ALCOHOL TAXATION AND THE LOW STRENGTH ALCOHOLIC BEVERAGE MARKET

FINAL REPORT TO THE ALCOHOL EDUCATION & REHABILITATION FOUNDATION (AERF)

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STRATEGIES AND OUTCOMES ACHIEVED

Original Proposal

The agreed proposal relating to this project had three main objectives:

1. To identify to what extent Australia's current system of alcohol taxation has (if at all):
   - Limited the low alcohol beverage market to beer;
   - Hindered the development, production and willingness of manufacturers to actively promote low strength alcoholic products; and
   - Influenced consumer choice and consumption patterns of low alcohol beverages.

2. To further identify successful low alcohol beverage markets both locally and internationally, and determine to what extent the relevant system of taxation contributed to that success.

3. Develop and discuss options for alterations to the current system of alcohol taxation in Australia that would encourage both growth and sustainability of a low strength alcohol market, particularly at the expense of the higher alcoholic strength products.

It was proposed that the results of this research would inform the development of a number of potential taxation models that would provide incentives for the production and consumption of lower alcohol products. Economic modelling to determine the extent (if any) of consumption shifts was proposed, allowing the health sector to have access to the type of economic analysis usually invested in by the large manufacturers for lobbying purposes.

Finally, it was intended that any proposed models emerging from the research would form the basis of ADCA's alcohol taxation policy position, and be central to further advocacy work in the area. ADCA agreed to seek endorsement for any revised model(s) from key health sector bodies, such as the Public Health Association, the Australian Medical Association, and the National Research Centres.

Actual Outcomes

During phase 1 of the project a literature review was conducted, focussing on the relationship between alcohol consumption and the price, taxation and marketing of alcohol. The literature review relates to the fulfilment of objectives 1 and 2, above, and outcomes of the literature review were reported in ADCA's progress report to AERF in March 2004.

During the second quarter of 2004 ADCA sought to engage the alcohol industry, with a consultative phase that resulted in strong interest in many aspects of the project from industry and an interest in the low strength alcohol market generally. It should be noted, however, that it is considered highly unlikely that a consensus view can be obtained from industry as to the future taxation of alcohol to encourage growth in low strength products. A comprehensive report of the industry consultation methodology and outcomes appears at Attachment A.

As outlined in the original project proposal, ADCA engaged the services of Econtech Pty Ltd to develop an economic model of alcohol taxation that would allow modelling of a range of alcohol taxation models while:

- maintaining government revenue neutrality;
- minimising dramatic shifts in market share between beverage types; and
- addressing the concerns of the health sector.

A total of five scenarios were modelled in the project, using the detailed sales model supported by other models covering pricing and taxation revenue from alcoholic beverages. The report appearing at Attachment B details the findings of Econtech with regards to modelling taxation policy options in the alcoholic beverages market. The document examines current alcohol taxation arrangements and describes various alcohol taxation scenarios. Data on sales and prices of alcoholic beverages in Australia are also presented in the report. Detailed modelling of various policy scenarios shows estimates of effects of each taxation reform scenario on prices and volumes of alcoholic beverages, consumption of pure alcohol and Commonwealth Government revenue.

In June 2005 ADCA convened a health sector stakeholder forum in Canberra, with the aim of bringing together representatives of key agencies to discuss the findings of the study and assist ADCA in finalising its preferred alcohol taxation policy position. The invitation list and agenda for the forum appear at Attachment C. The forum provided a very useful opportunity for demonstration of the model and promotion of the project findings. It was agreed by participants that some consultation with the recent Australian Government Productivity Commission Public Inquiry into Australia's Gambling Industry would be of benefit, and AERF undertook to distribute the report and Terms of Reference from the Inquiry. It was further agreed that following dissemination of these documents, the assembled group would reconvene via teleconference to determine the most appropriate way ahead.

KEY FINDINGS

The key findings arising from the project stem from both the literature review and the economic modelling simulating various taxation reform scenarios.

