



Foundation for Alcohol Research & Education

Pre-budget submission 2018-19

December 2017



**STOPPING
HARM
CAUSED BY
ALCOHOL**

About the Foundation for Alcohol Research and Education

The Foundation for Alcohol Research and Education (FARE) is an independent, not-for-profit organisation working to stop the harm caused by alcohol.

Alcohol harm in Australia is significant. More than 5,500 lives are lost every year and more than 157,000 people are hospitalised making alcohol one of our nation's greatest preventive health challenges.

For over a decade, FARE has been working with communities, governments, health professionals and police across the country to stop alcohol harms by supporting world-leading research, raising public awareness and advocating for changes to alcohol policy.

FARE is guided by the World Health Organization's (2010) *Global strategy to reduce the harmful use of alcohol* for stopping alcohol harms through population-based strategies, problem directed policies, and direct interventions.

If you would like to contribute to FARE's important work, call us on (02) 6122 8600 or email info@fare.org.au.

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Introduction

Each day, 15 Australians die and a further 430 are hospitalised because of alcohol.¹ In addition to harm to drinkers, alcohol has significant and devastating impacts on third parties, including violence on our streets and in our homes, vandalism, road traffic accidents, child maltreatment and neglect, and lost productivity in the workplace.² Children in particular bear a large proportion of the harms associated with alcohol. More than one-fifth (22 per cent) of Australian children are negatively affected by the drinking of others.³ Problematic drinking by their primary caregiver substantially affects 142,582 Australian children, with 10,166 already in the child protection system as a result.⁴ Children can also be directly impacted by alcohol consumption during pregnancy. This can result in a series of lifelong disabilities known as Fetal Alcohol Spectrum Disorders (FASD). A lack of awareness about Australia's National Health and Medical Research Council (NHMRC) Alcohol Guidelines, by both health professionals and the general public, contributes to an unacceptable number of children being born with these preventable conditions. Basic policy measures to raise awareness of the Alcohol Guidelines can substantially reduce the prevalence of FASD and associated expenditure over the longer term.

Alcohol costs the Australian community almost \$11 billion per annum.⁵ This includes direct costs, such as those relating to health, crime and road accidents, as well as losses in productivity, resources and life. Using conservative methods, the external costs of alcohol (those met by parties other than drinker and industry) are estimated to be at least \$5.6 billion per annum.⁶ Much of this burden is placed on government, and includes costs associated with treatment services, hospitalisations, emergency department presentations, policing, paramedic services, justice services (courts and corrections), child protection, and family and domestic violence services. Some of these services are provided directly by governments, or by their agents in the not-for-profit sector, at a considerable cost to taxpayers. Associated costs are well in excess of gross alcohol tax collections by governments. While alcohol continues to be the source of large negative externalities, ineffective taxation policy contributes to health and economic harms.

One of the major challenges facing government in implementing effective alcohol tax reform is public awareness of the harms and costs associated with its consumption. For this reason, it is imperative that action to reform taxation is accompanied by public education campaigns that will raise awareness of these issues. This would be a small investment for large returns with respect to both health and net government revenue.

The Foundation for Alcohol Research and Education (FARE) welcomes the opportunity to provide a pre-budget submission for the 2018-19 Australian Government Budget. FARE's submission will outline the health and economic harms associated with the current approach to alcohol taxation, and show the wide-ranging support for reform and effective measures to instigate cost-saving preventive measures. The proposed reforms will facilitate meaningful public policy interventions to reduce rates of alcohol harm, including better resourcing of interventions to reduce rates of Fetal Alcohol Spectrum Disorders. They will also provide additional resources for comprehensive public education campaigns that will raise awareness of alcohol harms and bolster support for meaningful reforms. In addition to delivering enhanced wellbeing for all Australians, the proposed policies are population positions and will deliver a net return to governments over the medium term.

For these reasons, FARE urges consideration of the proposed reforms in the development of the Australian Government Budget 2018-19.

FARE's 2018-19 tax proposal

1. That the Australian Government reform the alcohol tax system through a phased approach that will save in excess of \$2.9 billion annually and reduce consumption by more than 9.4 per cent. This should include:
 - Introducing a volumetric tax alongside the current WET and requiring producers to pay the larger of the two.
 - Lifting the volumetric rate over time to capture an increasing proportion of excessively cheap wine.
 - Fix the volumetric tax on wine at a level commensurate with its strength, half way between full-strength draught beer and spirits.
 - Increase all alcohol tax by at least 10 per cent, to address negative externalities associated with the liquor trade.
2. Lift the tax on draught beer to bring this in line with the rates applied to packaged beer, providing a level playing field, additional revenue and a reduction in harm.
3. Protect children from being born with a preventable lifelong disability by establishing a \$10 million national public awareness campaign over four years to raise awareness about the risks of drinking alcohol during pregnancy.
4. Fund a nation-wide public education campaign to highlight the harms associated with alcohol consumption and strategies that individual can use to minimise their risk (\$100 million over four years).

Table 1 – Costings of proposed action

Item	Revenue (\$m, per annum)	Expenditure (\$m, per annum)	Total (\$m, per annum)
Tax reform	\$2,900	-	\$2,900
FASD campaign	-	\$2.5	-\$2.5
Public education campaign	-	\$25	-\$25
Total	\$2,900	\$27.5	\$2,872.5

The current alcohol tax system is harmful to health and the economy

The price of alcohol is one of the main determinants of consumer decisions on whether to drink, how much, and how frequently. As a result, the Commonwealth Government can use corrective taxation to affect consumption behaviours, directing Australians towards safer options and mitigating associated risks. Tax can be targeted to influence consumption and harm among specific high-risk populations, including young people and heavy drinkers.⁷ Evidence suggests that taxation is not only the most effective alcohol harm prevention measure,⁸ it may also be the most efficient.⁹ In addition to reducing harmful consumption, a well-designed alcohol tax system minimises economic externalities by holding the alcohol industry more accountable for public expenses associated with its operation. This facilitates more efficient market operation and optimises outcomes for all Australians.

Alcohol taxes may either be applied on the basis of a product's value (in a similar manner to the Goods and Services Tax, for example) or volume of pure alcohol. A volumetric tax is also known as a commodity-based tax and is levied in the form of excise on products such as fuel, tobacco, and some forms of alcohol. Tax is often applied in this manner when the volume of product sold is of greater importance than its value, due to public health, environmental or supply constraint considerations. Most alcohol products are taxed on a volumetric basis, as this allows the government control over the prices charged. Tax applied under the volumetric system is differentiated on the basis of product strength. That is, higher strength products such as spirits are taxed at a higher rate per unit of alcohol than lower strength products such as beer. Combining a volumetric approach with rates that are differentiated based on product strength ensures that tax may be used as a tool to influence the level of alcohol consumption and consequent harm, and to guide behaviour with price signals toward products that are less harmful.

Tax on beer provides a good example of how a differentiated volumetric rate may be used to reduce the harm associated with alcohol consumption. This system has been used in Australia since the 1980s¹ after it was introduced with the expectation that a lower taxation rate for low-strength beer would result in changing preferences toward less harmful products. The policy has been effective in this respect, having contributed to strong growth in the relative consumption of low-strength beer, which now accounts for 20 per cent of the total Australian beer market.¹⁰ XXXX Gold, a low-strength beer, is now Australia's biggest selling beer brand. This provides a good example of how a differentiated tax may be used to steer consumers away from higher strength products, which are susceptible to more rapid consumption and therefore higher rates of intoxication and associated harm.

