that something was significantly amiss with the data used in Table 5: particularly the excise data. We had to expend considerable time in an attempt to replicate Professor Cnossen's results – just to identify where he went wrong.

As it turns out, this Table underestimates excise duty collections in Australia by about one billion dollars for the 1998/99 year and overestimates collections in New Zealand by roughly the same amount for the 1991 year.

**On these results we believe that we can have no confidence in the other figures in this table.**

### **Obvious Errors for New Zealand and Australia**

#### *New Zealand*

Table 5 states that alcohol excises totalled \$1.4 billion in 1991: equal to \$456 per person (aged 15+) per year. Yet we knew from a recent paper that excise collections in New Zealand are currently of the order of \$580 million per annum, so how could the 1991 figure be correct?

Firstly we checked the only New Zealand nominated source: Devlin et al. (1997)<sup>4</sup>. This paper does not mention an excise figure at all. Then, by checking official data from Statistics New Zealand, we discovered that total revenue from Customs and Excise duties for 1991 for all categories including petrol, alcohol, tobacco and general import tariffs, was \$1.497 billion. Yet if converted to either \$USD or \$AUD for the table (which currency is used is unclear) it seems unlikely that even this figure would reach \$1.4 billion.

One possible explanation for the discrepancy is that the customs and excise for all products was bluntly truncated (as it was in the Australian example below) to one decimal point and then wrongly attributed solely to alcohol in constructing the table, without converting from NZ dollars.

#### *Australia*

Table 5 states that alcohol excise collection totalled \$1.7 billion in 1998-89: equal to \$111 per person (15+) per year. This seemed low, so we checked the only Australian nominated source: Collins and Lapsley (2002)<sup>5</sup>. Table 34 (pp.64-65) of this study appears the likely source for Cnossen's table. While Collins and Lapsley have included sales tax in their table, Cnossen does not, and this has created a glaring anomaly.

The anomaly arises because the 'all governments' figure for sales taxes includes \$997.4 million which were Revenue Replacement Payments (RRPs) to the states. These are separately listed earlier in the same table under 'State Governments' and

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<sup>4</sup> Devlin, N.J., Scuffham, P.A., & Bunt, L.J. (1997). The social costs of alcohol abuse in New Zealand. *Addiction*, 92, 11, 1491-1505.

<sup>5</sup> Collins, D.J., & Lapsley, H.M. (2002). *Counting the Cost: Estimates of the Social Costs of Drug Abuse in Australia in 1998-9*. Canberra: Commonwealth of Australia.

their unique nature was referred to in the text immediately preceding the Collins and Lapsley table. In 2000, the Treasury described RRP as follows<sup>6</sup>:

*“...surcharge rates on alcohol arising from the safety net arrangements implemented following the High Court decision invalidating State and Territory business franchise fees (which are collected by the Commonwealth on an agency basis for the States and Territories).”*

A more detailed explanation was offered by Treasury in the preceding year<sup>7</sup>:

*“Revenue Replacement Payments*

*On 5 August 1997 the High Court ruling on tobacco franchise fees in New South Wales (Ha and Lim v. NSW and Walter Hammond & Associates Pty Ltd v NSW) cast into doubt the constitutional validity of all State business franchise fees (BFFs). BFFs on tobacco, alcohol and petroleum generated State revenues of around \$5 billion annually.*

*On 6 August 1997, at the unanimous request of the States, the Commonwealth announced ‘safety net’ arrangements to protect State finances. These arrangements provided for:*

- *an increase in the rate of Commonwealth customs and excise duty on tobacco and petroleum products and an increase in the rate of wholesales sales tax on alcoholic beverages...”*

These RRP clearly meet Cnossen’s description of a selective tax<sup>8</sup> and should have been included. This sole adjustment to Cnossen’s table would create an immediate 58 percent rise in the excise figures for Australia to \$2.7 billion and \$176 per person (+15) per year.

However, by excluding all sales taxes in his calculation Cnossen also creates another anomaly relating to wine taxes. In 1998-99 the ‘general rate’ for wholesale sales tax (WST) was 22 percent. However wine had its own WST rate of 26 percent, not shared with any other product, after a protracted negotiation with the Australian Senate on bringing wine into the alcohol tax system. So, at the very least that portion of WST on wine between 22 and 26 percent would have met Cnossen’s criteria as a selective tax and should also have been included in the calculations.

If figures from Collins and Lapsley’s 2008 report<sup>9</sup> (rather than the 2002 report) are used to populate this key table, then figures rise rapidly. Six years later, this report (relating to FY 2004-05) shows alcohol taxes in Australia raise \$4.13 billion in revenue (ex. GST)<sup>10</sup>, equal to \$249 per person (aged 15+) per annum. Further, this particular financial year was in the middle of a period of significantly lower RTD taxes (2000 – 2007); any current figure would adjust for this.

Projections for 2009-10 forecast alcohol revenue at \$5.475 billion<sup>11</sup> and population at approximately 18 million<sup>12</sup>, which would show the impact of corrective taxation at approximately \$304 per person (aged 15+).

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<sup>6</sup> Budget Paper No 3 from the 1999-00 Federal Budget.

<sup>7</sup> 1998-99 Federal Budget Paper.

<sup>8</sup> See Cnossen p.4.

