The Royal Australasian
College of Physicians

Consultation Paper
'Australia's Future Tax System'

Submission on behalf of
The Royal Australasian College of Physicians

May 2009

Contact:

Dr Yvonne Luxford
Manager, Policy and Advocacy
Royal Australasian College of Physicians
145 Macquarie St
Sydney NSW 2000
Ph: 02 9256 9604
0437307159
Yvonne.Luxford@racp.edu.au

Royal Australian College of Physicians submission for the consultation informing 'Australia's Future Tax System'

EXECUTIVE SUMMARY

Alcohol has an important place in Australian society providing social benefits and playing a significant economic role. However, alcohol related harm, in terms of dysfunctional drinking, disease and injury, social disorder and economic costs, is occurring at an unacceptable level in Australian society. Addressing these harms should be a fundamental concern for alcohol tax policy.

There is a great discrepancy currently between the amount of alcohol excise and the social costs of alcohol. Based on an estimate of $15.3 billion in total alcohol related social costs in 2004/05 and the apparent total consumption of alcohol of $159.6 million litres in Australia in that year, the social cost per litre of pure alcohol was $95.98. This is far in excess of the average excise levied.

There is extensive evidence from around the world that increasing the tax and price of alcohol reduces consumption and consequent harms. The benefits of tax and price increases have been shown for general populations, young people and heavy drinkers. There is particular experience of this in Australia in the Living With Alcohol program, which took place in the Northern Territory between 1992-2001. This was associated with substantial reductions in alcohol related deaths, hospitalisations, prison receptions and economic savings of $124 million over a four year period. It is widely believed that taxation and price measures are the most effective and cost effective single class of measures in reducing alcohol related harm.

The Royal Australian College of Physician (RACP) believes that a comprehensive reform of alcohol taxation with public health as the principal objective is required. Specific aspects of a system could include:

- a minimum price per standard drink;
- an underlying volumetric based system;
- a tiered system that favours lower alcohol beverages over those with higher alcohol concentrations with additional taxation based on evidence of harm associated with particular beverage types; and
- hypothecation of a proportion of revenue raised for alcohol and drug prevention and treatment.

The detailed rationale for these aspects is provided in response to the consultation question 11.1 concerning the appropriateness of taxes on specific products as a means to influence consumption and the principles of such a system.

Question 11.2 concerns the competing objectives of health policy, industry assistance and revenue raising. The RACP believes that while there is an important alcohol economy, should alcohol consumption be reduced this economic activity would not be lost but would shift to other parts of the economy. Analyses from around the world suggest that revenue raising would be preserved, perhaps even increased, if taxes were increased. Importantly, revenues could be used to improve prevention and treatment programs which are substantially under funded. Therefore, given the unacceptable harms associated with alcohol consumption and evidence for the effectiveness of taxation, the principal objective of alcohol taxation policy should be public health and social order.

Question 11.4 addresses duty free alcohol allowances for people arriving in Australia. Abolition of this allowance would probably not have a major impact on alcohol related harms. However, maintaining it in a public health focused alcohol tax policy would be inconsistent and send the wrong message. The RACP suggests that it is removed.

The RACP believes that the balance between the benefits and harms of alcohol to Australian society needs to be reconsidered. It should be possible to reduce the harms without substantially reducing the benefits. In order to do so, the RACP strongly urges the review to place public health and social order at the centre of any consideration of alcohol tax policy.

INTRODUCTION

While the RACP is aware that the scope of the review is much wider, this submission will focus solely on a review of the system taxation of products that contain alcohol and how that system can better serve the interests of the health and well being of Australians.

In outline, this submission will discuss:

- the unacceptable level of harm in Australia that is due to drinking;
- the evidence for taxation and price policies as the most effective and cost effective means to reduce consumption and consequent harms; and
- the specific questions posed in the consultation document.

GENERAL COMMENTS

Alcohol harm is at an unacceptable level.

The absolute levels of harm due to alcohol in this country are at an unacceptable level, particularly amongst young people. Reducing this harm should be a major focus of research and policy. The RACP also believes that one of the principal objectives alcohol taxation policy should be to minimise the harm arising from alcohol consumption.