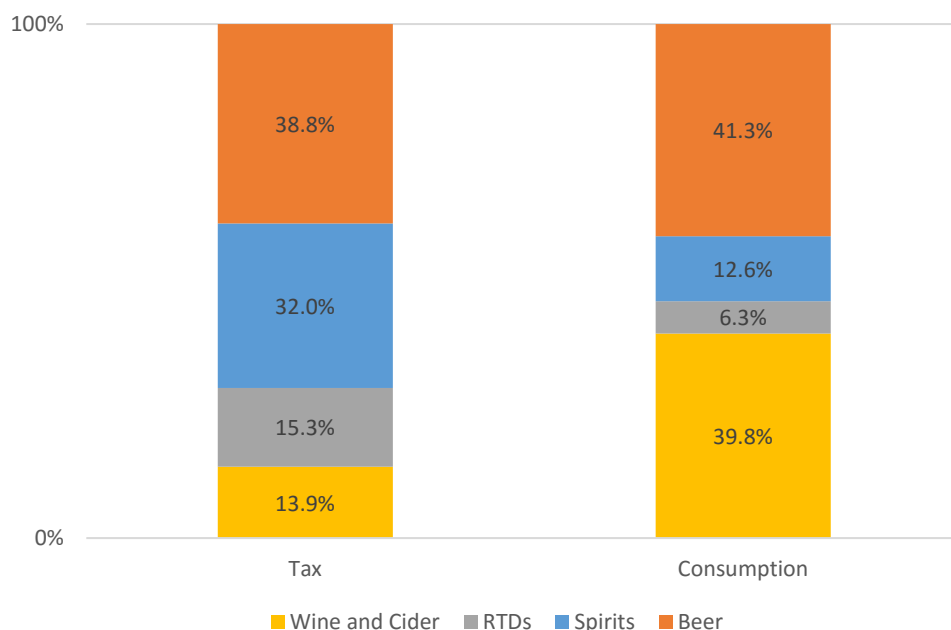
Unlike other alcohol products, wine and cider are currently taxed on the basis of their value.² In particular, the Wine Equalisation Tax (WET) is levied at a rate of 29 per cent of the wholesale price of wine and cider. The rate of tax under the WET is considerably less per unit of alcohol than other alcohol products such as beer and spirits. Although wine and cider accounted for 39.8 per cent of alcohol consumed in 2013-14, they only represented 13.9 per cent of alcohol tax receipts (see Figure 1). Consequently, the Australia Institute estimates that the level of subsidy provided to the wine

¹ Low-strength beer was first given a lowered tax rate in 1984 to encourage consumers to switch to less harmful products. Further changes in 1988 meant beer was taxed in the same way as spirits, on the basis of volume of alcohol. This resulted in beer being taxed significantly less than spirits for the first time.

² It is worth noting that no tax is applied to alcohol products that are exported.

industry is in excess of \$1 billion per year, most of which reflects the inconsistent approach and lower effective tax rate on wine.¹¹

Figure 1. Alcohol consumption and tax receipts, 2013-14



Sources: Commonwealth of Australia. (2013). *Australian budget strategy and outlook 2013-14*, and the Australian Bureau of Statistics (ABS) *Apparent consumption of alcohol 2013-14*.

Figure 1 illustrates the considerable variation in tax rates across product classes, including the low rate of tax applied per unit of alcohol to wine. The system is such that spirits are taxed at a rate (\$79.38/Lal) that is more than 25 times the rate applied to cheap cask wine (\$2.99/Lal). It also means that the tax applied per unit of alcohol in a premium (\$40) bottle of wine (\$45.52/Lal) is more than 15 times the amount applied per unit on cheap cask wine. While contributing substantially to harm in indigenous communities, sexual and domestic violence, and binge drinking among adolescents, the price of cask wine is effectively being subsidised by the Commonwealth Government.

The favourable treatment provided to the WET has also contributed to a host of harmful health outcomes. The WET’s ad valorem nature removes its price lever which may otherwise have been used to control consumption. This also limits the Commonwealth Government’s ability to bring taxation on wine into line with other alcohol products, because increasing the rate of the WET will exacerbate the incentive for production of cheap wine. The current system is therefore a convoluted mix of approaches, with harmful outcomes for both health and the economy.

Table 1. Effective excise rates, quantities and revenue by alcohol type in 2014–15

Alcohol type	Effective rate (\$/Lal) ^{1,2}	Quantity (ML) ²	Receipts (\$ million)
Non-commercial beer, low-strength	1.71
Non-commercial beer, mid- to full-strength	2.52	0.1	0.3
Draught beer, low-strength	4.85	0.4	1.9
Draught beer, mid-strength	16.93	2.0	33.9
Draught beer, full-strength	25.41	11.3	287.6
Packaged beer, low-strength	24.28	1.5	35.6
Packaged beer, mid-strength	31.47	9.3	291.9
Packaged beer, full-strength	36.08	46.0	1,658.8
Brandy	74.14	0.9	65.5
Spirits	79.38	24.3	1,930.5
RTDs	79.38	11.3	899.0
Wine, \$15 cask (4L)	2.99	12.7	37.8
Wine, \$7 bottle	7.97	12.1	96.2
Wine, \$15 bottle	17.07	29.3	500.8
Wine, \$40 bottle	45.52	3.5	157.1
Total alcohol	36.50	164.5	5,997.0

Source: Reproduced from Parliamentary Budget Office. (2015). *Alcohol taxation in Australia Report no. 03/2015*.

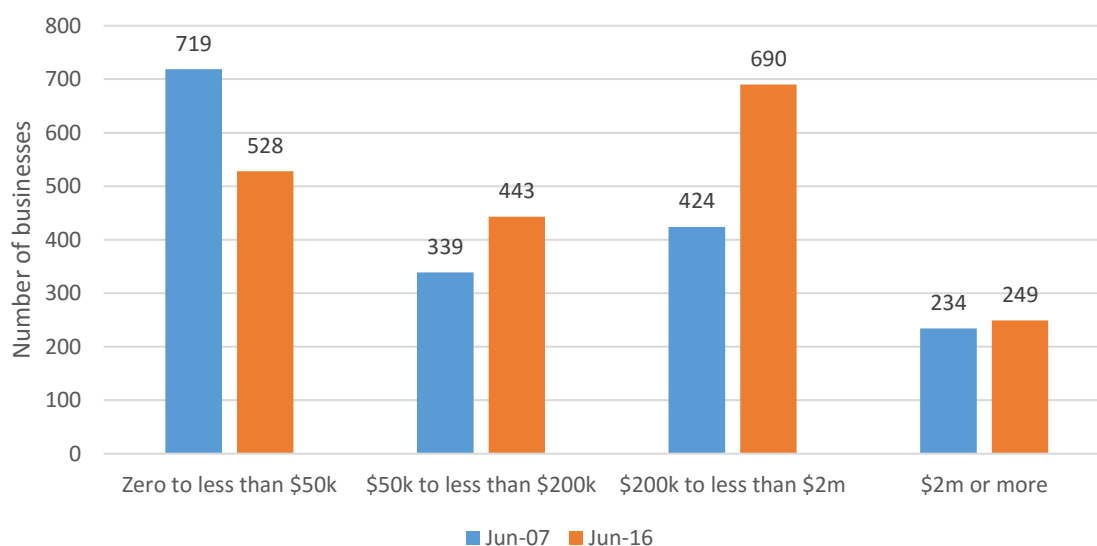
The WET Rebate blocks growth of small producers