From the literature review, the key findings are:

1. Studies of price and income elasticity of alcohol internationally indicate that alcohol consumers do respond to price changes, although the extent to which this occurs varies between different types of alcoholic

beverages. Consumers are more influenced by their levels of income available for spending.

2. Certain consumer groups are more responsive to changes in price than others. Significantly it would appear that both 'binge' drinkers and heavy drinkers are price elastic.

3. Taxation is an effective means of influencing price, notwithstanding that there are many components to alcohol pricing and these can each be manipulated by industry.

4. Taxation can be used to exaggerate price differentials between low and full strength alcohol beverages and influence consumption shifts between the two.

5. Taxation has been one of the key drivers of the success of the low strength beer market in Australia. Not only has the structure of beer excise lured consumers to lower strength beers, it has made the marketing and sales of low strength beers more profitable than marketing and selling full strength beers. Further, it has also seen brewers drop the strength of full strength beers.

6. In the Australian context, outside of beer there has been no real attempt to define or establish a market for lower strength alcoholic products.

7. Internationally, no two alcohol taxation systems are alike and it is common practice across all jurisdictions reviewed to apply differential tax rates depending on factors such as the final product form and raw material upon which the product is based.

8. Taxation of alcohol is a complex balance of competing policy interests. As such, there is no guarantee that by simply replicating the Australian beer excise structure for other alcoholic beverages it would result in a similar response from producers and consumers.

9. There are five competing policy considerations that have been shaping Australia's alcohol system for the past 30 years. These include:

    a. The health and social costs of harmful alcohol consumption;
    b. Maintenance and growth of government revenue;
    c. Recognition of alcohol as a contributor to the economy in the manufacturing, hospitality, tourism, retail and export sectors;
    d. Recognition of the importance of alcohol to rural and regional economies in the agriculture and tourism sectors; and
    e. Other factors, eg World Trade Organisation treaties on taxation, reducing complexity, ease of compliance, etc

From the economic modelling of health-related reforms to taxation of alcoholic beverages, the key findings are:

1. Income elasticities for every component of a broader category of alcohol are the same as for the broader category as a whole (eg, the income elasticity for low, mid and full strength beers are the same, and this is the same as for beer as a single category).

2. Elasticities of substitution between components of different broad categories are the same as for the broad category as a whole (eg, the elasticity of substitution between cask wine and ready-to-drink products is the same as the broader elasticity of substitution between wine and spirits).

3. Significant results arise from the ADCA wine-tax proposal to shift the taxation of wine from one based on value (ad valorem) to one based on the volume of alcohol (volumetric). Shifting the wine tax base away from taxing wine value and towards taxing wine alcohol would be expected to reduce consumption of wine alcohol and is likely to result in:

    a. No net change in tax collections from wine in total and from other alcoholic beverages;
    b. The price of cask wine would increase 12.8% and the price of premium wines would decrease 2.7%;
    c. Consumption of cask wine would decrease by 9.7% and consumption of premium wine would increase by 2.4%;
    d. Total value of wine consumption (and therefore the wine industry in aggregate) would be unaffected; and
    e. Annual consumption of wine alcohol would decrease 1.27 million litres of alcohol, representing 2.7% of wine alcohol consumption and 0.80% of total alcohol consumption.

4. Combining the revenue neutral ADCA wine-tax proposal above with an excise-free threshold for ready-to-drink products is likely to lead to a loss in annual tax revenue of $98 million and minimal additional impact on alcohol consumption.

5. The most dramatic impact on alcohol consumption occurs through fully abolishing Wine Equalisation Tax and introducing a volumetric wine tax set at $11.65 per litre of pure alcohol, reducing excise on low to mid strength beers and removing the tax free threshold on full strength beer. This model increases annual tax revenue by $282 million and reduces alcohol consumption by 2 million litres per year.