- Collins and Lapsley estimated that 3,494 Australians died in 2004/05 and over one million hospital bed days arose because of alcohol consumption. They also estimated that the cost to Australian society of alcohol related health harms, lost productivity, and crime was $15.3 billion[1].
- Begg and Voss estimated that 3.2% of the total burden of disease and injury in Australia in 2003 was attributable to alcohol[2].
- In 2007, 37.4% of males and 41.2% of females aged 14-19 years reported that they consumed alcohol at a level that placed them at risk of short term harm (for example being involved in fight, a car crash or engaging in risky sexual behaviour) in the past year. Just less than one in ten in this age group did so *every week* (8.8% males, 9.4% females)[3].
- In the ten years to 2002 an estimated 5 people aged 15-24 years died and 216 were admitted to hospital *every week* as a result of drinking alcohol[4]. People of this age account for 52% of all alcohol related serious road injuries[5].
- Among people aged 15 to 34 years, alcohol is responsible for most drug-related deaths and hospital episodes, causing more deaths and hospitalisations in this age group than all illicit drugs combined[6].
- People aged below 25 years have the riskiest drinking patterns. Between 1993 and 2002 an estimated 2,643 young people (aged between 15 and 24) died from alcohol-attributable injury and disease caused by risky or high risk drinking in Australia[7].

---

[1] Collins D and Lapsley H. (2008) *The costs of tobacco, alcohol and illicit drug abuse to Australian society in 2004/05.* Australian Government Department of Health and Ageing, Canberra

[2] Begg S, Voss T, Barker B, Stevenson C, Stanley L and Lopez A. (2007) *The burden of disease and injury in Australia 2003.* PHE 82. Canberra: Australian Institute of Health and Welfare. Available from: www.aihw.gov.au/publications/index/cfm/title/10317.

[3] Australian Institute of Health and Welfare, (2008). The 2007 National Drug Strategy household survey. First results. Canberra: AIHW.

[4] Chikritzhs T, Pascal R. (2004). *Trends in youth alcohol consumption and related harms in Australian jurisdiction, 1990-2002.* National Alcohol Indicators, Bulletin no 6. National Drug Research Institute, Curtin University of Technology.

[5] Chikritzhs T, Stockwell T, Heale P, Dietze P, Webb M. (2000). *Trends in alcohol related road injury in Australia 1990-97.* National Alcohol Indicators, Bulletin no 2. National Drug Research Institute, Curtin University of Technology

[6] Chikritzhs T, Pascal R. (2004) op cit

- Over 80% of all the alcohol consumed by 14–17 year olds is drunk at risky or high risk levels for acute harm. Over the ten years 1993–2002, an estimated 501 under-aged drinkers in this age group died from alcohol-attributable injury and disease caused by risky or high risk drinking in Australia[8].

Aside from illness and injury there are substantial other harms and costs of alcohol to Australian society. The greatest costs arise from lost productivity due to the premature death of people from alcohol related injury and illness. Total lost productivity due to premature mortality from alcohol consumption in 2004/05 led to a loss of $3.5 billion in paid productivity losses with a further $1.4 billion in unpaid productivity lost[9]. Road crashes are consistently in the top 3 causes of alcohol related deaths and typically occur amongst younger people. Deaths in young people lead to very many years of life lost and substantial lost productivity.

Alcohol leads to a great deal of crime and violence. The cost of alcohol related crime in Australia in 2004/05 was conservatively estimated to be $1.7 billion with a further $1.4 billion due to the combined effect of alcohol and illicit drugs[10]. An enormous amount of police time is consumed dealing with alcohol related offences. A police survey in Sydney in 1991 found that 77% of all street offences were alcohol related[11]. In 1998/99, it was estimated that 8,661 Australians were hospitalised as a result of injuries sustained in alcohol-related assaults[12]. The Drug Use Monitoring in Australia program collects information from people detained by police concerning their alcohol and drug use. In 2007 it found that three quarters of males and two thirds of female reported heavy alcohol use in the past year and one half of males and one third of females drinking heavily in the 48 hours leading to their arrest[13].

There are also very important costs which are not directly measurable. Harms that affect drinkers themselves, or victims of crashes or assaults are measurable. Much other emotional and psychological harm that is not readily measured falls upon the families of drinkers. Alcohol contributes to a great deal of family violence, and children growing up in violent environments have poor prospects for educational and career achievement and a high likelihood of contact with the justice system. In a similar way, there are unmeasurable costs associated with high levels of alcohol related public violence in terms of reduced public perception of safety. The Australian Government Productivity Commission reported that 81.4% of Australians believed that drunken and disorderly behaviour was either a major problem or somewhat of a problem in 2006/07[14].

Are there health benefits of alcohol consumption?