By taxing boutique and premium wines at a much higher rate per unit of alcohol than bulk cask wine, the current system is failing to support small businesses. In recognition of this inequitable arrangement, the WET Rebate was introduced in 2004.³ While the rebate provides support to small producers, it is both costly and economically distorting. In particular, it has had the effect of polarising the industry such that a large number of small producers are supported by the rebate, while only those with very large operations (and therefore economies of scale) can compete as larger enterprises. While supporting the growth of very small businesses up to the value of turnover supported by the WET (\$1.7 million per annum) the policy has effectively inhibited growth above this size. Figure 2 (below) presents counts in the *Wine and Other Alcoholic Beverage Manufacturing* industry by turnover range in June 2007 and June 2016. Over the period, there was 62.7 per cent growth in the number of businesses with turnover between \$200k and \$2 million, and 30.7 per cent growth in the number of businesses with turnover between \$50k and \$200k per annum. At the same

³ The WET Rebate entitles wine producers to a rebate on producer's assessable deals, up to a maximum of \$500,000 each financial year. The WET Rebate applies to all products subject to the WET, and can be claimed by producers for up to \$1.7 million in domestic wholesale wine sales. In 2005, the WET Rebate was extended to New Zealand wine producers to satisfy bilateral trade agreements. Since this time, New Zealand wine imports into Australia have grown by 139 per cent.

time, there was only 6.4 per cent growth in the number of businesses with turnover of \$2 million or more per annum. Most of this growth was likely attributable to those other than wine manufacturers. In the key winemaking states of SA and NSW, there were actually reductions in the number of businesses in this turnover class over the period (by 4.4 per cent and 14.3 per cent, respectively).

Figure 2 – Business counts by turnover range, Wine and Other Alcoholic Beverage Manufacturing, June 2007 and June 2016



Source: ABS Cat. No. 8165 Count of Australian Businesses, including Entries and Exits.

Treasury have already acknowledged this likely effect, identifying that the WET rebate may be contributed to market distortions by preventing market consolidation and encouraging fragmentation of producers.¹² This is reflected in low market concentration in the wine industry. While four businesses account for approximately 40 per cent of production,¹³ the majority of the market is comprised of much smaller firms. In essence, the WET Rebate now sustains otherwise unviable producers that are not able to compete given favourable treatment for mass production activities. This has led to an explosion in the number of small businesses, while restricting growth and, in combination with the WET itself, has encouraged the production of large volumes of harmful cheap wine. The WET Rebate cost taxpayers \$356 million in 2015-16, with an additional \$27 million in rebate sent overseas to New Zealand producers.¹⁴ This staggering subsidy is in addition to the revenue foregone through lower effective tax rates on wine products.

The Commonwealth Government announced changes to the WET Rebate in the 2016-17 Budget. In addition to tightening eligibility, it was intended that these reforms would reduce the scale of the WET Rebate from \$500,000 per annum to \$350,000, and eventually \$290,000. Following a period of consultation, the changes were delayed and watered down so that the rebate would continue at \$350,000 from 2018-19. With the addition of a new Wine Tourism and Cellar Door grant of \$100,000 per annum, the level of subsidy will remain largely unchanged.

The decision to backtrack on proposed changes was ostensibly based on concern that the removal of the rebate would render small production outfits unsustainable. This is a logical outcome, as the value-based WET exaggerates economies of scale by taxing small boutique operations at a higher rate than big businesses. However, rather than addressing the actual problem (the WET itself), the Commonwealth Government has chosen to continue to use the rebate as a costly bandage for a

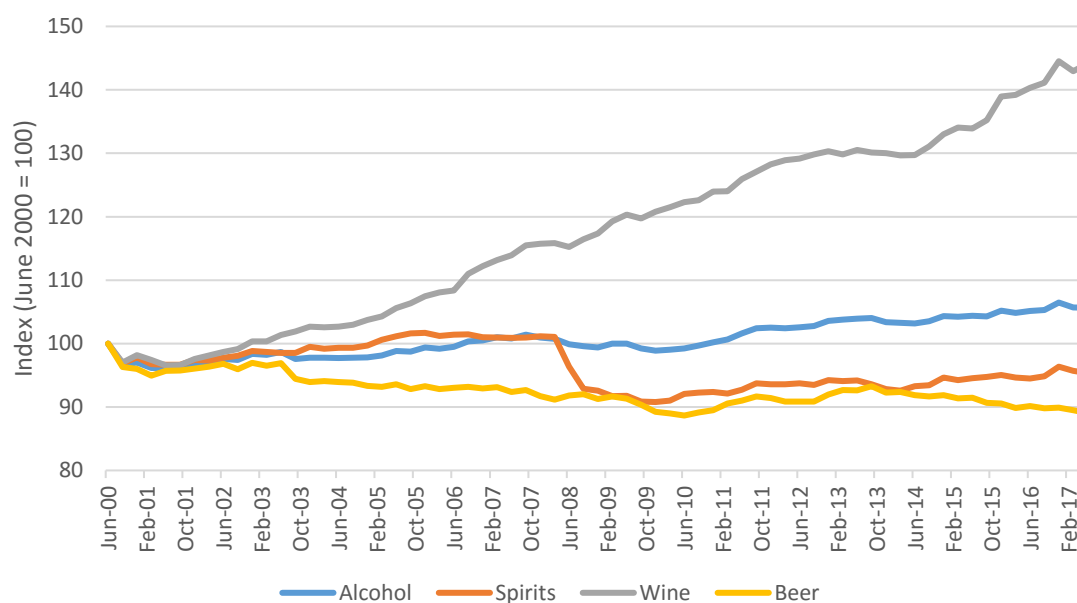
problem that should not exist. Small wine producers would be better supported under a system that provides them with a level playing field to large firms. This should involve a consistent system that taxes products based on their alcohol content, at a rate commensurate to their strength and susceptibility to harm.

In this way, the WET and its Rebate now appear to be intrinsically linked. Boutique and premium producers can remain viable under a volumetric approach that provides them with a more level playing field, but cannot survive under current arrangements without the expensive rebate subsidy. As demonstrated by failed attempts in the 2016-17 Budget, changes to the scale of the WET Rebate will be blocked by industry unless part of a transitioned arrangement to a volumetric approach. Until that time, the WET will continue to provide an incentive for the production of cheap alcohol while the growth of small business is blocked by the WET Rebate. It is for these reasons that Australia's Future Tax System review (Henry Review) described Australia's alcohol tax system as illogical and incoherent, suggesting that current alcohol taxes "encourage people to drink cheap wine over expensive wine, wine from small rather than large producers" (Chapter E, 5-2).¹⁵ Similarly, the productivity commission recently provided a damning review of the WET, describing alcohol taxes as "a mess with damaging health outcomes".¹⁶

The WET and its rebate fuel harm from cheap wine while increasing the cost of premium wine

The Henry Review's assertion that the WET encourages the production of cheap alcohol is strongly supported by the examination of alcohol affordability indexes. Figure 3 demonstrates affordability indexes for spirits, wine and beer, as well as alcohol more generally in Australia since the introduction of the WET in 2000. This measure reflects the average ordinary wages divided by consumer price indexes for each product. As displayed, the affordability of beer and spirits have reduced marginally over the period. The trend appears to reflect a gradual decline in beer affordability, potentially driven by trends in the production of boutique and premium brands. While the affordability of spirits remained relatively stable in the early 2000s, a sharp reduction in affordability was observed to coincide with the introduction of the alcopops tax in 2008. Despite this, the affordability of alcohol collectively has increased by six per cent across the period. This has been driven by growth in the affordability of wine in particular, which has increased by 44 per cent since June 2000. In other words, the same portion of someone's wage can now be used to purchase one and a half times more wine compared with 2000.