PROJECT MATERIALS

There have been no project materials produced other than the materials outlined in the attachments to this report.

Low Alcohol Taxation

Industry Consultation – Methodology and outcomes

A key aspect of this study will be the level of involvement and assistance from the alcohol industry, both in terms of its confirmation and clarification of issues uncovered in the literature review process, and its broad support in any proposed modification of the current taxation system. The support from the industry, in particular, in the design of relevant taxation based incentives for the manufacture and consumption of lower strength alcohols is seen as being crucial to determining the eventual success, or further progression, of any positions reached or recommendations made by the project. Notwithstanding that the project is yet to seek the support of the health lobby, there is no doubt that with the industry behind any recommendations, the chances of those recommendations being implemented by Government would be significantly enhanced.

Regular contact has been maintained with the industry throughout most stages of the project, and overall this contact has been both positive and helpful. Formal contact has been in the form of teleconferences, meetings, and the completion of an "industry-based" questionnaire relating directly to the findings of the literature review. Many informal contacts were made which related to ad-hoc queries that arose at various points, as well contact being initiated by industry when certain additional information of interest to our project became available.

Whilst this paper deals specifically with industry consultation, it should also be noted that some information in relation to the project has been released to the health sector, including for example briefings to the ADCA Economics and Reference Committee, an article within a substance abuse journal, and a paper for the upcoming APSAD conference in Perth. No formal discussions however, have been sought with the health lobby, nor any feedback on the project sought at this point. This will occur once recommended tax changes have been successfully modelled in terms of meeting the required revenue neutrality and beverage substitution principles.

In relation to the industry consultation to date, it could be stated that whilst there appears to be strong interest in many aspects of the project from industry, and an interest in the low strength alcohol market, at this point in time it is highly unlikely that a consensus view can be obtained from industry as to the future taxation of alcohol to encourage the growth of this market. Given the divergence of opinions between the main groups - beer, wine and spirits, and the apparent lack of flexibility in their taxation policies, it is considered that the proposed forum to workshop a consensus view at the completion of this study would be unlikely to attract attendants from industry.

The main hurdles to consensus relate to maintenance of market shares. There are perceptions based on past experiences that large shifts in market shares can occur in favour of one beverage against another with the altering of taxation rates. It should be noted that this project is working in the context of recommending enhancements to the current alcohol tax system which are not only revenue neutral for the Government, but do not result in significant shifts in consumption between the different types of alcoholic beverages. The industry does not think this is possible. The actual full findings of the industry consultation phase are discussed fully below.

Consultation methodology

Following is an outline of the approach and methodology in consulting with the beer, wine and spirits industries.

The entry point to each industry was via the relevant industry peak body including:

- The Australian Associated Brewers Incorporated (AAB);
- The Distilled Spirits Industry Council of Australia (DSICA); and
- The Winemakers Federation of Australia (WFA).

Further, the project spoke to several small family based winery operations who are not represented necessarily by the WFA, and attempted unsuccessfully to speak with Brown Brothers in relation to its market leading reduced alcohol wine product – "Moscato".

At the outset of the project, contact was made with the CEO's of each of the peak industry groups to outline the scope and objectives of the study, and to seek appropriate support in terms of providing data, policy and views that may be sought during the project. The response at this time was very positive.

At the conclusion of the literature review, tailored questionnaires were produced for each of the beer, wine and spirits industries and distributed to the relevant peak body organisation for completion. During the production of the report into the literature review and the questionnaire process, several teleconferences were held with each of the industry groups, and meetings were held with both the AAB and DSICA. Visits were also made to several small wineries in the Cowra region of New South Wales, and a questionnaire sent to Brown Brothers in Milawa, Victoria.

Questionnaires were broken down into three categories, with questions being asked in relation to:

- Definitions – to determine what was understood in each industry by the terms "low", "mid" and "reduced" strength as it applied to alcohol;

- Marketing – to determine the size of the lower strength alcohol markets and trends in terms of growth, decline, and attempts to enter; and

- Taxation Policy – to determine industry views on the use of taxation to influence manufacture and consumption patterns.