Analyses of alcohol related health harm usually describe both the harms and benefits of alcohol consumption. It has generally been accepted that modest alcohol consumption provides some protection against ischaemic heart disease, some types of stroke and

---

[7] Chikritzhs T, Pascal R. (2004) op cit
[8] Chikritzhs T, Pascal R. (2004) op cit
[9] Collins and Lapsley (2008) op cit
[10] Collins and Lapsley (2008): Based on lower bound estimates of alcohol relatedness. Use of higher bound estimates would increase the cost estimate by $648 million
[11] Ireland CS & Thommeny JL (1993) The crime cocktail: licenced premises, alcohol and street offences. *Drug and Alcohol Review* (1993) 12: 143-150
[12] Matthews,S.; Chikritzhs,T.; Catalano,P.; Stockwell,T.; Donath,S. (2002). *Trends in alcohol related violence in Australia, 1991092 – 1999/00.* National Alcohol Indicators, Bulletin no 5. National Drug Research Institute, Curtin University of Technology
[13] Adams K, Larissa S, Smith L, Triglone B. (2008) *Drug use monitoring in Australia: 2007 annual report on drug use among police detainees*. Australian Institute of Criminology Research and Public Policy Series No 93, Canberra
[14] Australian Government Productivity Commission (2008) *Report on Government Services 2008. Steering Committee Report*. Canberra, Australian Government Productivity Commission

cholelithiasis (gall stones). Alcohol industry groups tend to strongly emphasise this protective effect and point to the "net effect" as being the "bottom line" figure that should be focused on. The RACP believes that this is a seriously flawed analysis for several reasons.

- The maximum benefit, compared to people who do not drink at all, is gained at a daily average of about half a standard drink per day for women and about one drink for men[15]. It then decreases with each subsequent drink until there is no net benefit at 2 standard drinks per day for women and 4 for men.
- Several studies question the existence and certainly the size of any health benefit[16] [17] [18] [19].
- The principal beneficiaries are males over 45 years and post-menopausal females. Any benefits are almost all in relation to heart disease for males and heart disease and some types of stroke for females. There is no benefit for younger people at all nor any in relation to injury or a broad range of diseases which are key causes of morbidity and mortality, especially cancers.
- The human and economic loss to families and society when a 20 year old dies in a car crash is much greater than the gain if a 60 year old does not have a heart attack.
- Finally, any interventions to reduce alcohol consumption are unlikely to significantly reduce the amount of alcohol that is consumed at half to two drinks per day and so there will be no or minimal loss of any benefit. The most important figure to bear in mind is the deaths caused by alcohol consumption that might have been prevented. The benefit gained from low levels of consumption is, to a substantial degree, a distraction.

Price is the most effective measure to control consumption and harm in a population.

There is an indisputable and strong link between price, consumption of alcohol and harm[20]. Price is an effective measure in controlling consumption and consequent harm. A recent review of alcohol policy measures[21] found that

> *An increase in the price of alcohol reduces alcohol consumption, hazardous and harmful alcohol consumption, alcohol dependence, the harm done by alcohol, and the harm done by alcohol to others than the drinker. The exact size of the effect will vary from country to country and from beverage to beverage. There is strong evidence for the effectiveness of alcohol taxes in targeting young people and the harms done by alcohol.*

---

[15] World Health Organisation (2007) *Expert committee on problems related to alcohol consumption, Second report.* WHO Technical Report Series 944, World Health Organisation, Geneva. www.who.int/substance_abuse/activities/expert_comm_alcohol_2nd_report.pdf

[16] Shaper AG, Wannamethee G, Walker M. (1988) Alcohol and mortality in British men: explaining the U shaped curve. *Lancet*;2:1267-73

[17] Fillmore K, Stockwell T, Chikritzhs T et al. (2007) Moderate alcohol use and reduced mortality risk: systematic error in prospective studies and new hypotheses. *Ann Epidemiol*; 15(5 Suppl):S16-23

[18] Stockwell T, Chikritzhs T, Bostrom A, Fillmore K, Kerr W, Rehm J, Taylor B. (2007) Alcohol caused mortality in Canada and Australia: Scenario analyses using different assumptions about cardiac benefit. *J Stud Alc Drugs*; 68: 345-352.