Figure 3 – Affordability Index of Alcohol, 2000 to 2017⁴



Sources: FARE calculations based on ABS Cat. No. 6345.0 – Wage Price Index, Australia, Jun 2017; and ABS Cat No. 6401.0 – Consumer Price Index, Australia, Sep 2017

Cheap alcohol encourages higher rates of consumption and consequent harm. The harm associated with alcohol extends to both drinkers and third parties. In the short-term, alcohol contributes to the incidence of assault^{17,18,19} and injury.²⁰ Over prolonged periods, dangerous patterns of alcohol consumption can result in a range of chronic diseases and disability.²¹ In 2010, 15 deaths and 430 hospitalisations occurred as a result of alcohol each day in Australia.²² Deaths due to alcohol have risen by a staggering 62 per cent since that time.²³ For men, injuries accounted for more than a third (36 per cent) of alcohol-related deaths, while cancer and digestive diseases caused 25 and 16 per cent, respectively.²⁴ For women, one in three alcohol-related deaths were due to heart disease (34 per cent), followed by cancers (31 per cent) and injuries (12 per cent).²⁵

The scale and variety of harm that alcohol causes to third parties distinguishes it from other health and lifestyle risks, such as smoking and gambling. This includes street and family violence,^{26,27,28} as well as road traffic accidents,²⁹ and child maltreatment.³⁰ Alcohol is involved in between 23 per cent³¹ and 65 per cent³² of family violence incidents reported to police. Between 2002-03 and 2011-12, 36 per cent of perpetrators of intimate partner homicides had used alcohol.³³ Children are also subject to considerable levels of alcohol harm. More than one in five (22 per cent) Australian children are negatively affected by the drinking of others.³⁴ Problematic drinking by their primary caregiver substantially affects 142,582 Australian children, and 10,166 children are already in the child protection system as a result.³⁵ In addition to maltreatment and neglect, children can be affected by alcohol consumption prior to birth through Fetal Alcohol Spectrum Disorders (FASD).³⁶ As a result of alcohol's harm to others, more than 360 people die each year, a further 14,000 are hospitalised, and close to 70,000 people are victims of assault.³⁷

⁴ The Affordability Index represents the Wage Price Index (ABS Cat. No. 6345.0) divided by the Consumer Price Indexes specific to alcohol product classes (ABS Cat No. 6401.0). Each series is indexed to June 2000.

Widespread and increasing support for alcohol tax reform

Alcohol industry support

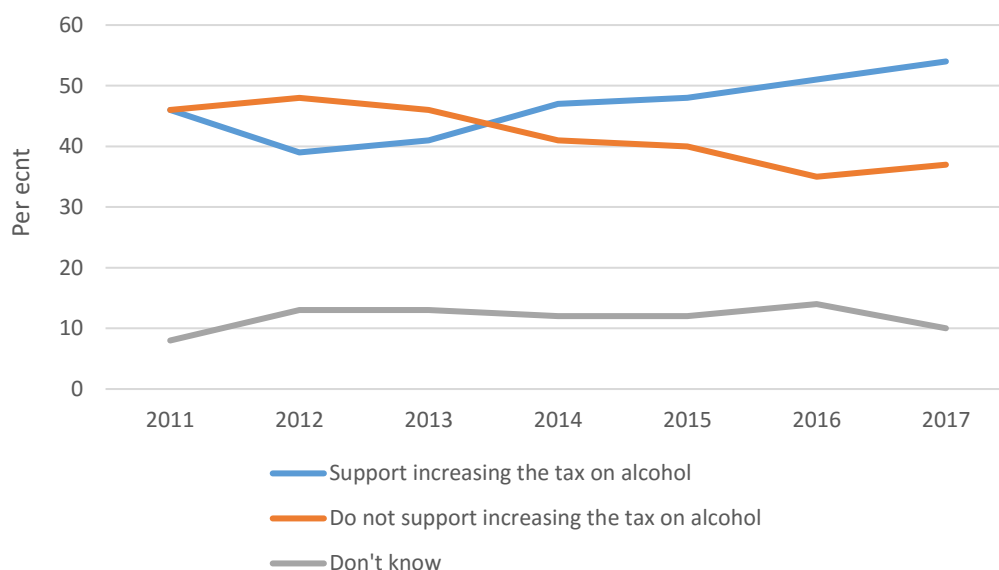
Despite a common misconception that the wine industry is not supportive of alcohol taxation reform, there is strong evidence of support from small, medium, and large producers within the industry. Two of the largest wine producers and a variety of boutique establishments are supportive of reforming the WET. Treasury Wine Estates and Pernod Ricard Winemakers collectively represent 20.1 per cent of Australian wine production.³⁸ Treasury Wine Estates has stated that, “The phenomenon of very cheap wines seen in Australia in recent years is a further unintended consequence of the WET rebate, and adds weight to calls to remove or fundamentally reform the scheme”.³⁹ Former Chief Executive David Dearie used stronger language in another forum, calling for the scrapping of the WET and WET rebate and saying that it is “widely rorted, underpins the excess supply that has blighted Australian wine”.⁴⁰ Pernod Ricard Winemakers (formerly Premium Wine Brands) have also publicly criticised the WET, advocating instead for a volumetric system.⁴¹

Commentary from within the wine industry suggests that there are several other small and medium sized producers who acknowledge that the industry would benefit from reforming the WET. Jeremy Oliver, an Australian wine writer and presenter has written, “Is there any sense in any aspect of the current taxation environment? If so, I can’t see it. Surely it’s time to fix this thing before the collateral damage it directly causes gets even worse”.⁴² Westend Estate Wines (now Calabria Family Wines) says that, “The Wine Equalisation Tax is having a negative impact throughout the domestic market, and virtual wineries with no long-term vision are abusing the system which was put in place to benefit the smaller wineries”.⁴³ In addition to support for reform from within the wine industry, businesses and their representatives from other alcohol industries have also backed taxation reform. The Distilled Spirits Industry Council of Australia⁴⁴ and Brewers Association,⁴⁵ for example, both publicly support the introduction of a volumetric tax on wine.

Public support

In addition to support from the public health profession and industry, there is widespread and increasing support for alcohol tax reform among the general public. Independent polling conducted by Galaxy Research has revealed that the majority (54 per cent) of Australian adults support increasing alcohol tax. At the same time, the proportion that does not support increasing the tax has reduced to 37 per cent (see Figure 4).⁴⁶

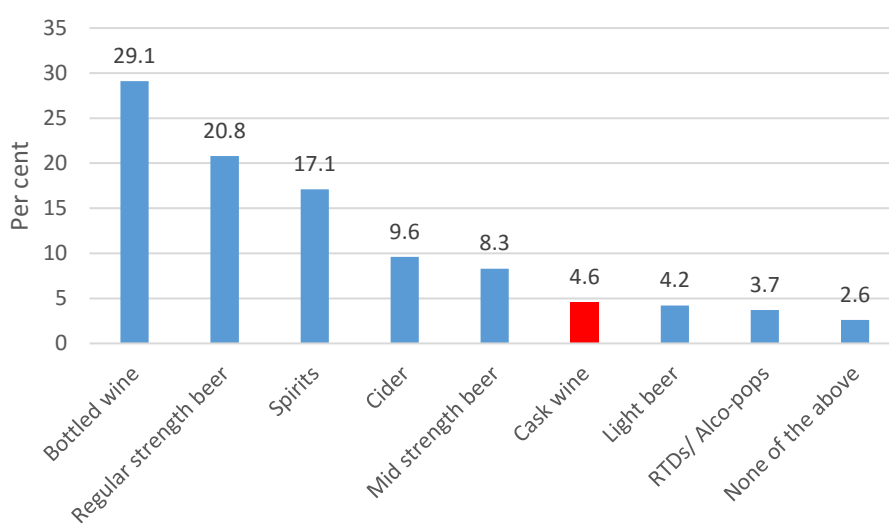
Figure 4. Support for increasing tax on alcohol to pay for health, education, and treatment of alcohol-related programs, 2011 to 2017



Source: Foundation for Alcohol Research and Education (FARE), Annual alcohol poll, 2017

Because the WET subsidises the production of cheap wine, opposition to its abolition will largely be confined to consumers of cask wine. As demonstrated in Figure 5, only a 4.6 per cent or less than one in 20 identify drinking cask wine more often than other alcoholic beverages. In contrast, consumers of bottled wine, who predominantly stand to benefit under the proposed tax reforms, represent the largest group. In total, close to a third of drinkers (29.1 per cent) identified bottled wine as the alcoholic beverage they consume most often. These data reflect strong support for tax reform that would impose a more equitable and less harmful approach to alcohol taxation among the general public.

Figure 5. Alcoholic beverage most often consumed, 2017



Source: FARE calculations based on commissioned survey data from Galaxy Research.

Government support for the abolition of the WET

To date, at least 13 government reviews have concluded that wine should be taxed on a volumetric basis.⁵ This includes reports at the Commonwealth level, as well as in several states and territories. Two reviews in particular provide strong evidence of the harms associated with the WET and present compelling cases for its reform. This includes the Australia's Future Tax System review (Henry Review), published in 2010, and the most recent five-year productivity review by the Productivity Commission, published in 2017.

Henry Tax Review

Seven years ago, the Henry Review argued that the Australian Government needed to reform the WET as matter of urgency.⁴⁷ The report identified that "current alcohol taxes reflect contradictory policies".⁴⁸ The report highlighted damaging effects associated with the Wine Equalisation Tax in particular, suggesting that because cheaper wine is taxed less "current tax arrangements are inconsistent with targeting spillover costs". Consequently, the Henry Review recommended that alcohol taxes should be volumetric to address the spillover costs imposed on the community of alcohol abuse. In particular, it was recommended that "All alcoholic beverages should be taxed on a volumetric basis, which, over time, should converge to a single rate, with a low-alcohol threshold introduced for all products. The rate of alcohol tax should be based on evidence of the net marginal spillover cost of alcohol".

The net marginal spillover cost to which the Henry Review recommendation referred was the subject of an investigation that informed the Melbourne Institute – Australia's Future Tax System Conference. In this, it was found that the effective duty per litre of pure alcohol was \$27, while the cost per litre of pure alcohol ranged between \$36 and \$59.⁴⁹ While these estimates are based on relatively old data, they suggest that even by the most conservative estimates there is a significant net spillover cost associated with alcohol consumption. These figures also represent the average across all alcohol classes. As discussed previously, cheap wine is taxed at an effective rate of just \$2.99/LAL, equating to just 8.2 per cent of the current average (\$36.5/LAL). Evidently, this very low rate of taxation supports large net spillover costs, which are ultimately borne by taxpayers under current arrangements.

⁵ Reviews that have supported implementation of a volumetric tax on wine:

- the 1995 Committee of inquiry into the wine grape and wine industry
- the 2003 House of Representatives Standing Committee on Family and Community Affairs inquiry into substance abuse
- the 2006 Victorian inquiry into strategies to reduce harmful alcohol consumption
- the 2009 National Preventative Health Taskforce report on *Preventing alcohol related harms*
- the 2010 Australia's future tax system (Henry Review)
- the 2010 Victorian inquiry into strategies to reduce assaults in public places
- the 2011 Western Australia *Education and Health Standing Committee inquiry into alcohol*
- the 2012 Australian National Preventive Health Agency *Exploring the public interest case for a minimum (floor) price for alcohol, draft report*
- the 2012 Australian National Preventive Health Agency *Exploring the public interest case for a minimum (floor) price for alcohol, final report*
- the 2014 House of Representatives report on the *Inquiry into the harmful use of alcohol in Aboriginal and Torres Strait Islander communities*
- the 2017 Interim Report on the Effect of red tape on the sale, supply and taxation of alcohol
- the 2017 Northern Territory *Alcohol Policies and Legislation Review - Final Report*
- the 2017 Productivity Commission *Shifting the Dial: 5 year productivity review*

Shifting the dial: five-year productivity review

In 2017, the Productivity Commission provided a damning rebuke of current alcohol tax arrangements in its five-year productivity review. The Commission described the current system as “a mess with damaging health outcomes” (p. 74)⁵⁰ and urged the Australian Government to move to an alcohol tax system that would remove “the current concessional treatment of high-alcohol, low-value products, primarily cheap cask and fortified wines” (p. 14). It suggested that this would ideally be achieved through a uniform volumetric tax rate for alcoholic beverages calibrated to reflect the health impacts of alcohol consumption. The report argued that any tax reform should aim to raise the price of low-value, high-alcohol products given the hazards these pose for the public good.

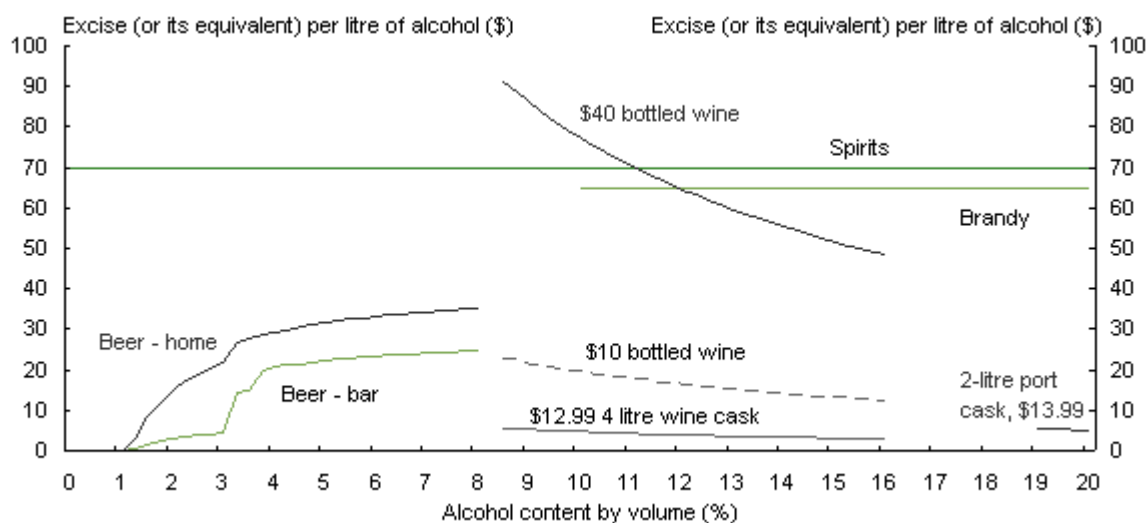
In its report, the Productivity Commission suggested that a transitional arrangement may be required to facilitate reform of the alcohol tax system, particularly with respect to the wine industry. It provided several options for such a transition, including imposition of a volumetric rate alongside the current ad valorem system, which may be gradually raised over time to reduce capacity for the production of cheap alcohol. Alternatively, it indicated that governments may introduce minimum prices through regulation rather than legislated taxation instruments. This is a concept gaining popularity, with the Northern Territory (NT) Government having indicated its intention to adopt a minimum unit price in line with recommendations in a recent alcohol policy review. The NT Government has taken this step to mitigate the very high rates of alcohol harm experienced across communities and inside homes in the NT. Similarly, the Western Australian Government has expressed interest in implementing a minimum unit price as well. Although these measures go some way toward reducing harm associated with the availability of cheap alcohol, they do not address economic distortions associated with the current inconsistent approach. It is for this reason that the Productivity Commission stressed that the optimal approach would be the application of a volumetric rate calibrated to reflect harms associated with alcohol consumption.

The Productivity Commission also advocated education and treatment programs to complement taxation reform. In particular, it was suggested that “combining tax measures with complementary measures aimed at addressing the harm associated with excessive alcohol consumption (such as education and treatment) is likely to amplify the benefits, while also soliciting greater public support.” (p. 75). Public support is crucial to this reform, and will be aided by these programs. Such initiatives will be discussed in further detail below.

Supporting change

Given the very large disparity in current taxation levels, it is important that the implementation of reforms allow the wine industry time to adjust. By avoiding major price shocks, a fair and equitable approach can be applied to reduce alcohol harm and address economic distortions while supporting the industry to transition away from major government subsidies. The Productivity Commission’s proposed dual tax system would facilitate introduction of an appropriate volumetric tax; lifting excessively low rates of tax on cheap wine while leaving other products largely unaffected. The new volumetric component could initially be set at a level equal to the lowest effective rates currently applied (\$2.99/Lal in 2014-15). By requiring producers to pay the larger of the existing ad valorem and new volumetric component, the volumetric tax should be gradually lifted to capture an increasing proportion of excessively cheap wine. This will allow government control the extent and rate of change, while delivering appropriate returns in revenue and reducing high rates of alcohol harm driven by government-subsidised wine.

Figure 6. Current effective (specific) alcohol tax by beverage



Source: Reproduced from Henry, K., Harmer, J., Piggott, J., Ridout, H., & Smith, G. (2009). *Australia's future tax system*. Canberra, Commonwealth Treasury.

Eventually, the volumetric rate should be set at a level commensurate to the alcohol strength of wine, half-way between full-strength draught beer and spirits (see Figure 6). The outcome of these reforms would be an equitable, efficient and healthy approach that empowers government with a lever to address negative externalities while providing a level playing field for the alcohol industry.

Finally, the price of alcohol needs to more accurately reflect its costs to society. This includes direct costs to government, as well as indirect and social costs stemming from such issues as lost productivity and reduced quality of life. Research has consistently demonstrated that the level of alcohol tax is not sufficient to recoup the expenses associated with alcohol. To start to address this disparity, the Government should increase all alcohol taxes by a minimum of 10 per cent.

Box 1 – Price impacts of increased tax

While an increase of this size will deliver large returns in consumption and associated harm, the increase in price will be considerably less than 10 per cent. Based on excise rates at August 2017, tax on a 375 mL can of Victorian Bitter would change from 90c to 99c, representing an increase of less than 10c. This would equate to a 2 per cent increase on a can costing \$4. The tax on a carton of 24 cans of Victorian Bitter would change from \$21.55 to \$23.70, representing an increase of \$2.15. This would equate to a 4 per cent increase on a carton costing \$50. Similarly, the tax on a 700 mL bottle of Jim Beam would change from \$23.04 to \$25.34, representing an increase of \$2.30. This would equate to a 6 per cent increase on a bottle costing \$38.

Through Computable General Equilibrium (CGE) modelling, ACIL Allen found that these proposed reforms would deliver an additional \$2.9 billion per annum and reduce consumption by 9.4 per cent (not counting the additional savings associated with the remaining ad valorem tax on luxury wines).

Recommendation

1. That the Australian Government reform the alcohol tax system through a phased approach that will save in excess of \$2.9 billion annually and reduce consumption by more than 9.4 per cent. This should include:
 - Introducing a volumetric tax alongside the current WET and requiring producers to pay the larger of the two.
 - Lifting the volumetric rate over time to capture an increasing proportion of excessively cheap wine.
 - Fix the volumetric tax on wine at a level commensurate with its strength, half way between full-strength draught beer and spirits.
 - Abolishing the economically-distorting Wine Equalisation Tax rebate.
 - Increase all alcohol tax by at least 10 per cent, to address negative externalities associated with the liquor trade.

End the favourable treatment of big beer

Levying higher rates of tax on packaged beer than on draught beer is detrimental to Australia's boutique breweries. This approach is both unfair and distorts the market to reward economies of scale. There have been a variety of parties that have called for a more equitable approach. Given that current levels of taxation are considered insufficient to address negative externalities associated with the alcohol trade, the tax on draught beer should be lifted to match that applied to packaged beer. This will allow fair competition for smaller producers, lift government revenue and address economic externalities imposed by the alcohol industry.

Recommendation

2. Lift the tax on draught beer to bring this in line with the rates applied to packaged beer, providing a level playing field, additional revenue and a reduction in harm.

New revenue directed to address alcohol harms

The costs of alcohol misuse to Australian families and particularly to children is too often overlooked. Each year, more than a million children (22 per cent of all Australian children) are affected in some way by the drinking of others.⁵¹ Children are exposed to unprecedented amounts of alcohol advertising, through a variety channels including television, letterbox advertising, online and sports sponsorship. Given the strong relationship between exposure to alcohol advertising and subsequent consumption behaviours,⁵² reducing children's exposure to alcohol advertising will deliver large reductions in alcohol harms and associated costs.

In addition, children are directly affected by alcohol consumption during pregnancy through a series of disorders known as Fetal Alcohol Spectrum Disorders (FASD). FASD include a range of debilitating lifelong conditions that cause suffering by individuals and their families, and place significant burdens on the healthcare and judicial systems. It is for this reason that FARE has developed and coordinated two programs designed to reduce drinking during pregnancy and the harm this causes to unborn foetuses. This includes the Pregnant Pause campaign, encouraging peer support for abstinence from alcohol while pregnant, and the Women Want to Know campaign, which targets primary healthcare professionals to ensure that women receive the best advice in relation to drinking while pregnant. The Women Want to Know program has secured ongoing funding, and the

Pregnant Pause program is now set for national implementation following its successful operation for several years in the Australian Capital Territory. However, more funding is required to maximise the effectiveness of these campaigns and reduce the harm caused by alcohol to unborn foetuses in Australia.

Pregnant Pause

The Pregnant Pause program was introduced to encourage partners, family and friends to provide stronger support for women to abstain while trying to conceive and during their pregnancy. In particular, the campaign aims to encourage participants to go alcohol free during their pregnancy or the pregnancy of a loved one. It seeks to assist mums-to-be by building a strong support system to help families achieve an alcohol free pregnancy together.