Completed questionnaires were received from the WFA and DSICA by the due deadline of 31 March 2004, with DSICA also providing supplementary information in relation to recently compiled alcohol consumption trends. The AAB decided against submitting its questionnaire although it did make its position in relation to changing the taxation system quite clear to the project during several discussions. The AAB did however agree to provide it's latest beer consumption data as sourced via the Australian Bureau of Statistics (ABS). Brown Brothers did not complete its questionnaire in relation to sales of Moscato, and several attempts to contact Brown Brothers management about the product were unsuccessful.

The information gleaned from industry was then reviewed in conjunction with the findings of:

- The literature review;
- A survey of alcohol strengths and prices for cask wine[1]; and
- The initial modelling results as provided by Econtech.

This enabled the project to recommend its first set of recommended changes to the alcohol taxation system that would create the necessary incentives to grow the market for lower strength alcoholic products. The proposed alcohol taxation system is then to be modelled by Econtech for both revenue neutrality, and effects on the market. The project budget then allows for a second set of recommended changes to be produced and modelled should the first proposal fail either the revenue or market share caveats.

Consultation outcomes

Whilst a common commitment exists for the industry to promote and work towards ensuring harmful consumption of alcohol does not occur, this is where the common view on alcohol taxation ends. Each industry was very focused in its responses. In short, the industry views can be summarised as follows:

- Wine – taxation is not an effective means in which to influence consumption and should not be used to so. Rather taxation should be seen for what it is – a revenue raising measure. Taxation policy needs to take account of the large contribution wine provides to rural and regional Australia;

Ready To Drink product

- Spirits – full strength spirits are already discriminated against in current taxation system on a market share / taxation share basis. RTD's are seen as competing in the same market as beer, and as such there should be full taxation equivalence between RTD's and beer, including tiered excise based on strength;

- Beer – taxation cuts delivered to RTD's on 1 July 2000, had a large impact on beer (and wine) sales and significantly changed the shape of the Australian alcohol market overnight. Any further "one-off" taxation changes should not result in such a large market shift again, particularly further gains to spirits at the expense of beer sales, and in fact some or all of the RTD excise cuts of 2000 should be reversed.

As can be seen, each industry group is very understandably focused on "protecting" its current market share, and indeed on increasing its share of the alcohol market. This includes the "lower strength product" component of the market, which at this stage is entirely dominated by sales of light and mid strength beer. The brewers are understandably keen to protect this market, and if tax cuts were provided to lower strength wine and spirituous products, the brewers would require consumers to come from full strength wine and spirituous products.

Looking at the industry views more closely, the questionnaire responses were reviewed and recorded in a matrix form. Attachment A comprises this matrix, with responses to the questionnaires recorded by industry, and by sub-group, namely "definition", "marketing" and "taxation policy".

In terms of definition, all industries are aware of the lower strength market and indeed each use either one or more of the following terms: "low alcohol", "light", "mid-strength", and "reduced alcohol" in marketing. The alcoholic strength used for such terms being based around the *Excise Tariff Act* for beer and spirits (including RTDs), and the *FSANZ Food Standard Codes* for wine.

Given Government statistical recording requirements, the only accurate assessment of the size of the lower strength market is for beer, where some 490 million litres (or 29% of all beer sales) are at low or mid strength, ie less than 3.5% alcohol by volume [2]. Spirits and wine could only provide best estimates based on data from members, but both reported consistent (1.8% of total RTDs, and < 2% of total wine) percentages of sales as being into the lower strength market. All industries report steady levels of lower strength alcohol product sales, although there is some evidence of light beer sales falling.