[19] Friesema I, Zwietering P, Veenstra M, Knottnerus A, Garretsen H, Kester A, Lemmens P. (2008). The effect of alcohol intake on cardiovascular disease and mortality disappeared after taking lifetime drinking and covariates into account. *Alcoholism: Clinical and Experimental Research* 32(4); 645-651

[20] Babor, T.F., R. Caetano, S. Casswell, G. Edwards, N. Giesbrecht, K. Graham, J. Grube, P. Gruenewald, L. Hill, H. Holder, R. Homel, E. Österberg, E.J. Rehm and I. Rossow (2003). *Alcohol: No Ordinary Commodity – Research and Public Policy*, Oxford University Press, Oxford

[21] Anderson, P. & Baumberg, B. (2006), *Alcohol in Europe: a public health perspective. A report for the European Commission*, Institute of Alcohol Studies, UK, June.

A 2009 review of 112 studies of the relationship between alcohol taxes, prices and consumption found that higher taxes and prices led to reduced consumption of alcohol: this applied to overall consumption as well as measures of heavy drinking[22]. This review and other studies suggest that a 10% increase in price will reduce consumption by about 5% on average[23]. In particular, young people's drinking is very sensitive to price because their discretionary income is relatively small. A recent WHO expert committee concluded[24]:

> *Policies that increase alcohol prices have been shown to reduce the proportion of young people who are heavy drinkers, to reduce underage drinking, and to reduce per occasion binge drinking. Higher prices also delay intentions among younger teenagers to start drinking and slow progression towards drinking larger mounts.*

There is often concern expressed about the lack of impact of tax and price measures on heavy drinkers, but again, studies have revealed that their drinking is also sensitive to price[25][26].

There is good Australian evidence of the effectiveness of public health focused alcohol taxes

There is good evidence from Australia concerning the positive impact of alcohol taxation as part of a comprehensive program on consumption of alcohol, including of specific products. The Northern Territory's *Living with Alcohol* (LWA) program ran from 1991 to 2000 and led to substantial benefits[27][28]:

- Per capita alcohol consumption fell from 20 litres per year to less than 16 litres by 1992/93 reaching less than 14 litres in 1998/99 where it remained until 2000/01.
- Estimated falls in alcohol-related road fatalities of 34%, in deaths from other acute conditions of 23% and falls of 28% in road crash hospitalisations were observed in the four years following the commencement of LWA.
- Between 1993 and 1998 prison receptions for alcohol related offences fell 9.4%. The proportion of community service orders for alcohol offences fell from 57.1% to 48.8% for adults and from 15.8% to 10.9% for juveniles[29].
- There was an estimated saving of $124 million to the NT economy in the four years to 1995/96.

Taxes on specific alcohol products can also be effective in reducing consumption of those products. One aspect of the Living with Alcohol program was a tax increase of 5 cents per standard drink for products containing more than 3 per cent alcohol and a 35 cent per litre levy on cask wines. This was followed by a reduction in consumption of cask wines from 0.73

---

[22] Wagenaar A, Salois M. and Komro K. (2009) Effects of beverage alcohol price and tax levels on drinking; a meta-analysis of 1003 estimates from 112 studies. *Addiction* 2009; 104:179-190.
[23] Vandenberg B, Livingston M and Hamilton M. (2008) Beyond cheap shots: reforming alcohol taxation in Australia. *Drug Alc Rev* 27(6); 584-90.
[24] World Health Organisation (2007) *Expert committee on problems related to alcohol consumption, Second report.* WHO Technical Report Series 944, provisional edition. World Health Organisation, Geneva. www.who.int/substance_abuse/activities/expert_comm_alcohol_2nd_report.pdf
[25] Babor et al op cit
[26] Heeb JL et al. Changes in alcohol consumption following a reduction in the price of spirits: a natural experiment in Switzerland. *Addiction,* 2003*,* 98:1433–1446.
[27] National Drug Research Institute (2007. *Restrictions on the sale and supply of alcohol: evidence and outcomes.* National Drug Research Institute, Curtin University of Technology.
[28] Crundall I. (1994) *Living with alcohol in the Northern Territory*, NT Dept of Health and Community Services. Available at http://www.nt.gov.au/health/healthdev/aodp/lwap/lwa_in_nt.shtml (downloaded 27 May 2008)
[29] Crundall I. *The Living With Alcohol Program*. NT Dept of Justice unpublished report, 2008

litres per year per person over the age of 15 to 0.49 litres. There was no accompanying increase in other alcohol products such as full strength beer. In the immediate period following removal of the levy, per capita consumption of cask wine increased to 0.58 litres[30].

The experience of the alcopops tax provides recent evidence that suggests that alcohol tax measures can lead to reduced alcohol consumption. Alcohol sales are considered a very reliable indicator of alcohol consumption. Chikritzhs et al reported an analysis of alcohol sales data published by the Nielsen Group[31]. They found that, in the three months following the introduction of the tax:

- total sales of alcopops declined,
- there was some increase in beer and bottled spirits, but
- there was *an overall reduction* in total pure alcohol sold.