<sup>9</sup> Collins, D.J., & Lapsley, H.M. (2008). *The Costs of Tobacco, Alcohol and Illicit Drug Abuse to Australian Society in 2004/05*. Canberra: Commonwealth of Australia.

<sup>10</sup> *Ibid.* Table 39 (p.68).

<sup>11</sup> DSICA (2009). *Pre-Budget Submission 2009-10*. Melbourne: DSICA.

Two other refinements would be helpful in any consideration of this figure:

- Adding in that portion of GST revenue which is the ‘tax on a tax’ (\$0.547 billion) as it would not be levied at all were the product a non-excisable good: \$334 per person (aged 15+); then
- Correcting the population figure to show drinkers only (to account for variations in the pool of abstainers between countries, thereby showing the tax ‘per taxpayer’) as 17 percent of Australians aged 14 and above are abstainers<sup>13</sup>: \$403 per person.

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<sup>12</sup> ABS (2008). *Population Projections Australia: 2006-2101 (3222.0)*. Canberra: Australian Bureau of Statistics.

<sup>13</sup> AIHW (2008). *Australia’s Health 2008: The Eleventh Biennial Health Report of the Australian Institute of Health and Welfare*. Canberra: AIHW.

## 2. GENERAL COMMENTS ON THE APPROACH

Treasury, in one of the very few comments on alcohol in the initial paper, *Architecture of Australia's Tax and Transfer System*, canvases a mix of taxation and regulation for addressing consumer behaviour:

*“Corrective taxes alter relative prices of goods and services to reflect social costs... These taxes are not designed to eliminate all negative consequences to society. All that is required is that the costs to society of undertaking the activity are reflected in the economic decisions of consumers or producers. Taxation is not the only way to achieve corrective action. For example, licensing restrictions on alcohol and product controls on tobacco aim to affect consumer behaviour, as do public health campaigns. To the extent that the externality is addressed through non-tax means, there is reduced need to apply a corrective tax.”* (p.280)

Professor Cnossen's starting point is very similar:

*“In thinking about the most appropriate alcohol duty structure for Australia, the starting point should be that the misuse of alcohol causes substantial social costs which should be reflected in price. (In addition, the regulatory framework should be used as much as possible to target specific problem groups;)”* (p.24)

However, in his paper, Cnossen only gives passing consideration to alternative regulatory proposals for Australia at a high level. We believe that the review of current and potential regulatory measures should have been thorough if the AFTS Review is to make informed recommendations on an appropriate mix of the two.

We would make the following comments on the general approach:

- Governments must juggle other – often competing - legitimate policy objectives which are wrongly dismissed at this point by omission and never acknowledged.
- The assessment of externalities should involve net costs or benefits – not just gross costs.
- The quality of any COI study should be openly questioned and scrutinised, when the quantity is small. In this case, just one.

### **Other government policy aims ignored**

It is the nature of Government that they will manage many, often competing, policy aims which may affect alcohol taxation policy: e.g. employment, support for regions, tourism policy, water policy, trade policy, and environmental objectives. We believe very strongly that to restrict any government's right to govern by not acknowledging this fact would be wrong. We have prepared our own table to illustrate this important point (see Appendix A).

### **Gross or net costs/benefits**

In assessing the externalities of alcohol consumption, Professor Cnossen only assesses costs, not benefits. We believe it is the wrong approach and that net costs/benefits should be considered.

For example, it is acknowledged that regular drinking at a moderate level offers increased cardiovascular protection when measured against abstainers.

### **National Health and Medical Research Council:**

*“There is strong evidence that drinking alcohol reduces the risk of heart disease in people from middle age onwards. This protection is achieved by drinking relatively small amounts of alcohol, with no additional benefit from drinking large amounts.”<sup>14</sup>*

### **Collins and Lapsley:**

*“4.3.3. Retaining the protective health benefits of moderate alcohol consumption*

*It is generally agreed in the literature that the consumption of alcohol in moderation can provide protective effects against certain medical conditions, although in certain risk categories any level of consumption is hazardous or harmful... nevertheless, there is good evidence for the existence of protective effects of moderate alcohol consumption.”<sup>15</sup>*  
(p.13)

### **Mukamal et al. (US Study):**

*“...assessed 5-year [United States Medicare] costs and self-reported intake of beer, wine, and liquor at baseline. Among both sexes, total costs were approximately \$2,000 lower among consumers of >1-6 drinks per week than abstainers. The lower costs associated with moderate drinking were most apparent among participants with cardiovascular disease (CVD) and for hospitalization costs for CVD among healthy participants.”<sup>16</sup>*  
(p.49)

### **Collins and Lapsley:**

*“It may well be possible to target alcohol interventions in a manner which reduces hazardous and harmful consumption while retaining (and perhaps even augmenting) the protective effects. This would be ideal, and specifically targeted interventions such as more intensive enforcement of random breath testing will probably achieve this objective. However, general, or population, interventions, such as excise tax increases, run the risk of reducing the benefits, as well as the costs, of alcohol consumption.”<sup>17</sup>*  
(p.13)