The program has sought to address a gap in public health campaigns, which have typically targeted only women despite strong evidence that peer support is essential to encouraging responsible decisions regarding drinking while pregnant.⁶ For example, the National Drug and Alcohol Institute found that 77 per cent of women who drink alcohol throughout their pregnancy usually drink with their partner. Of these women, 40 per cent report that their partner usually initiates a drinking occasion.⁵³

Although Commonwealth funding for 2017 and 2018 has provided an opportunity to implement the Pregnant Pause campaign nationally, funding has limited activities to two six-week social media, digital and radio advertising campaigns focused mainly on the east coast of Australia. To promote the messages to health professionals, information packs have been distributed to GP surgeries and medical centres to the three most populated states – New South Wales, Victoria and Queensland. While these activities have done well to promote Pregnant Pause and expand awareness of the campaign brand and messaging, more action is required to reach a broader national audience, and elicit change in attitudes and behaviour. The proposed project will build on the momentum created in the initial program and encourage even more women and families nationally to take the Pregnant Pause pledge and move the campaign from brand awareness to behaviour change.

Women Want to Know

The Women Want to Know (WWTK) program was developed by FARE to encourage health professionals to routinely discuss alcohol and pregnancy with women, and to provide advice consistent with the Alcohol Guidelines. The campaign has been in operation since 2014. A detailed evaluation in 2016 demonstrated evidence of the program's effectiveness in helping to raise awareness of the National Health and Medication Research Council (NHMRC) Alcohol Guidelines among primary healthcare professionals. In addition, a positive impact was found in the attitudes and behaviour of health professionals who had undertaken online training. The evaluation recommended continued promotion of the online training component of WWTK, and a review of the project resources. FARE was awarded additional funding for this purpose, and collaborated with several leading medical colleges to review the online training component in 2017. Women Want to Know has become a well-respected source of training and resources for health professionals and organisations who wish to increase knowledge and skills in advising women about alcohol use during pregnancy and breastfeeding.

⁶ Holland, K., McCallum, K. & Walton, A. (2016). 'I'm not clear on what the risk is': women's reflexive negotiations of uncertainty about alcohol during pregnancy. *Health, Risk & Society*, 18:1-2, 38-58

Proposed project

FARE has developed a proposal for a coordinated ongoing effort to reduce the harms associated with alcohol consumption during pregnancy. It is intended that this project is implemented in stages, with the first intervention and activities to be tests in the ACT and surrounding regions prior to expansion to other jurisdictions. The proposed project intends to achieve the following objectives by 2022:

1. Increase by 10 per cent the proportion of Australians over 18 years who are aware of the Alcohol Guideline for pregnancy.
2. Increase by 10 per cent the proportion of Australians over 18 years who agree that it is not acceptable for women to drink alcohol during pregnancy.
3. Increase to 90 per cent the number of women aged 18 to 40 that can accurately identify the safe level of drinking while pregnant.
4. Increase by 10 per cent the proportion of surveyed Australian women who have had a baby during the project period who have received advice from their GP, obstetrician or midwife that is consistent with the Alcohol Guideline for pregnant women.
5. Increase by 20 per cent annually the number of people registered with the Pregnant Pause campaign.

Recommendation

3. That the Australian Government protect children from being born with a preventable lifelong disability by establishing a \$10 million national public awareness campaign over four years to raise awareness about the risks of drinking alcohol during pregnancy.

Changing the messages around alcohol consumption

In its recent productivity review, the Productivity Commission argued that “combining tax measures with complementary measures aimed at addressing the harm associated with excessive alcohol consumption (such as education and treatment) is likely to amplify the benefits, while also soliciting greater public support” (p. 75). This statement highlights the importance of coordinating efforts to raise public awareness of the problem, to educate and treat problems associated with alcohol harm, while simultaneously addressing supply-side issues. This presents a double-win, delivering stronger public support for reform of alcohol taxes while addressing harms directly by increasing awareness of its harms.

Removing alcohol sponsorship from sport

Several studies have demonstrated strong associations between exposure to alcohol advertising and alcohol consumption behaviours. A review of 12 longitudinal studies of more than 38,000 young people has shown that the volume of advertising they are exposed to influences both the age at which young people start drinking and levels of consumption.⁵⁴ International studies have shown that each additional alcohol advertisement viewed by 15 to 26-year-olds increased the number of alcoholic drinks consumed by one per cent.⁵⁵ In addition, a United States study demonstrated that each additional hour of television school children are exposed to increased the probability that they would commence drinking in the subsequent 18 months by nine per cent.⁵⁶ Another study in New

Zealand found that males who reported being aware of more alcohol advertisements at age 15 drank significantly more beer at age 18.⁵⁷

An Australian cross-sectional survey of 1,113 Australian adolescents (aged 12 to 17 years) explored the relationships between multiple drinking behaviours (initiation, recent consumption, and regular consumption) and various types of advertising (television, magazine, newspaper, internet, billboard, in-store, bar and promotional material). Alcohol advertising across a range of media was found to strongly influence the drinking patterns of young people, with the impact most pronounced on initiation into drinking.⁵⁸ A cross-sectional survey of 6,651 school students across four countries found that exposure to online alcohol marketing and exposure to alcohol-branded sports sponsorship both increased young adolescents' intention to drink and increased the odds that they had been drinking in the past 30 days.⁵⁹

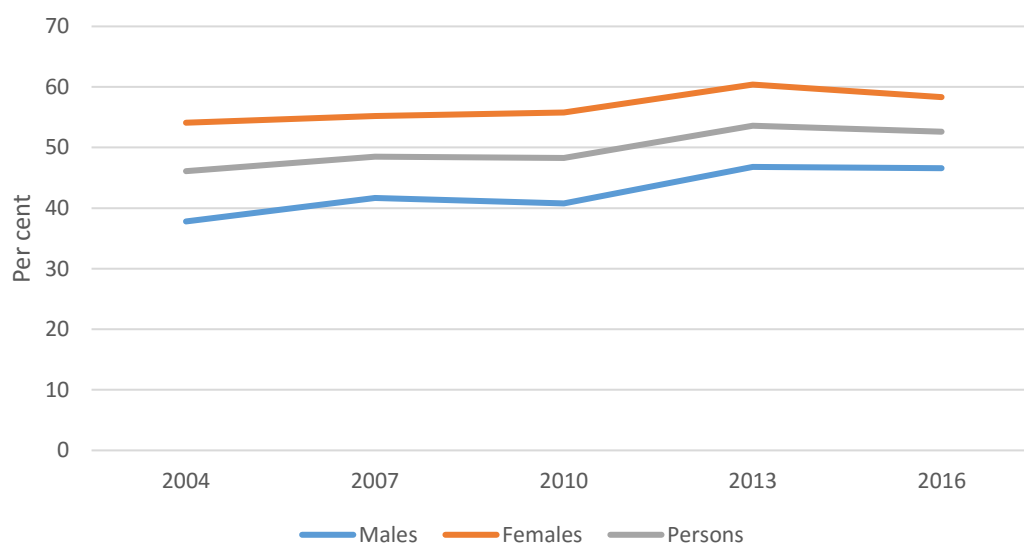
The volume of alcohol marketing that young Australians are exposed to is unprecedented. Young people are exposed to alcohol marketing through traditional media such as television, radio, newspapers, magazines and billboards, and also through the internet, including social media sites such as Facebook, YouTube and Twitter.^{60,61}

Alcohol marketing also occurs in the form of sponsorship of cultural and sporting events. Alcohol advertising features prominently in sporting events and culture in Australia. Alcohol brands are in regular view of the public, both on the ground and on television, through naming rights (of events, sporting fields and teams) and branding (on fences, the pitch and other signage at the sports ground and on uniforms and promotional merchandise). The alcohol industry has a close relationship with sporting institutions like Cricket Australia, the Australian Football League (AFL) and National Rugby League (NRL) promoting a view that alcohol and sport are intrinsically linked.