Alcohol tax policies are cost effective

Beyond being effective in reducing consumption and harms, controlling price by way of taxation measures is also considered to be highly cost beneficial. A recent study by Collins and Lapsley[32] examined the potential cost savings for Australia of a range of interventions aimed at reducing alcohol related harm. In relation to alcohol taxation they found that there was strong evidence from a variety of settings for its effectiveness in reducing consumption and subsequent harms. Based on the experience of 3 other broadly similar countries (Norway, the USA and Italy), they estimated that taxation measures could reduce the social costs of alcohol in Australia by between 14% and 39% (or between $2.19 and $5.94 billion in 2004/05 dollars). Doran et al[33] also examined the cost effectiveness of a range of interventions and found that volumetric taxation of alcohol had the lowest intervention costs and provided the greatest benefits in terms of reduction in loss of Disability Adjusted Life Years (DALYs).

A public health centred alcohol tax policy

The RACP supports a comprehensive review and reform of alcohol taxation policy. The current alcohol tax system is complex, unwieldy and mainly reflects economic and commercial factors. The RACP believes that alcohol tax policy should be strongly informed by public health considerations. There are several important measures that could be considered:

- a minimum price per standard drink (as has been proposed in the recent revision of alcohol taxation in Scotland[34]);
- an underlying volumetric based system - that is one based on the amount of alcohol per unit volume of an alcoholic beverage;
- tiering of the system to favour lower alcohol drinks over those with higher alcohol contents with additional taxation based on evidence of harm associated with particular beverage types;

---

[30] Gray D, Chikritzhs T, Stockwell T. (1999) The Northern Territory's cask wine levy: health and taxation policy implications. *Aust NZ J Pub Health*; 23(6): 651-3

[31] Chikritzhs, T.N, Dietze, P.M, Allsop, S.J, Daube, M.M, Hall, W.D and Kypri, K. (2009) Editorial: The "alcopops" tax: heading in the right direction *eMJA* - Rapid Online Publication, 2 March 2009:1-2

[32] Collins D and Lapsley H. (2008a) The avoidable costs of alcohol abuse in Australia and the potential benefits of effective policies to reduce the social costs of alcohol. National Drug Strategy Monograph Series no 70. Commonwealth of Australia, Canberra.

[33] Doran C, Vos T, Cobiac L, Hall W, Asamoah I, Wallace A, Naidoo S, Byrnes J, Fowler G, Arnett K. (2008) *Identifying cost effective interventions to reduce the burden of harm associated with alcohol misuse in Australia.* Alcohol Education Rehabilitation Foundation

[34] Scottish Government (2009) Changing Scotland's relationship with alcohol: a framework for action. The Scottish Government, Edinburgh. Downloaded from: http://www.scotland.gov.uk/Publications/2009/03/04144703/0

- increases in taxation in small increments to reduce short-term impacts on the disposable income of the socially disadvantaged; and
- hypothecation of a proportion of revenue raised for alcohol and drug use prevention and treatment programs.

There is a need also for a collaborative approach to address some of the vertical fiscal imbalance issues that arise from the Commonwealth receiving alcohol tax revenues but the States and Territories being largely responsible for delivering alcohol treatment and prevention programs.

These specific aspects of an alcohol tax system are addressed below.

SPECIFIC CONSULTATION QUESTIONS

Q11.1 Is it appropriate to use taxes on specific goods or services to influence individual consumption choices, and if so, what principles can be applied in designing the structure and rates of such taxes?

Alcohol is not an ordinary product. While it is a socially valued product that is very much a part of Australian culture, it is also an addictive one that causes substantial and widespread harm in society in both addicted and non-addicted drinkers. The costs to Australian society are enormous: estimated in 2004/05 to be $15.3 billion[35]. It is therefore entirely appropriate for Government to maintain scrutiny and exercise control over its consumption and effects by controlling sale. At present, the alcohol tax system is complex, unwieldy and appears to have evolved in an ad hoc way in response to a series of industry pressures. Given the potential for harm and the recent experience in many Western countries of increased deregulation of the industry (in response to commercial concerns) leading to increasing health and social harms, the position of the RACP is that the guiding principles of an alcohol tax system should be focused on restoring and maintaining public health and social order.

Tobacco taxation provides an excellent precedent for taxation aimed at and achieving change in individual choices about the use of a product that causes harm to health.