This is a critical consideration, indeed probably an insurmountable challenge, to the efficacy of a Pigouvian tax in such circumstances because the optimum level of social benefit would be for the majority of adults to consume alcohol regularly in moderation but not drink to excess. In Pigouvian theory this would require tax to work in two completely opposing ways. However, one New Zealand Study by Hall has risen to the challenge of exploring this issue<sup>18</sup>

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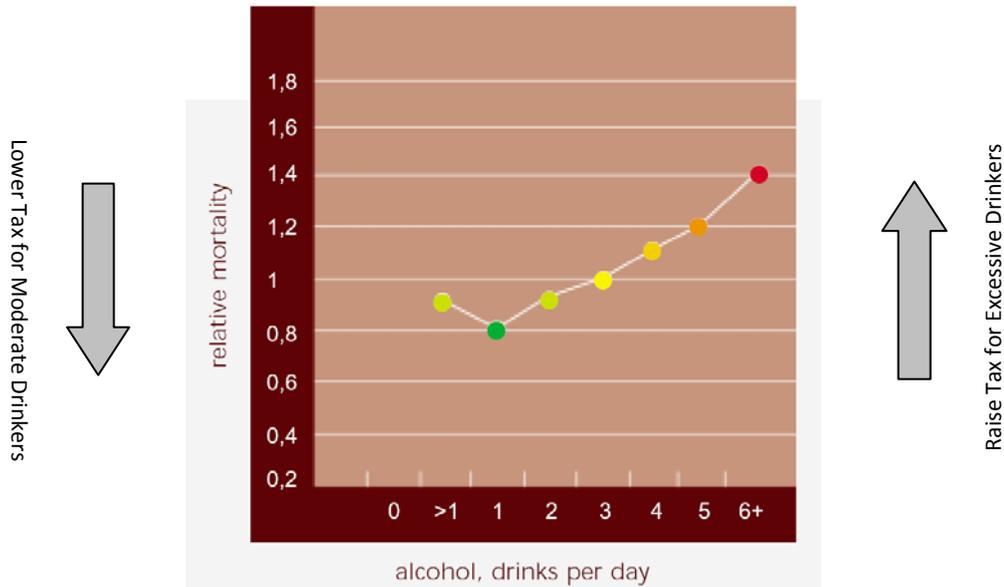
<sup>14</sup> National Health and Medical Research Council (2001) *Australian Alcohol Guidelines – Health Risk and Benefits*. Canberra: NHMRC.

<sup>15</sup> Collins D and Lapsley H. (2008). *The avoidable costs of alcohol abuse in Australia and the potential benefits of effective policies to reduce the social costs of alcohol*. Canberra: Department of Health and Ageing.

<sup>16</sup> Mukamal, K.J., Lumley, T., Luepker, R.V., Lapin, P., Mittleman, M.A., McBean, A.M., Crum, R.M., and Siscovick, D.S. (2006). Alcohol Consumption in Older Adults and Medicare Costs. *Health Care Financing Review*, 27, 3, 49-61.

<sup>17</sup> *Op. cit.*

<sup>18</sup> Hall, T. (1996). *The Alcohol Excise*. Wellington: New Zealand Treasury. See particularly diagrams 1, 2, and 3.



In our view, this conundrum is not overcome by ignoring the benefits to both society and to the budget of increased cardiovascular protection available through a popular, socially acceptable product: alcohol. .

In our view, the health and social benefits of alcohol would be accounted for on a 'net' basis in the AFTS Review. Whilst there are many health<sup>19</sup> and social benefits, we would cite just one example of each to make the point about net cost/benefit accounting for alcohol: cardio-vascular protection and well-being. It is possible that alcohol's contribution to a general sense of well-being for the majority of adults could significantly balance if not eliminate any assessment of alcohol's contribution to absenteeism.

As a recent Australian survey by Deakin University concluded that:

*"...people who drink alcohol 'almost every day' have higher wellbeing than people who never drink alcohol and people who drink about once a week."*<sup>20</sup> (p.223)

### **COI studies: Scrutiny should increase when quantity decreases**

When it is reduced to fundamentals, it appears that Professor Clossen proposes to base Australia's optimum level of aggregate alcohol taxation on a single study by Collins and Lapsley (2008), which reported in two parts: 2008(a) and 2008(b).

Alcohol production, with its attendant upstream (agriculture, packaging, transport) and downstream industries (hospitality, retail and tourism), is a major economic contributor to the Australian economy. We think it would be untenable for the AFTS

<sup>19</sup>See: The Effects of Moderate Beer Consumption: A digest of the current scientific literature (4<sup>th</sup> edition 2008). The Brewers of Europe.

<sup>20</sup>Cummins, R.A., Woerner, J., Gibson, A., Lai, L., Weinberg, M., & Collard, J. (2008). *Australian Unity Wellbeing Index: Survey 19 (The Wellbeing of Australians – Links with Exercise, Nicotine and Alcohol)*. Melbourne: Deakin University.

Review Panel to make recommendations on any single COI study. We are mindful of Professor Crossen's own warning about this:

*“As Single and Easton (2001) sum up succinctly, the social cost studies of harmful alcohol use are plagued by a lack of consensus regarding the appropriate methodology to be used, the lack of (reliable) information, the use of a layering of multiple assumptions, and changes in the epidemiological database and what we know about the effects of alcohol use. Similarly, Maynard, Godfrey and Hardman (1994) note: “When policy makers are given such studies, they should be aware that they come with a government health warning: naïve use of such data can damage the Nation’s health.” (pp.26-27)*

At the very least, if a major recommendation(s) for change is to be based on a single study, then that study deserves to be subject to very close scrutiny and debate indeed.

In Australia, the Collins & Lapsley 2008 study has been critiqued by independent consulting firm Access Economics<sup>21</sup>. In their review of Collins and Lapsley (2008a), Access Economics concludes:

*“Overall the [Collins and Lapsley] report is poorly structured with inadequate cross-referencing, there is a paucity of supporting evidence and references for claims, the referencing is incomplete and there is a very serious lack of transparency in calculation processes. Methodology and data use are singularly poor.*

*There is apparent upward bias in most of the cost estimates and uncertainty is not dealt with due to grossly inadequate sensitivity analysis. Using a best possible approach would exclude one cost item, making the overall cost of alcohol abuse at least 18% lower. The other findings of the report should be viewed with substantial scepticism.” (pp.iii-iv)*

Access Economics also critiqued 2008(b) and concluded:

*“In our view, there are fundamental flaws in the methods used in this Collins and Lapsley [2008b] report and hence in its recommendations.”*

The full Access Economics reports have been provided as a separate attachment to this submission. Access Economics critiqued the Collins and Lapsley methodology, but did not provide their own calculation of costs, which is where the New Zealand experience is helpful.

### **Collins and Lapsley and New Zealand**

Collins and Lapsley's work was commissioned by the Australian Government Department of Health and Ageing. Subsequently, the New Zealand Ministry of Health commissioned a similar study by BERL Economics, which has been separately critiqued by two independent academics, Dr Eric Crampton of the University of Canterbury and Matt Burgess of the Institute for the Study of Competition and Regulation<sup>22</sup>. In their study, entitled 'The Price of Everything, The Value of Nothing', Crampton and Burgess state:

*“The credibility and independence of BERL’s work is also questionable, further limiting its usefulness. The analysis ignores most of the large body of peer-reviewed economic*

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<sup>21</sup> Commissioned by the National Alcohol beverage Industries Council (NABIC).

<sup>22</sup> Crampton, E., & Burgess, M. (2009). *Working Paper 10/2009. The Price of everything, the Value of Nothing: A (truly) External Review of BERL’s Study of Harmful Alcohol and Drug Use*. Christchurch: University of Canterbury.

*literature in favour of a few (mostly commissioned) reports by a very small subset of health economists whose reports have been subject in that literature to many of the same criticisms levelled here. BERL's report can be reasonably characterized as a New Zealand implementation of a methodology developed by Professors Collins and Lapsley, cited over 100 times in the BERL report. These same authors provided the external peer review of the report.”<sup>23</sup> (p.26)”*

Unlike Access Economics in Australia, Crampton and Burgess did recalculate the costs for New Zealand, resulting in a 98.3 percent reduction in tangible costs. While the full Crampton and Burgess report is included as a separate attachment to this submission, this particular table (from p.26) is reproduced below:

	BERL	Corrected Net External Costs	Difference	Discussion Section
<b>Tangible Costs</b>				
Labour Costs	\$1,478.4	\$-126.7 <sup>29</sup>	-108.6%	4.2 (4.2.1-4.2.10)
Drug production	\$698.7	\$0.0	-100.0%	4.3
Crime n.i.e	\$562.2	\$409.8	-27.1%	4.4
Health Care	\$290.1	\$254.8	-12.2%	4.5
Road Crashes	\$200.1	\$33.2	-83.4%	4.6
<b>Excise taxes collected</b>	<b>*</b>	<b>\$-516</b>	<b>*</b>	<b>4.7</b>
<b>Tangible Costs (\$ million)</b>	<b>\$3,229.5</b>	<b>\$55.1</b>	<b>-98.3%</b>	
<b>Intangible Costs</b>				
Loss of life	\$1,519.6	\$67.2	-95.6%	4.8
Lost quality of life	\$42.4	\$24.0	-43.4%	4.8
<b>Intangible Costs (\$ million)</b>	<b>\$1,562.0</b>	<b>\$91.2</b>	<b>-94.2%</b>	
<b>Total Costs (\$ million)</b>	<b>\$4,791.5<sup>30</sup></b>	<b>\$146.3</b>	<b>-96.9%</b>	

It is reasonable to posit here that were the acknowledged tangible health benefits of alcohol use factored in from the base of \$146 million in costs, the net calculation would be positive (i.e. a social *benefit*). It should be noted that the brief supplied to BERL asked them to only count costs, not benefits.