Only spirits and wine were asked about "barriers" to entry and growth within the overall lower strength market, given beer would have over 99% of that particular market. Spirits, as represented by RTD products, report that it is a direct consequence of the lack of excise equivalence between beer and RTDs, and a distinct price disadvantage exists for any attempt to enter the market with a low or mid strength RTD. The WFA reported that taste may be a barrier, in terms of producing good quality low or reduced alcohol wines. The WFA reported the technology has not yet delivered the capability of producing quality reduced strength wines.

In terms of using tax policy to address consumption issues, DSICA believes full excise equivalence between beer and RTDs will increase the size of lower strength RTD sales, and therefore reduce the number of overall standard drinks being consumed. The claim is made based on their own research [3] that suggests RTD drinkers are driven by taste, and not alcohol content. Therefore, if a "Scotch & Cola" consumer is given a "low" or "mid" strength option at a considerable price differential to their regular 5.5% option, then DSICA believes many "Scotch & Cola" consumers will make the move to a lower strength. To achieve this, the *Excise Tariff* would be required to be amended to capture a "mid" and "low" strength RTD rate equivalent to packaged beer, then three new "full", "mid" and "low" strength bulk RTD excise rates equivalent to the bulk beer rates.

- Wine tax would have a compromise composite volumetric and ad-volurem tax rate. Thereby creating an incentive to drop the strength of wine, particularly in casks, but "smooth" the price shifts from a full volumetric tax rate[1];

- Cider would be taxed identically to packaged beer;

- Low strength RTDs (< 3.0%) would receive a 1.15% excise free threshold;

- Mid strength RTDs (3.1 – 3.5%) would receive a 1.15% excise free threshold; and

- Beer that exceeds 6.5% looses its 1.15% excise free threshold.

The proposed alcohol taxation system is at Attachment B. Supporting the proposals are a number of assumptions about wine, beer and spirit sales – and these are found at Attachments C and D.

Footnotes:

[1] In order to find a revenue neutral volumetric rate, a survey was conducted over 3 liquor shops over several different wine products – eg casks, bottles, reds, whites, fortifieds, low alcohol wines, wine coolers, etc. This work is contained in a spreadsheet titled "Wine Tax Calcs" and is found at Attachment C

[2] ABS Report to AAB – 2003 Beer Excise and Import Clearances.

[3] DSICA04-RTD5-FD-A05-NACCommentswithTables-8Mgs-CTR.pdfarch-8p

[4] www.fosters.com.au/corporate/news/mediarelease2003/20030314.asp

Industry Consultation – Summary of views

Industry Group	Definition	Marketing	Marketing	Marketing	Tax Policy	Tax Policy	Tax Policy
	What is meant by low, mid and full strength?	What is the size of lower strength market in your alcohol?	Are these lower strength alcohol sales growing?	What are the barriers to growth?	Would replication of the beer taxation system be a success?	Would you pay for tax cuts to lower strength alcohol with increases to full strength products?	Taxation policy, the lower strength alcohol market, and alcohol misuse?
Distilled Spirits Industry Council of Australia	Accept Excise Tariff for beer: Low = <3.0% Mid = 3.1 - 3.5% Full = >3.5% (*RTDs only)	Low = nil Mid = 4m lt* (RTD) *1.8% RTD market	Steady / possible very small growth	Lack of tax equivalence between beer and RTDs	RTDs consumed on taste not alcohol content. Price cuts to low and mid RTDs will attract consumers.	No – spirits already discriminated against in taxation.	Harmful drinking has been in decline since the tax cuts delivered to RTDs in 2000. Due to move away from full beer, full spirits and cask wine to the "measured dose" RTD. Further cuts to lower strength RTDs will only reduce harmful consumption further