The addictive nature of alcohol means that the effectiveness of a tax reducing consumption for health reasons can be compounded. Reduction in short term consumption by a supply side intervention (in this case a tax increasing the price at which supply is made available), over a longer term also reduces demand as fewer drinkers now means fewer addicted drinkers demanding the product in the next time period, or enticing others to become or remain drinkers. This compounding effect of supply intervention is especially evident among the young, in whom peer effects on behaviour are very strong.

The health or social effect of an alcoholic drink is based on its alcohol content. This is the same whether it is locally produced or imported, or spirit-based or beer. One of the base features of an alcohol tax system is that it should be based on the alcohol content: ie a volumetric system.

The consumption of alcohol involves a range of costs in addition to the purchase price (e.g. increased risks of a range of conditions, alcohol related road crashes and violence etc). These costs are generally not fully taken into account when people make decisions on purchasing alcohol. Thus the consumption of alcohol imposes a negative externality on the community, and the welfare maximising response is to impose a tax which is sufficiently high that the private cost equals the social cost. As the costs of alcohol relate to the quantity of pure alcohol consumed a volumetric excise on pure alcohol is the most efficient form of

[35] Collins and Lapsley (2008) op cit

taxation to impose. Whilst there are already excise taxes imposed on alcohol the evidence on the social costs of alcohol suggests that they are insufficient.

Currently there is a vast discrepancy between the social cost of alcohol and the excise levied on it. Based on the Collins and Lapsley estimate of $15.3 billion in total alcohol related social costs in 2004/05[36] and the apparent total consumption of alcohol of $159.6 million litres in Australia in that year[37], the social cost per litre of pure alcohol was $95.98. This is far in excess of the average excise levied. If one adopted a more conservative definition of social costs by excluding all intangible costs and all costs which are borne by households (even though some of these costs will relate to harm caused to non-drinkers such as victims of assault or road crashes) the social cost of alcohol would be an average of $53.22 per litre of pure alcohol.

There should be a floor or minimum price for a standard drink which applies to all alcohol beverages. Currently, marketing practices aimed at increasing sales can lead to very cheap alcohol being available. For example, 20% discounts for purchasing six bottles of wine, "two for the price of one" spirits offers, happy hours and the cheap cleanskin wine phenomena. All of these practices are intended to increase sales. Increased sales will mean increased consumption and consequent harms. A floor price for a standard drink would reduce the use of such practices. In addition, the cheaper cask wines can be bought for a very low cost per standard drink and therefore appeal to poorer people and heavier drinkers: they exact a particularly heavy toll amongst Aboriginal people. Raising the cost of cask wines to a minimum price per standard drink would, on the experience of the Living With Alcohol program, almost certainly reduce consumption and subsequent harms in a section of the population that suffers disproportionately poor ill health and social harm. This policy is strongly supported by key Aboriginal organisations such as the Aboriginal Medical Services Alliance of the Northern Territory[38].

However, the system should be further graduated to encourage consumption of lower alcohol over higher alcohol beverages. In addition, it should take into account evidence of harms (or benefits) associated with particular beverages. In general, consumption of low alcohol beer is associated with less harm than full strength beer. "Extra strength" ready to drink spirits are an example of a beverage which could be targeted for a higher tax beyond one based only on its alcohol content. They were apparently developed by the industry to target young people[39] and to tap into the "binge drinking" market. Mat Baxter of Naked Communications, marketer of the premixed spirit Absolut Cut, confirmed that young people, implicitly including minors, are targeted with premixed spirits: 'It's one of the few drinks where you don't necessarily know you're drinking alcohol and that's a conscious effort to make these drinks more appealing to young people'[40] He described the super-strength category as particularly attractive for product innovation: '… the real area for growth, if you can carve [it] out, is still 7% with a sophisticated but affordable drink that will appeal to young people on a budget who want to get drunk very quickly'.[41]

---

[36] Collins and Lapsley (2008) Op cit

[37] Australian Bureau of Statistics 2006. Apparent consumption of alcohol in Australia 2004/05. Cat no 4307.0.55.001. Downloaded 30 April 2009 from http://www.abs.gov.au/ausstats/abs@.nsf/ProductsbyReleaseDate/093A4366860B0674CA25730200194C40?OpenDocument

[38] Aboriginal Medical Services Alliance Northern Territory. (2008) Options for alcohol control in the Northern Territory. Darwin: AMSANT.

[39] Munro G de Wever J. Culture Clash: Alcohol marketing and public health aspirations. (2008) *Drug and Alcohol Review*; 27: 204 - 11

[40] Stark J. (2007) Insider tells of young drinkers being targeted. The Age; 6 August:3.