In a recent National Business Review article<sup>24</sup>, comments by the Deputy Secretary of the New Zealand Treasury, Dr Peter Bushnell, are reported in the following manner:

*“In a market if you’re selling something that people are prepared to pay for, then they’ve at least got that much benefit, otherwise they wouldn’t have bought the stuff. So if you exclude the benefits then you’re clearly only looking at one side of the story”*

*[Dr Bushnell] agrees that an alcohol cost analysis Treasury did in 2002 is more consistent with Dr Crampton and Mr Burgess’s findings than the BERL report, which was jointly commissioned by the Ministry of Health and ACC.”*

In fact, there are two earlier papers, both written by New Zealand Treasury officials, who do seek to calculate the net cost/benefit of alcohol consumption. On the question of an appropriate level of aggregate revenue collection from alcohol, both papers determine that the current level is appropriate:

### July 1996:

<sup>23</sup> *Ibid.*

<sup>24</sup> See <http://www.nbr.co.nz/article/nz-treasury-weighs-shonky-berl-alcohol-report-104204>

*“A conservative estimate of the annual aggregate net externality associated with alcohol consumption in New Zealand is a range of \$432 million to \$713 million (in March quarter 1996) absolute dollars). The alcohol excise currently raises about \$570 million annually. Thus the current excise on a unit of alcohol is similar to the estimated average net externality of a unit of alcohol.”<sup>25</sup> (p.2)*

**December 2002:**

*“In 1999/00 the amount of revenue collected from the tax on alcohol was \$580 million. This is near the mid-point of the estimated bound of the external tangible costs of alcohol (\$680). Thus the current rate of excise tax can be justified on externality grounds..”<sup>26</sup> (p.18)*

In our view, in its report, the AFTS Review Panel must keep an open verdict on whether the calculation in Australia would be positive or negative, as there is an insufficient body of robust local work to provide confidence in the matter.

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<sup>25</sup> Hall, T. (1996). *The Alcohol Excise*. Wellington: New Zealand Treasury.

<sup>26</sup> Barker, F. (2002). *Consumption Externalities and the Role of Government: The Case of Alcohol*. Wellington: New Zealand Treasury.

### 3. INSUFFICIENT CONSIDERATION OF OTHER REGULATORY MEASURES

The AFTS Review paper<sup>27</sup> encourages the consideration of how externalities may be corrected through non-tax means which Professor Cnossen addresses under the sub-heading ‘Regulations’.

In his consideration, Professor Cnossen highlights a table from another publication which seeks to rate the effectiveness of alcohol strategies or interventions. There is a logic hurdle to be overcome here. The particular study in question was compiled by a survey of current strategies/interventions in advanced countries including Australia. (Although there are questions about the weighting given to US examples in assessing the effectiveness of alcohol education)<sup>28</sup>. So, advocacy in line with these findings essentially asks Australian policy makers to do what they are already doing. This should quickly invoke concerns about the law of diminishing returns.

Many existing strategies/interventions are the subject of mature policy in Australia and mainly target industry behaviour. Most of those which target consumer behaviour are essentially ‘greenfield’ sites which would benefit from more work. They are shown in the table below, with mature policy settings shown in grey:

<b>Focus on Industry Behaviour</b>	<b>Focus on Consumer Behaviour</b>
<i>Product integrity &amp; safety (inc. labelling)</i>	<i>Drink driving</i>
<i>Outlet density</i>	Primary health care (inc. GPs)
<i>Licensing restrictions</i>	Other brief interventions
<i>Advertising restrictions</i>	Targeting high-risk sub-groups: teenagers (and their parents), pregnant women, sports clubs, etc.
<i>Taxation</i>	Pharmacotherapies

We have made this point in more detail in our response to the Preventative Health Taskforce (PHT) discussion paper<sup>29</sup>, an excerpt from which is reproduced at Appendix B).

The question of non-tax measures and their potential for reducing externalities is probably best understood by looking at drink driving. While we have debated the need to do considerably more work in ‘netting out’ the externalities associated with both health and workforce issues, this would seem more difficult for externalities

<sup>27</sup> Box 9.1, p.280

<sup>28</sup> We note that the Australian Government Department of Education, Employment and Workplace Relations has commissioned the National Centre for Education and Training on Addiction at Flinders University to undertake an examination of the role of schools in alcohol education. The review is currently underway.

<sup>29</sup> Sadly, the PHT discussion paper, when describing the work of Babor et al, including the same table cited by Cnossen is materially misleading. Our analysis of this can be read at Attachment A of that particular submission.

associated with road crashes which is the third highest tangible cost in Collins and Lapsley 2008 (table 33 – replicated by Cnossen in Table 4).

Collins and Lapsley calculate \$ 2.2 billion<sup>30</sup> in costs from road crashes. Babor et al.<sup>31</sup> rate various drink-driving countermeasures very highly for effectiveness and brief interventions with at-risk drinkers moderately highly. What if the two could be combined, by using drink driving offences as a means of identifying at-risk drinkers and providing sufficiently well-designed brief interventions for them?

Again, we have provided more comment on the intersection of drink driving and brief interventions in our submission to the PHT (see Appendix C).

We wish to make one final point on tax and non-tax measures in assessing the mix of the two. It is wrong to assume that a general decline in consumption per capita will axiomatically lead to a reduction in antisocial behaviour (including drink driving and crime) by individuals who engage in immoderate drinking.

What people do to get drunk and what they choose to do when drunk have completely different causal factors (see Appendix D). This fact should be given considerable weight when assessing the capacity of a general increase in alcohol taxation to reduce tangible social costs.

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<sup>30</sup> Although Access Economics has critiqued this methodology, a more precise figure here would not alter the basic argument.

<sup>31</sup> Babor T, Caetano R, Casswell S, Edwards G, Glesbrecht G, Grube J , et al. (2003). *Alcohol: no Ordinary Commodity*. New York: World Health Organization and Oxford University Press.

## 4. OTHER MATTERS

### Government Revenue Exceeds Direct Costs

When considering the development of new non-tax strategies to decrease tangible social costs it is wrong to assume that this requires increased offsetting revenue from alcohol taxation. The first port of call should be excess revenue against costs that are currently collected by Australian governments (state and federal). To illustrate this point, Table 41 from Collins & Lapsley 2008<sup>32</sup>(p.70) is reproduced below:

Outlays		\$m	Receipts		\$m
<b>Health</b>			<b>Excise tax</b>		
	Hospitals	529.2		Beer	1,653.0
	Medical	425.8		Spirits	739.0
	Nursing homes	316.0	<b>Total excise tax</b>		2,392.0
	Pharmaceuticals	241.4	<b>Customs duties</b>		
	Ambulances	43.0		Beer	83.0
<b>Total Health</b>		1,555.3		Wine	5.0
<b>Road accidents n.e.i.</b>		106.4		Spirits	980.0
<b>Crime n.e.i.</b>			<b>Total customs duties</b>		1,068.0
	Police	747.1	<b>GST</b>		976.5
	Criminal courts	85.8	<b>Wine equalisation tax</b>		676.0
	Prisons	141.8	<b>Total alcohol revenue</b>		5,112.5
<b>Total crime n.e.i.</b>		974.6	<b>Less</b>		
			<b>Revenue forgone</b>		
				Income tax	667.7
				Indirect taxes	392.9
			<b>Total revenue forgone</b>		1,060.6
<b>Total outlays</b>		2,636.4	<b>Total net revenue</b>		4,052.0
<b>Net revenue minus outlays</b>		1,415.6			

This shows an excess of \$1.415 billion and with the subsequent increase in RTD taxation revenue, this pool of funds will increase in the current year.

### Putting Per Capita Consumption into Context

Professor Cnossen makes the alarmist claim that “*Adults in Australia drink on average almost 10 litres of pure alcohol per year, twice the average for the rest of the world.*” (p.22)

Using OECD data, we have constructed a table of per capita consumption for the nine countries cited in Professor Cnossen’s controversial ‘Table 5’ (p.29) which shows Australia sitting comfortably in the middle of the range.

<sup>32</sup> Collins, D.J., & Lapsley, H.M. (2008). *The Costs of Tobacco, Alcohol and Illicit Drug Abuse to Australian Society in 2004/05*. Canberra: Commonwealth of Australia.

Alcohol Consumption 2003  
(litres per capita, age 15+)

Ireland	13.5
France	13.4
United Kingdom	11.2
Germany	10.2
Australia	9.8
New Zealand	8.9
United States	8.3
Italy	8.1
Canada	7.8

Source: OECD

### The Risk of Penalising Good Behaviour

The idea of a corrective tax is to change behaviour, yet:

- Responsible consumption can provide significant health and social benefits to consumers; and
- Alcoholics are the least likely consumers to respond to price signals.

The table below displays Australians' drinking habits (for those 14+ years of age) in terms of risk of harm in the long-term by risk of harm in the short-term:

#### Short-Term Risk

Long-Term Risk	Abstainer	Low Risk	Risky or High Risk	Total
Abstainer	17.1	–	–	17.1
Low Risk	–	60.8	11.8	72.6
Risky or High Risk	–	1.7	8.6	10.3
Total	17.1	62.5	20.4	100.00

Source: AIHW (2008)<sup>33</sup>

Taxation – as a blunt and imprecise instrument – cannot differentiate between the majority of consumers who drink responsibly and those who through misuse of alcohol place themselves at risk of harm. As the AIHW data show, it is less than 9 percent of the population (aged 14+) whose drinking behaviours place them at risk of harm in the short- and long-term. Taxation policies treat all drinkers as risky drinkers, thus wiping out the many benefits of moderate, responsible consumption.

<sup>33</sup> AIHW (2008). *2007 National Drug Strategy Household Survey: Detailed Findings*. Canberra: AIHW.

## APPENDIX A – COMPETING ALCOHOL POLICY OBJECTIVES

Amidst competing policy objectives, Government should decide.

There is no obvious ‘grand unifying theory’ for alcohol taxation, just a range of mostly overlapping, but often competing policy objectives. The table below seeks to make this point graphically and, as such, the ranking of various alcohol products is for illustrative purposes only.