Studies show that alcohol sponsorship in sport is not only associated with hazardous drinking by sporting participants,⁶² it also communicates strong messages about alcohol brands and drinking that are absorbed by children. An estimated cumulative audience of 26.9 million Australian children and adolescents watching Australia's major televised sporting codes, AFL Cricket and NRL, are exposed to 51 million instances of alcohol advertising, with nearly half (47 per cent) of these broadcast during daytime programming between 6am and 8.30pm.⁶³ During the *Bathurst 1000* in 2008, those who watched the whole race (from 10.35am until 5.05pm) were exposed to 35 minutes of alcohol advertising including in-break alcohol advertisements and sponsorship. This audience included an estimated 117,000 children and young people aged 5-17 years.⁶⁴ An Australian study of 164 children aged between five and 12 found that 76 per cent of them were able to correctly match at least one sport with its relevant sponsor.⁶⁵ A survey of 155 young people (aged 9-15 years) in Western Australia found that 75 per cent recognised Bundaberg Rum's Bundy Bear and correctly associated him with an alcoholic product.⁶⁶

This type of alcohol marketing is visible to children and young people, as sporting and cultural events are often held or televised during times when they are likely to be watching or in attendance. To allow time for adaptation, an Alcohol Sponsorship Replacement Fund may facilitate phasing out of alcohol sponsorship in sport. Given the current levels of alcohol sponsorship, a relatively modest investment of \$100 million over four years would allow sufficient time for sporting codes to adjust. Alternative sponsors will be readily available. In NRL, for example, the value of the most recent contract with Telstra (\$6.5 million) was more than four times greater than that of the largest alcohol sponsor (Carlton United Brewery, \$1.5 million).⁶⁷

Figure 7. Support for banning alcohol sponsorship of sporting events, by gender, 2004 to 2016



Source: Australian Institute of Health and Welfare. (2017). *National Drug Strategy Household Survey 2016*.

There is strong and increasing support for regulating alcohol advertisements to reduce their impact on children. In 2016, 60 per cent of the Australian community supported a ban on alcohol sponsorship at sporting events.⁶⁸ Sport has successfully transitioned away from reliance on tobacco advertising. It is now time to address its growing reliance on alcohol. To assist in this transition, the government may implement a Sponsorship Replacement Fund as part of a larger campaign to educate the public on the harms associated with excessive consumption of alcohol. The proposed strategy for this campaign is outlined below.

Delivering a nation-wide public education campaign

In Australia and internationally, social marketing campaigns have been effectively used to raise awareness of public health issues such as the harms associated with tobacco use and risks associated with drink driving. However, alcohol-related social marketing campaigns in Australia, with the exception of those relating to drink driving, have been ineffective and had little impact. There has been no national public awareness campaign targeted at reducing alcohol-related harm since Labor's 2008 *Don't turn a night out into a nightmare* campaign.

Public education campaigns can be effective in both raising awareness and changing behaviour if sustained, well-resourced and introduced as part of a comprehensive policy framework. For example, a review of eight studies evaluating drink driving mass media campaigns found that campaigns both raised awareness and changed behaviours when they were planned, well executed, have good audience exposure and are implemented in conjunction with other prevention activities, such as high visibility policing for drink driving prevention.⁶⁹ These campaigns were found to both reduce alcohol impaired driving and alcohol-related crashes.

A further review of 26 studies of tobacco mass media campaigns found that campaigns undertaken as part of a broader comprehensive tobacco control program found that campaigns with sufficient population exposure both promoted quitting and reduced adult smoking prevalence.⁷⁰ For example, awareness of the NHMRC Alcohol Guidelines remains low. Just over half (54 per cent) of all Australians are aware of the NHMRC Alcohol Guidelines, but relatively few (12 per cent) are confident that they are aware of the content.⁷¹ When asked about the details of the NHMRC Alcohol

Guidelines, 41 per cent of Australians were aware that the maximum number of standard drinks a person can have in a day to avoid long term harms is two.⁷² Only nine per cent were aware that the maximum number of standard drinks that can be consumed to avoid short term harms is four.⁷³

Too many Australians are unaware of the relationship between alcohol and a range of health problems. For example, only 11 per cent of Australians are aware of the link between alcohol and breast cancer and 24 per cent are aware of the link with mouth and throat cancer.⁷⁴ It is estimated that 5,070 cases of cancer (or five per cent of all cancers) are attributable to long-term chronic use of alcohol each year in Australia.⁷⁵ The only messages that Australians are currently receiving about alcohol are those that are being promoted through prolific advertising by the alcohol industry. For example, spirits producer Diageo, whose brands include Johnnie Walker, Smirnoff and Guinness, spends approximately \$20 million on marketing each year.⁷⁶

For a social marketing campaign to be effective it must be multi-faceted and use a range of media to promote its key messages. This includes broadcast media, digital media, and signage in and around licensed venues. The campaign should also be reinforced with more formal messaging in other settings, such as school-based educational programs. It is also essential that a social marketing campaign has a clear target and message. The campaign rationale must clearly identify the target audience and the behaviour change sought. Understanding the target audience includes securing information about their knowledge, attitudes and current behaviours relevant to the social marketing campaign's objective.⁷⁷

Internationally, other countries have been more active in educating their populations about alcohol harms. This includes England which invested in two national campaigns in 2008-09 and 2010. The first campaign, *Know your limits*, aimed to inform consumers about the number of standard drinks in a variety of alcohol products. It consisted of television and radio advertisements as well as resources for consumers and health professionals such as online unit calculators and a dedicated website. This was a precursor to *Alcohol Effects*, the follow-up campaign which demonstrated how alcohol affects the organs in the body. This was again supported through television and radio advertisements as well as toolkit for health professionals and consumer resources.⁷⁸ Awareness of the links between alcohol and mouth cancer by the general population increased from five per cent to 24 per cent after the *Alcohol Effects* campaign.⁷⁹

There is also a great opportunity for the Government to strengthen its efforts in regards to preventing harms associated with alcohol and pregnancy. The *Women Want to Know* campaign, first launched by the Minister for Rural Health Senator the Hon Fiona Nash in July 2014, received renewed funding in July 2015 to continue to promote the project resources and training to health professionals. Feedback from health professionals, and evidence published subsequent to the audit and literature review which informed the development of *Women Want to Know*, have highlighted the importance of a national consumer facing campaign regarding maternal alcohol consumption.⁸⁰

Such a campaign, adapted from the existing *Women Want to Know* resources, would promote Guideline 4a and 4b of the National Health and Medical Research Council's *Australian Guidelines to Reduce Health Risks from Drinking Alcohol 2009* to Australian women and encourage them to discuss alcohol consumption during pregnancy with their health professional.

Research shows that awareness of the Australian drinking guidelines remains low, particularly around alcohol consumption and pregnancy. This lack of awareness results in one in five Australian women continuing to drink alcohol after becoming aware of their pregnancy,⁸¹ despite there being no known safe level of alcohol consumption during pregnancy.

The 2014 *National Statement on Health Literacy* by the Australian Commission on Safety and Quality in Health Care highlights the critical importance of health literacy in reducing poor health outcomes and subsequent healthcare costs.⁸² Funding a consumer facing campaign would build on the educational groundwork laid by *Women Want to Know* among health professionals, and empower women to discontinue drinking alcohol during pregnancy by providing consumers with up to date, consistent and evidence-based information that they can both understand and trust.

Recommendation

4. Fund a nation-wide public education campaign to highlight the harms associated with alcohol consumption and strategies that individual can use to minimise their risk (\$100 million over four years).

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