[41] Koremans S. (2007) Naked shaken by vodka slammer. B&T Weekly; 27 July:3.

A fundamental purpose of the taxation system is to redistribute resources within the society. Alcohol taxes, quite appropriately, have long been a major source of Government revenue. They have often been unpopular for this reason particularly because of the disparity between revenue and expenditure on alcohol programs.

In the late 1990s the Australian Federal government derived $4.3 billion from excise on alcohol beverages. Less than two per cent of this funding was spent on reducing alcohol-related harm.[42].

Alcohol prevention and treatment programs are substantially under funded and alcohol taxes could and should be an important source of tied revenue to redress this situation. In addition, they could also be directly linked to other health or social order related programs (for example programs for domestic violence to which alcohol contributes greatly). If they were seen to be so, they would probably be more strongly supported by the population. The 2007 National Drug Strategy Household Survey found that 24% of respondents supported an increase in the price of alcohol per se, but over 40% were in favour of increased alcohol taxes to pay for alcohol harm prevention and treatment programs[43]. During the Living With Alcohol program in the Northern Territory, revenues from the alcohol levies were hypothecated to the program, which contributed greatly to the quantum and sustainability of funding[44] and was considered to have been particularly important in public support for the program[45].

Q11.2 Can the competing potential objectives of alcohol taxation, including revenue raising, health policy and industry assistance, be resolved? What does this mean for the decision to tax alcohol more than other commodities?

There is of course an alcohol economy: very directly in pubs and clubs and indirectly by contributing to the restaurant, entertainment and tourism industries. This economy is important in many regions. It is sometimes claimed that economic activity from consumer expenditure on alcohol (and associated employment, wages, and profits) represents a social benefit that offsets, at least partially, social costs arising from alcohol consumption. It is also claimed that any restriction on the alcohol industry would jeopardise related industries, its contribution to the broader economy and therefore diminish the broader economy itself. However this may well be a misleading picture; as the Productivity Commission pointed out in their report on Australia's gambling industries:

> *… measures of an industry's size (denoted by such things as investment, turnover, employment, etc.) are not measures of the net contribution of an industry to the wellbeing of the community or the economy.*[46]

Economic theory suggests that the determinants of expenditure are expectations as to the future stream of disposable income and expected years of life remaining (and, for those who cannot access loans to smooth their consumption across their lifetime, current disposable income). Thus there is no reason to believe that a change in consumption patterns (such as a reduction in alcohol expenditure) would lead to a decrease in aggregate expenditure, rather expenditure would be switched from one form of consumption to another. Therefore it is not

---

[42] Alcohol and other Drugs Council of Australia. (1999) *Drugs, money and governments*, Alcohol and other Drugs Council of Australia, Canberra.
[43] Australian Institute of Health and Welfare. (2007) National Drug Strategy Household Survey: first results. (Drug Statistics Series No. 20. AIHW Cat. No. PHE 98.) Canberra: AIHW, 2008.
[44] D'Abbs P. (2004) Alignment of the policy planets: behind the implementation of the Northern Territory (Australia) Living With Alcohol programme. *Drug Alcohol Rev*; 23:55-66
[45] Dr Shirley Hendy, former Director, Living With Alcohol program, personal communication
[46] Productivity Commission (1999), Vol 1, p. 5.27.

unreasonable to conclude that there is **no net tangible economic benefit** from consumer spending on alcohol.

It is possible at the margin that difference in labour intensity, or in the location of the ownership of assets, could produce small differences to employment or GDP at a regional level from shifts between different types of consumption goods. However there is no reason to believe that any such reallocation would shift expenditure to goods or services that are significantly less intensive users of local employment.

To give an idea as to the potential nature and scale of any such impact, Junor et al. reported the results of a number of studies (including their own results) estimating the potential impact on employment and Gross State Product (GSP) of reductions in the demand for tobacco in NSW[47]. These suggested that any impact was likely to be positive, and in most cases the projected impact was extremely small. Similarly the South Australian Centre for Economic Studies modelled the impact on employment, GSP and investment from the introduction of electronic gaming machine gambling in Tasmanian hotels and clubs, which caused a substantial shift in expenditure patterns but found no evidence of any change in employment, GSP or investment[48].