	Volumetric (Spirits Lobby)	Harm-Based (Health Lobby)	Environment Policy	Trade Policy	Employment	
Tax Treatment	+	Wine	RTDs	Beer (light)	Spirits	Spirits
		Beer (regular)	Spirits	Beer (mid)	RTDs	RTDs
		Beer (mid)	(Cask) Wine	Beer (regular)	Wine	Wine
		Beer (light)	Beer (regular)	RTDs	Beer (light)	Draught Beer (light)
		Spirits	Beer (mid)	Spirits	Beer (mid)	Draught Beer (mid)
	-	RTDs	Beer (light)	Wine	Beer (regular)	Draught Beer (regular)
	<p><b>Volumetric (spirits lobby):</b> One unit of alcohol = one unit of tax.</p> <p><b>Comment:</b> The outcome is beer up, wine up and spirits down, dramatically.</p> <p>Big winner: Spirits</p>	<p><b>Harm-based (health advocates):</b> Alcohol tax used as a price lever to minimise perceived harm.</p> <p><b>Comment:</b> Health advocates want increased taxation on alcohol generally, but seek to apply punitive taxes to specific products relative to perceived harm, e.g. alcopops and hard liquor and provide incentives for some lower alcohol products, e.g. beer but not alcopops.</p> <p>Big target: Alcopops and cask wine.</p>	<p><b>Environment:</b> Increasingly, social policy objectives are also competing and can cancel each other out. For example, in South Australia, light beer is managed through tax for health reasons, but penalised through container deposits for environmental reasons – a flat tax of \$2.40 per carton. A wine bottle attracts no container deposit at all.</p> <p>Loser: Light beer.</p>	<p><b>Trade policy:</b> Beer is a successful import replacement story (a four leaf clover that is often overlooked). Wine and malting barley are increasing export success stories.</p> <p>Spirits are predominantly imported. Volumetric removes any leverage for wine in government trade negotiations.</p> <p>Big issue: Wine exports.</p>	<p><b>Employment:</b> Beer is the backbone of the jobs-rich hospitality industry in hotels and clubs.</p> <p>Beer and wine are important to regional industry, through barley and grapes. If employment is the goal, particularly entry level jobs in a time of recession, draught beer should be favoured through the tax system.</p> <p>Big employer: Draught beer.</p>	

## APPENDIX B – EXCERPT FROM BREWERS ASSOCIATION PHT SUBMISSION

In our view, it is useful to consider the alcohol policy debate as having two basic streams: strategies or interventions focusing on industry behaviour and on consumer behaviour.

The following table sets out the broad categories from the current debate:

Focus on Industry Behaviour	Focus on Consumer Behaviour
<i>Product integrity &amp; safety (inc. labelling)</i>	<i>Drink driving</i>
<i>Outlet density</i>	Primary health care (inc. GPs)
<i>Licensing restrictions</i>	Other brief interventions
<i>Advertising restrictions</i>	Targeting high-risk sub-groups: teenagers (and their parents), pregnant women, sports clubs, etc.
<i>Taxation</i>	Pharmacotherapies

All of those issues which focus on industry behaviour, and drink-driving, would be considered general population measures by Babor et al. In Australia they can all be fairly described as being mature debates where the basic policy design parameters have been in place for a considerable period. These are the shaded areas in the table above.

The remaining issues focus on high-risk drinkers and one (pharmacotherapies) on harmful drinkers and involve targeted programs or interventions. These are the unshaded areas in the table above. In relative terms these issues represent ‘greenfield sites’ for public policy in Australia, where the greatest gains could be made, for example:

*“In Australia, brief interventions, as yet, are a relative untapped opportunity”* (Taskforce Technical Report, p.28)

Babor et al. state that targeting high-risk sub-groups is equally cost effective as general population measures.

Of course, in any mature policy debate there will always be arguments around the edges of the policy (see Appendix C for specific comments). However, on the whole the shaded sections of the table represent settled, successful population-based strategies, which the discussion paper begrudgingly acknowledges on page 29:

*“Australia’s international reputation in action on alcohol is among the best in the world. A recent review of alcohol policies in 30 OECD nations rated Australia as fifth overall, ranked behind Norway (1<sup>st</sup>), Poland, Iceland and Sweden. Another recent comparison of alcohol policies in 18 countries reports that ‘contrary’ to the generally pessimistic reports about alcohol policies, the case of Australia provides cause for optimism.”*

However, in the very next paragraph the discussion paper proceeds to narrowly summarise Australia’s successful policies as drink-driving legislation and enforcement,

compulsory fortification of bakers' flour with thiamine, and liquor licensing in some Aboriginal communities and goes on to say "*these strategies alone are not enough*" as if they were the only policies in place.

This is the pattern of the whole document; no quarter is given to any agreed existing policy setting which may focus on industry behaviour. Generally, the paper rehashes existing arguments for reopening debate in the 'shaded areas' debates and ignores the other 'unshaded area' debates where greater gains can be made for prevention.

The relentless focus on reopening settled debates on industry restrictions and reducing per capita consumption (rather than targeting excessive consumption) in this draft strategy is indicative of an underlying 'command and control' approach.

**Stripped to its essence, the proposed model for alcohol is to use the Agency to direct public funds to further research which has clear aims:**

- **To increase prices;**
- **To decrease availability; and**
- **To ban or severely restrict marketing.**

**Success is to be measured in reduced per capita consumption of alcohol (a largely meaningless measure), rather than a decrease in high-risk drinking (excessive consumption). The fact that the moderate use of alcohol has protective benefits is simply ignored.**

**The paper argues for a 'groundhog day' strategy. To focus on mature areas of policy and to force politicians back and back to these issues – until they give in.**

### ***The Strategy at Work***

An example of the strategy at work in the next few years would be in the area of taxation policy:

The Rudd Government has made clear its preference for taxing alcopops at full spirit rates which they believe will stem high-risk consumption by young females.

The Taskforce strategy proposes to model and then campaign for tax changes which they openly concede would reverse this.