Winemakers Federation of Australia	Low = <1.15% Reduced = 1.15-8% Table = 8.1-15% Fortified = >15%	Low / Reduced = < 2% of all sales	Steady	Product quality	Insufficient evidence to comment. But past experience would indicate it would be both ineffective and costly small wine makers.	No.	Industry has a responsibility to recognise and prevent excessive consumption. Tax is not an effective means, although increased taxes do result in reduced consumption there is no evidence that harmful drinking is reduced in such cases. Prefer non-tax based approaches to changing harmful consumption
Small Wineries – Cowra region	N/a	N/a	N/a	Taste, market, cellaring and cost	N/a	N/a	
Australian Associated Brewers Inc	Low = <3.0% Mid = 3.1 - 3.5% Full = >3.5%	Low = 227m* Mid = 266m*	Low-falling Mid-slight growth	N/a	N/a	N/a	Care needs to be taken when looking at definition of

							"lower strength" alcohol on a product by product basisl. Average full RTD strength is 5-5.5% whilst reduced alcohol wine up to 8%. Full beer average now at 4.3% and danger of these consumers switching to higher strength but marketed reduced alcohol products.

Cask Wine - Litres of alcohol by type

Notes

1. Litres x average strengths (sheet 1)

	Average Strength	Total Lals
Reduced (1.15-6.5%)		
Est 2,000,000 lt *based on change to domestic wine sales (other)	3.25%	65,000
Table (6.6-15%)		
Red		
Red soft pack (62,788,000 lt) / total all wine	12.50%	7,848,500
White		
White soft pack (116,893,000 lt) / total all wine	10.66%	12,460,793
Fortified (15-22%)		
Fortified soft pack (8,856,000 lt) / total all wine	17.50%	1,549,800
Other (15-22%)		
Flagons 1,354,000 lt / total wine	18.66%	252,656
	Total Lals in casks	**22,176,749**

Beer, Spirits, Cider Tax Calculations

Cider

Notes:
1. Assumes average strength 4.5% a/v
2. Currently taxed under WET - 29% W/s price
3. Proposal is to tax as beer
4. 983,740 9lt cases.
5. At 4.5% = 0.4 lals per case
6. 393,496 lals

Current WET $	5,439,570

Proposed Volumetric tax

As per 5% packaged beer - $35.04 per lal on that part exceeding 1.15%

388,970 lals x $35.04	13,629,508
additional tax collected	***8,189,938***

Ready-To-Drink Spirits

Notes:
1. Proposal is to provide 1.15% excise free threshold to all RTD's up to 3.5% a/v

Current excise 140,961 lals @ $35.04 per lal	4,939,273
Proposed tax 139340 lals @ $35.04	4,882,471
revenue loss	***56,802***

Full Strength Spirits

no change

Beer

Proposed Tax 1

Remove excise free threshold for packaged beer > 6.5% a/v	No figures

Proposed Tax 2

Increase mid strength bulk beer tier from 3.1%-3.5% to 3.1%-4.0%	No figures

Sources:

DSICA 03/04
9 x 0.045
983,740 x 0.4

DSICA 03/04

393,496lals - 1.15%

A21 - A14

DSICA 03/04

140,961lals - 1.15%

DSICA Questionnaire - expect large growth in the category

Brewer Interviews - Relevant to small number of imported beers only

Brewer Interviews - Likely to attract some new beers at 3.8%

The WFA had a different position on replicating "beer type" strength bands to create lower strength alcohol tax incentives. Although there is insufficient data available for them to make a definitive response, from their experience, the WFA believes that is likely to be ineffective in altering consumption of wine, rather it may in fact risk imposing substantial cost imposts on rural and regional wine grape growers and winemakers.

Notwithstanding, both DSICA and the WFA would not support creating a tax incentive to produce lower strength alcoholic products, if that incentive was to be paid for by increasing taxes on their higher strength products. These positions will make it difficult for the project to recommend taxation rates that seek to maintain a level of revenue neutrality within each type of alcohol, as was sought at the outset of the study.