In relation to the objective of revenue raising, the literature suggests that the relationship between increased price and decreased consumption of alcohol is not linear and also varies with the type of beverage. An analysis by the UK Department of Customs and Excise estimated that a 10% price increase would lead to reduced consumption by 4.8% for beer, 7.5% for wine and 13% for spirits[49]. A recent Australian study[50] on the price elasticity of demand estimated that a 10% increase in price would lead to reductions in consumption of 4%, 5% and 9.1% for beer, wine and spirits respectively. Therefore, revenue raising can be preserved while reducing alcohol consumption and harms.
In relation to a health policy objective, alcohol causes substantial harm to the community as a result of its consumption. According to an authoritative analysis of the burden of disease in Australia[51], alcohol caused 3.2% of all disease and injury in 2003. Tobacco accounted for 11%.

In summary, one can seriously question the value of industry assistance as an objective of alcohol tax policy. Revenue raising would be preserved if taxes were increased and consumption reduced. There is strong evidence that increased taxes and prices lead to reduced harms in terms of public health and social order. Given the very large harms that alcohol causes in Australian society, there is a strong argument that an objective of health and social order policy should take priority in alcohol tax policy. A similar approach has been

---

[47] Junor W, Collins D, Lapsley H. (2004) The macroeconomic and distributonal effects of reduced smoking prevalence in New South Wales. The Cancer Council New South Wales. Sydney June

[48] South Australian Centre for Economic Studies (2008), 'Social and Economic Impact Study into Gambling in Tasmania, Volume 1', report commissioned by the Tasmanian Department of Treasury and Finance, pp. 107-120, available at:
http://www.treasury.tas.gov.au/domino/dtf/dtf.nsf/6044ee0c1cf958a2ca256f2500108bba/019422a0fdab5832ca25748e00810386?OpenDocument

[49] Huang, CD (2003) Econometric Models of Alcohol Demand in the United Kingdom. Government Economic ServiceWorking Paper 140, HM Customs and Excise, London.

[50] Clements, K.W., Yang, W. & Zheng, S.W. (1997), "Is utility additive? The case of alcohol", *Applied Economics* , 29 : 9 , pp. 1163-1167 .

[51] Begg S, Voss T, Barker B, et al. (2007) The burden of disease and injury in Australia 2003. Canberra: Australian Institute of Health and Welfare,. (AIHW Cat. No. PHE 82. http://www.aihw.gov.au/publications/index.cfm/title/10317 (accessed Mar 2009).

taken in relation to tobacco, with similar strong evidence for the effectiveness of tax and price increases in contributing to reduced consumption[52].

Q11.4 If health and other social costs represent the principal rationale for specific taxes on alcohol and tobacco, is any purpose served in retaining duty free concessions for passenger importation of these items?

In Australia, duty free alcohol brought in by passengers arriving from overseas constitutes only a very small proportion of all alcohol consumed. For the great majority of Australians, it is a once in every few years event to be able to buy duty free alcohol, if that. Removing the concession would almost certainly have virtually no direct impact on alcohol related harms. However, if alcohol taxation was comprehensively reformed in order to serve public health objectives, such concessions would be inconsistent with the principles of the system. Permitting duty-free status to alcohol products has the potential to 'send the wrong message' to the community and may appear to downplay the detrimental health consequences associated with drinking.

Q11.5 Are taxes on specific 'luxury' goods an effective way of making the tax system more progressive? If so, what principles should apply to the design and coverage of these taxes?

Concerns are sometimes raised that alcohol price increases are regressive and discriminate against those on low incomes or would not be effective in reducing consumption for particular groups such as Aboriginal people. However, low income groups and Aboriginal people suffer disproportionately from alcohol-related harms[53] [54]. Cheap cask wine, along with beer, was the drink of choice in most Northern Territory Aboriginal communities at the time of the Living With Alcohol program, and the levy was effective in reducing consumption. Indeed, the recommendations in this submission are entirely consistent with those of the Aboriginal Medical Services Alliance NT in their proposal to address alcohol-related harm[55].

[52] World Bank. (1999) Curbing the Epidemic: Governments and the Economics of Tobacco Control. Washington: World Bank

[53] Mäkelä P. (1999) Alcohol-related mortality as a function of socio-economic status. A*ddiction*; 94: 867-886

[54] Chikritzhs T, Pascal R, Gray D, et al. (2007) National Alcohol Indicators Bulletin 11: Trends in alcohol-attributable deaths among Indigenous Australians, 1998–2004. Perth: National Drug Research Institute, Curtin University of Technology. http://www.ndri.curtin.edu.au/publications/naip.html (accessed Mar 2009).

[55] Aboriginal Medical Services Alliance Northern Territory. Op cit