On page 26 of the Technical Paper, they set out their preferred tax model (which no OECD country uses) and say "*this model would have a negative impact on some segments... while advantaging other market segments – spirits and spirit-based RTD products.*"

There are similar examples for availability, where research will be aimed at challenging competition policy, and in marketing, where research will be aimed at challenging 'best practice' regulation.

In our view, further research and focus in these shaded areas will provide severely diminishing returns against the prevention criteria when compared to the unshaded areas which are, in relative terms, greenfield sites capable of good returns on any investment of public funds.

We believe that the government should seek to lead the world into these areas of greatest gain – rather than have us all go around the same old bush again and again.

### Sub-Policies with a Focus on Consumer Behaviour

#### Drink driving

Australia ranks very highly for our successful drink driving policies. And, various state-based authorities are possible sources of expertise for successful culture change programs which may be undertaken as part of the Preventative Health Strategy.

More could be done with recidivist drink drivers through brief interventions. Tracking recidivist drink drivers would be an efficient means of identifying individuals who will potentially develop into either high-risk or harmful drinkers.

#### Primary health care (inc. GPs)

See our comments in the main submission at page 12; particularly our support for promoting *Pregnancy Lifescripts* as an effective intervention for pregnant mothers through the Australian General Practice Network.

#### Other brief interventions

The Taskforce discussion paper briefly canvasses this issue, but mainly in a clinical setting.

Recidivist drink drivers are an obvious target for intervention programs. On the broad evidence available, Babor et al. rate brief interventions for at-risk drivers as moderately effective and moderate costly with the following proviso: “*Primary care practitioners lack training and time to conduct screening and brief interventions*”. However, there is also research available which shows that brief interventions need not always be delivered by primary care practitioners nor be costly. It seems a large part of their effectiveness for changing behaviour is that ‘someone called them on it’. There have been trials of correspondence- or email-based interventions, for instance.

Further, we would confidently assume considerable community support for a user-pays scheme for brief interventions in this area, where a commitment to a brief intervention was offered as an option for diversion from the criminal justice system or to ‘earn points back’.

Such a scheme is already operating in Ontario, Canada and the Victorian Government has recently flagged the possibility of speeding drivers accepting education for the return of demerit points:

*“If you are convicted of a drinking and driving related Criminal Code offence, you must take the impaired driving program called Back on Track, delivered by the Centre for Addiction and Mental Health. The three-part program, which is available across the province, involves assessment, education or treatment, and follow-up. You must pay for the program.”* (excerpt from the Drivers Handbook, [www.mto.gov.on.ca](http://www.mto.gov.on.ca)).

*“In an Australian first, drivers will be given the chance to wipe off demerit points in a radical deal expected to be offered by the Victorian Government. Tens of thousands of drivers penalised for speeding, red light breaches and other offences could soon trade points in return for undertaking driver education.”* (Herald Sun 05/02/08)

#### Pharmacotherapies

The Taskforce papers give pharmacotherapies just 31 words, summarising a single 2004 study.

## APPENDIX D – EXCERPT FROM BREWERS ASSOCIATION PHT SUBMISSION

It is wrong to assume that a general decline in consumption per capita will axiomatically lead to a reduction in anti-social behaviour by individuals who engage in high-risk drinking. What people do to get drunk and what they choose to do when drunk have completely different causal factors.

As a study by MacAndrew and Edgerton puts it:

*“... the way people comport themselves when they are drunk is determined not by alcohol’s toxic assault upon the seat of moral judgement, conscience, or the like, but by what their society makes of and imparts to them concerning the state of drunkenness.”<sup>34</sup>*

It is evident that different countries have quite different attitudes to what is usual or acceptable behaviour when drunk and in all of them **this expectation acts as a strong moderator of behaviour.**

A qualitative study in seven countries published in 2008<sup>35</sup> found that cultural attitudes to being drunk vary significantly across countries and affect people’s responses when drunk.

A sample of the findings from the focus group study is:

- in Brazil, a culture of viewing drinking as an important part of festivals has *“weakened societal limitations on drinking and related behaviour”*;
- in China, *“people who drink large amounts of alcohol and maintain the appearance of sobriety are greatly admired”*;
- in Italy, drunkenness was strongly criticised; and
- in Scotland, *“drinking regularly and excessively is viewed... as a rite of passage”*.

A recent Australian study, comparing the drinking habits of six migrant communities against the average for NSW<sup>36</sup>, reinforces the point about cultural expectation and behaviour. Australia’s own experience with drink-driving shows what can be achieved in this area. Behaviour is primarily influenced by expectation (peers, parents, community), not by price or availability. And, as Babor et al. conclude, targeting programs at high-risk behaviour is very cost effective.

As a bang for buck investment in Australia, targeted culture change initiatives can deliver far greater gains for prevention.

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<sup>34</sup> MacAndrew, C., & Edgerton, R. E. (2003). *Drunken comportment: A Social Explanation*. Clinton Corners, NY: Percheron Press/Eliot Werner Publications.

<sup>35</sup> Martinic, M., & Measham, F (eds.) (2008). *Swimming with Crocodiles – The Culture of Extreme Drinking*. Washington DC: ICAP.

<sup>36</sup> A study of six migrant communities conducted by the Drug and Alcohol Multicultural Education Centre (NSW).