One final point of note from the project's discussion with the AAB was that care needed to be taken when looking at definition of "lower strength" alcohol on a product-by-product basis. An average full strength RTD is between 5 and 5.5%, whilst an average table wine is 12% and the full strength beer average is now at 4.3%. The reduced alcohol equivalents are 3.5% for RTDs, up to 8% for wine, whilst a large market exists already for beer at less than 3% and less than 3.5%, and there is a danger of consumers switching to higher strength products that are legitimately marketed as reduced alcoholic products.

Taxation of wine – including cask wine

Not recorded in the matrix, but significant to the project, is the views on volumetric taxation by the WFA, given the current ad-valorem method of taxing wine gives rise to incentives to produce cheap cask wine, rather than any incentive to develop quality lower strength wines. Through the literature review it was evident that the WFA opposes both a volumetric tax on wine, and any move into the excise system to join beer and spirits.

The project put the specific question to the WFA that it explain the arguments it has run against moving to a volumetric tax on wine. The question was put in the context that a volumetric tax could be imposed outside of the current excise system, and perhaps remain as the ATO administered *Wine Equalisation Tax*. The WFA was also asked its views on the relationship between volumetric taxation and alcoholic products most associated with harmful consumption, including cask wine.

In responding the WFA outlined that the major issue was around the fact that some 80% of wine consumed in Australia was at the "lower" end of the price range, and would therefore see increases to its retail pricing in the event of a volumetric tax. Such rises in price would see a fall in demand which in turn places pressure on regional Australia where the grapes are grown, and often the wine is made. Some of these regional centres are heavily reliant upon the grape growing / wine making industries, and any fall off in demand would have significant consequences on their economies. There could also be issues surrounding the type of grapes grown and eventual loss of wine styles from the market, with an adverse impact for consumer choice.

The WFA also view wine tax as a revenue raising tool, and not a "health tax". Whilst the WFA recognises misuse of alcohol as serious social problem in some communities, it argues that taxation is not the most effective way to treat such misuse. The WFA did recognise the link between increasing alcohol tax and falls in demand for alcohol, but does not believe there is evidence yet which confirms that the consumers at risk are those who are those who reduce alcohol when the price rises. This is view is at odds with the literature review, as at page 2:

> *Abel (1998, pp417-420) believes that such problematic consumer groups "are more sensitive to price changes" than previously thought. Kenkel & Manning (1997, p231) cite studies such as Cook & Tauchen (1982) who found a correlation between increased alcohol pricing (through taxation) and falls in liver cirrhosis, a disease associated with heavy drinking, and studies by Chaloupka (1993) and Sloan et al (1994a) and (1994b) which found similar correlations between taxation, price and other symptoms of alcohol abuse including motor vehicle fatalities, workplace accidents, homicides, suicides and certain cancers. These findings become critical if looking at the taxation system to effect pricing in a way to reduce alcohol consumption.*

Importantly, the WFA does support the use of other "non-tax" measures to alter the alcohol consumption of high-risk groups.

<u>Alcoholic cider</u>

The project could find no industry representation for the cider industry. Australia's leading cider maker "Bulmer's" is now part of Carlton & United Breweries, after the Foster's Group acquired the business in February 2003[4]. The WFA indicated that had no representation over cider. DSICA did however, had some firm views on how cider should be taxed, notably that there should be full taxation equivalence between cider, beer and RTDs as each competed in the same packaged liquor market.

<u>Proposed Alcohol Rates</u>

The challenge for the project is to develop tax rates for each alcohol type that meet the overall objectives of the study. These proposed rates will then be subject to economic modelling as part of this study. Primarily, there needs to be certain taxation based incentives developed which through final retail pricing stimulate the demand for lower strength alcoholic beverages, particularly outside of beer. Within that context, these incentives have to be revenue neutral, and further, prevent a substantial shift from one type of alcohol to another. (NB: the objective of full acceptance by industry has had to be rejected)

Based on the literature review, consultation with industry, discussions with economists, and review of other references such as alcohol tax models from overseas, certain key decisions were taken as to the structure of a preferred alcohol tax system. These included: