

**December 2018**

**2019 Commonwealth pre-budget submission**



**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. Nearly 6,000 lives are lost every year and more than 144,000 people are hospitalised making alcohol one of our nation’s greatest preventive health challenges.

For more than a decade, FARE has been working with communities, governments, health professionals, law enforcement and emergency services across the country to stop alcohol harm 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 harm 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.

Contents

[Introduction 4](#_Toc532809046)

[FARE 2019-20 tax proposal 5](#_Toc532809047)

[**The current alcohol tax system is harmful to health and the economy** 6](#_Toc532809048)

[**The WET fuels harm from cheap wine** 8](#_Toc532809049)

[**The WET Rebate blocks growth of small producers** 10](#_Toc532809050)

[Erosion of the tax base 11](#_Toc532809051)

[Widespread and increasing support for alcohol tax reform 12](#_Toc532809052)

[**Alcohol industry support** 12](#_Toc532809053)

[**Public support** 12](#_Toc532809054)

[**Government support for the abolition of the WET** 14](#_Toc532809055)

[Supporting change through a staged approach 15](#_Toc532809056)

[Simplify alcohol taxation for beer and end the favourable treatment of big beer 17](#_Toc532809057)

[New revenue directed to prevent alcohol harm 18](#_Toc532809058)

[Changing the messages around alcohol consumption 18](#_Toc532809059)

[**Prevent lifelong disability from alcohol use during pregnancy: Pregnant Pause and Women Want to Know** 18](#_Toc532809060)

[**Deliver a nation-wide public education campaign about the long-term effects of alcohol consumption** 20](#_Toc532809061)

[**Remove alcohol sponsorship from sport** 21](#_Toc532809062)

[References 23](#_Toc532809063)

# Introduction

Alcohol harm in Australia is significant. Each year, nearly 6000 lives are lost and more than 144,000 people are hospitalised making alcohol one of our nation’s greatest preventive health challenges.[[1]](#endnote-1) In addition to a growing burden of preventable chronic disease, 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]](#endnote-2) Children in particular bear a large proportion of the harm associated with alcohol. More than one-fifth (22 per cent) of Australian children are negatively affected by the drinking of others.[[3]](#endnote-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]](#endnote-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 Disorder (FASD). A lack of awareness about the Australian National Health and Medical Research Council (NHMRC) Alcohol Guidelines (the Alcohol Guidelines), by health professionals and the general public, contributes to an unacceptable number of children being born with this preventable condition. 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 $36 billion per annum.[[5]](#endnote-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 drinkers and industry) are estimated to be least $5.6 billion per annum.[[6]](#endnote-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 harm.

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

FARE welcomes the opportunity to provide a pre-budget submission for the 2019-20 Commonwealth Government Budget. FARE’s submission outlines the health and economic harm associated with the current approach to alcohol taxation, and shows 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 FASD. They will also provide additional resources for comprehensive public education campaigns that will raise awareness of the range of alcohol harm and bolster support for meaningful reform. 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 Commonwealth Government’s 2019 Budget.

# FARE 2019-20 tax proposal

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| 1. That the Commonwealth Government (the 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
* Fixing the volumetric tax on wine at a level commensurate with its strength, half way between full-strength draught beer and spirits
* Increasing all alcohol tax by at least 10 per cent, to address negative externalities associated with the liquor trade.
1. That the Government lift the concessional 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.
2. That the 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.
3. That the Government fund a nation-wide public education campaign to highlight the harms associated with alcohol consumption and strategies that individuals can use to minimise their risk ($100 million over four years).
4. That the Government phase out alcohol sponsorship in sport by investing $100 million over four years in the implementation of an Alcohol Sponsorship Replacement Fund.
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**Table 1. Costings of proposed action**

|  |  |  |  |
| --- | --- | --- | --- |
| Item | Revenue ($,000 per annum) | Expenditure ($,000 per annum) | Total ($,000 per annum) |
| Tax reform | 2,900,000 |  | 2,900,000 |
| FASD education campaign |  | $2,500 | (2,500) |
| Public education campaign |  | $25,000 | (25,000) |
| Alcohol sponsorship replacement fund |  | $25,000 | (25,000) |
| TOTAL | **2,900,000** | **52,500** | **2,847,500** |

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

Price is a key determinant of consumer decisions to drink alcohol and the volume and frequency that they drink[[7]](#endnote-7). Governments can use taxation to direct Australians to safer consumption options and reduce harm including among specific high-risk populations such as young people and heavy drinkers.[[8]](#endnote-8) Taxation is the most effective alcohol harm prevention measure,[[9]](#endnote-9) and is also likely to be the most efficient.[[10]](#endnote-10) A well-designed alcohol tax system reduces harmful alcohol consumption and addresses the spillover costs to the community including FASD, child maltreatment, domestic violence, road accidents, crime and violence, and increased mortality and morbidity associated with a range of acute and chronic medical conditions.

Alcohol may be taxed based on product value, or volume of pure alcohol such as through an excise. A volumetric tax can differentiate products on the basis of product strength so that higher strength products such as spirits are taxed at a higher rate per unit of alcohol than lower strength products such as beer. This allows tax to influence the level of alcohol consumption and consequent harm, by guiding behaviour with price signals towards less harmful products. It also means that heavier consumers of alcohol pay more tax and thereby contribute more to addressing the spillover costs of alcohol use. The volumetric tax on beer in Australia used since the 1980s[[11]](#footnote-1) has helped shift preferences to low-strength beer, which now accounts for 20 per cent of the total Australian beer market with XXXX gold, a low-strength beer, Australia’s biggest selling brand.[[12]](#endnote-11) Shifting preferences away from higher strength products which can contribute to higher rates of intoxication, can help to reduce alcohol-related harm.

In Australia, beer, spirits and some ciders are taxed on a volumetric basis using multiple different rates, while wine and other fruit-based products, including traditional cider, perry, mead and sake are taxed based on value through the Wine Equalisation Tax (WET). The WET is 29 per cent of the wholesale price of wine and other fruit based products, a rate which has not been increased since its introduction in the 2000-01 financial year. No tax is applied to exported wines. The WET is considerably less per unit of alcohol than the tax on beer and spirits and so generates much less taxation revenue as a proportion of consumption.

As shown in Figure 1, wine and cider accounted for 39.8 per cent of alcohol consumed in 2013-14, but only represented 13.9 per cent of alcohol tax receipts. More recent data indicates that in 2015-16, wine accounted for more than 37 percent of the total apparent consumption of alcohol, but the WET only accounted for 14 percent of total revenue raised by taxes on alcoholic beverages[[13]](#endnote-12). This translates to significant taxation revenue foregone since 2000 by not taxing wine according to alcohol volume, which is estimated to amount to billions of dollars. Indeed, the Australia Institute estimates that the level of subsidy provided to the wine industry is in excess of $1 billion per year, most of which reflects the inconsistent approach and lower effective tax rate on wine.[[14]](#endnote-13)

**Figure 1. Alcohol consumption and tax receipts 2016-17**

Sources: Commonwealth of Australia (2017) *Final Budget Outcome 2016-17*, and the Australian Bureau of Statistics (ABS) *Apparent consumption of alcohol 2016-17*.

Table 2 illustrates the variation in tax rates across alcoholic beverage classes, with lower rates applied to wine. Spirits are taxed at a rate of ($79.38/Lal) that is 28 times greater than the WET applied to cheap cask wine ($2.99/Lal). The tax applied per unit of alcohol to a premium ($40) bottle of wine ($45.52/Lal) is more than 15 times that applied to cheap cask wine ($2.99). Cask wine has the potential to be a particularly harmful alcoholic product in that vast quantities can be consumed at a very low cost and, alarmingly, the price of cask wine is effectively being subsidised by the Government.

As a value-based tax, the WET is unable to act as a price lever to guide consumers to less harmful products and contribute to lower consumption levels in the way that the volumetric tax on beer and spirits can. Being a value-based tax also limits the Government’s ability to bring wine taxation into line with taxation for other alcohol products, because increasing the rate of the WET will exacerbate the incentive for the production of cheap wine.

**Table 2. Effective excise rates 2016–17**

| **Alcohol type** | **Effective rate ($/Lal)** |
| --- | --- |
| Non-commercial beer, low-strength | 1.76 |
| Non-commercial beer, mid- to full-strength | 2.59 |
| Draught beer, low-strength | 4.99 |
| Draught beer, mid-strength | 17.40 |
| Draught beer, full-strength | 26.14 |
| Packaged beer, low-strength | 24.97 |
| Packaged beer, mid-strength | 32.36 |
| Packaged beer, full-strength | 37.11 |
| Brandy | 76.25 |
| Spirits | 81.65 |
| RTDs | 81.65 |
| Wine, $15 cask (4L) | 3.09 |
| Wine, $7 bottle | 8.23 |
| Wine, $15 bottle | 17.64 |
| Wine, $40 bottle | 47.05 |

*Source: Parliamentary Budget Office (2017). Trends affecting the sustainability of Commonwealth taxes. Repot no. 02/2018.*

**The WET fuels harm from cheap wine**

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]](#endnote-14) Examination of alcohol affordability indexes since the introduction of the WET supports this assertion. Figure 2 demonstrates affordability indexes (average ordinary wages divided by consumer price indexes) for spirits, wine and beer, as well as alcohol collectively in Australia since the introduction of the WET in 2000. It shows that the affordability of alcohol collectively has increased by six per cent from 2000-2017, largely driven by growth in the affordability of wine which has increased by 44 per cent since June 2000. This has occurred in spite of marginal reductions in the affordability of beer and spirits over this period. The affordability of spirits remained relatively stable in the early 2000s, with a sharp reduction in affordability coinciding with the introduction of the alcopops tax in 2008. The gradual decline in beer affordability was potentially driven by trends in the production of boutique and premium brands.

**Figure 2. Affordability Index of Alcohol, 2000 to 2017[[16]](#footnote-2)**

*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]](#endnote-15),[[18]](#endnote-16),[[19]](#endnote-17) and injury.[[20]](#endnote-18) Over prolonged periods, dangerous patterns of alcohol consumption can result in a range of chronic diseases and disability.*[[21]](#endnote-19)* In 2010, 15 deaths and 430 hospitalisations occurred as a result of alcohol each day in Australia.[[22]](#endnote-20) Deaths due to alcohol have risen by a staggering 62 per cent since that time.*[[23]](#endnote-21)* For men, injuries accounted for more than one third (36 per cent) of alcohol-related deaths, while cancer and digestive diseases caused 25 and 16 per cent, respectively.[[24]](#endnote-22) 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]](#endnote-23)

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]](#endnote-24),[[27]](#endnote-25),[[28]](#endnote-26) as well as road traffic accidents,[[29]](#endnote-27) and child maltreatment.[[30]](#endnote-28) Alcohol is involved in between 23 per cent[[31]](#endnote-29) and 65 per cent[[32]](#endnote-30) 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]](#endnote-31) Children are also subject to considerable levels of alcohol harm. More than one in five (22 per cent) or 1 million Australian children are negatively affected by the drinking of others.[[34]](#endnote-32) 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]](#endnote-33) In addition to maltreatment and neglect, children can be affected by alcohol consumption prior to birth through FASD.[[36]](#endnote-34) 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]](#endnote-35)

## **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 fails to support small businesses. The WET Rebate was introduced in 2004 in an attempt to address this.[[38]](#footnote-3) It supports the growth of small businesses who have a turnover of up to $1.7 million per annum, but inhibits growth above this size. 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.

The WET Rebate is costly and economically distorting. It cost taxpayers $300 million in 2017-18.[[39]](#endnote-36) Treasury has acknowledged that the WET Rebate may be contributing to market distortions by preventing market consolidation and encouraging fragmentation of producers.[[40]](#endnote-37) This is reflected in low market concentration in the wine industry. Four businesses account for approximately 40 per cent of production,[[41]](#endnote-38) but the majority of the market is comprised of smaller firms. The WET Rebate 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 of larger operations, and, in combination with the WET itself, has encouraged the production of large volumes of harmful cheap wine.

In the 2016-17 Budget, the Government announced intentions to tighten eligibility for the WET Rebate and reduce it from $500,000 per annum to $350,000, and eventually $290,000. Following consultation, the WET Rebate was retained at $350,000 per annum given concerns that scaling it back would render small production outfits unsustainable. This highlights that so long as the WET continues, the WET Rebate will be needed for boutique and premium wine producers to survive. A new Wine Tourism and Cellar Door grant of $100,000 per annum has also been introduced meaning that the level of subsidy will remain largely unchanged.

Boutique and premium wine producers, who are selling at a higher price point than mass produced wines, can remain viable under a volumetric taxation approach that taxes wine based on alcohol content and susceptibility to harm. A phased transition to this approach, with gradual scaling back of the WET Rebate will be needed to prevent resistance and blocking by the wine industry. The end result, however, will be a more level playing field for them and small wine producers.

# Erosion of the tax base

Government indirect tax collections have been in steady decline over recent years. In the period
2000-01 to 2016-17 indirect taxes slid from 7.3 per cent of GDP to just six per cent.

In the case of alcohol, a 2018-19 pre-budget submission by Glenys Byrne showed tax revenue from all specific taxes on alcoholic beverages as a share of both total Government taxation revenue and GDP has been in steady decline over the past five years and earlier, and these trends are projected to continue through to 2021-22.

Byrne showed that Commonwealth revenue from specific taxes on alcoholic beverages declined by 0.7 per cent in 2016-17 when total taxation revenue grew by 5.2 per cent and nominal GDP increased by 5.7 per cent. Also, between 2013-14 and 2016-17, reported Commonwealth revenue from alcohol taxes grew by less than half the rate of growth in total Commonwealth taxation revenue.

Over the same period, alcohol tax revenue fell as a share of GDP from 0.37 per cent to 0.35 per cent, or by almost five per cent. This decline reflected very slow growth in reported revenue from excise and excise-equivalent customs duty, averaging less than one per cent a year, despite the fact that excise rates are indexed to the Consumer Price Index (CPI). And, while WET revenue was stable at 0.05 per cent of GDP between 2013-14 and 2016-17, this is more than 40 per cent lower than the share of GDP in 2003-04.

According to Byrne, if alcohol taxes had maintained their proportionate value an additional $1.4 billion would be collected. She forecasts that this situation will progressively worsen unless corrective action is taken by governments.

Byrne points out the capacity of alcohol excise to raise revenue efficiently and effectively is constrained by the inconsistent taxation arrangements for different alcoholic beverages. This view is shared by the Parliamentary Budget Office (PBO) which noted the decline of alcohol excise was due to two factors: overall decline in consumption and the switch in alcohol consumption from beer to wine.

If alcohol was taxed equally on a volumetric basis, a shift in consumer preferences from one alcoholic beverage to another, all other things being equal, wouldn’t affect total alcohol tax receipts. However, as most beer categories are subject to a higher effective rate of taxation than most of the wine consumed in Australia, a reduction in the alcohol excise tax base and corresponding increase in the wine equalisation tax base will result in alcohol tax receipts continuing to fall as a share of the economy.[[42]](#endnote-39)

The PBO notes that while wine consumption per person has increased, WET receipts have not, and that “this is in part because WET is levied on the value of the wine, and wine prices have decreased since 2001–02". The PBO concludes that:

If alcohol consumption patterns continue to change in line with current trends, this will lead to a deterioration of the alcohol excise tax base and therefore weaker alcohol excise receipts.

Without addressing the market-distorting taxation arrangements that currently exist, the Government risks further erosion of the tax base, a risk the Government has a duty to be managing prudently under the *Charter of Budget Honesty Act 1998 (Cth).*

# Widespread and increasing support for alcohol tax reform

## **Alcohol industry support**

There is strong evidence of support for alcohol taxation reform within the alcohol industry. The Distilled Spirits Industry Council of Australia[[43]](#endnote-40) and Brewers Association both support the introduction of a volumetric tax on wine.[[44]](#endnote-41) Two of the largest wine producers, Treasury Wine Estates and Pernod Ricard Winemakers (formerly Premium Wine Brands), who collectively represent 20.1 per cent of Australian wine production support reform of the WET.[[45]](#endnote-42) 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”.[[46]](#endnote-43) The former Chief Executive of Treasury Wine Estates, 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”.[[47]](#endnote-44) Pernod Ricard Winemakers have also criticised the WET and advocated for a volumetric system.[[48]](#endnote-45)

Anecdotally, several other small and medium-sized producers have acknowledged 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”.[[49]](#endnote-46) 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”.[[50]](#endnote-47)

## **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 while the proportion that do not support increasing the tax has reduced to 37 per cent (see Figure 3).[[51]](#endnote-48)

**Figure 3. 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. Research commissioned by FARE, as demonstrated in Figure 4, suggests people who most often consume cask wine likely represent only 4.6 per cent of drinkers. In contrast, consumers of bottled wine, who stand to benefit under the proposed tax reforms, represent the largest group with close to one third of drinkers (29.1 per cent) reporting that they most often consume bottled wine.

**Figure 4. 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, including at Commonwealth and State and Territory levels, have recommended volumetric taxation for wine.[[52]](#footnote-4) Two reviews provide particularly strong evidence of harm from the WET and present compelling cases for its reform: the 2010 Henry Review, and the 2017 five-year productivity review by the Productivity Commission.

**Henry Review**

The 2010 Henry Review recommended the Commonwealth Government reform the WET as a matter of urgency.[[53]](#endnote-49) It highlighted that because cheaper wine is taxed less under the WET, the alcohol taxation system does not adequately address the spillover costs from alcohol. Consequently, the review recommended that volumetric alcohol taxes bet set at a rate to address the spillover costs to the community imposed by alcohol consumption. Specifically, the review 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 referred was explored at the Melbourne Institute – Australia’s Future Tax System Conference. This conference found that the effective duty per litre of pure alcohol was on average $27, while the spillover costs per litre of pure alcohol ranged between $36 and $59.[[54]](#endnote-50) 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). This very low rate of taxation contributes to large net spillover costs which are ultimately borne by taxpayers under current arrangements.

**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)[[55]](#endnote-51) and urged the Commonwealth 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.

In its report, the Productivity Commission suggested a transitionary arrangement to facilitate reform of the alcohol tax system, particularly with respect to wine. It provided several options for such a transition, including imposition of a volumetric rate alongside the current WET, which may be gradually raised over time to reduce capacity for the production of cheap alcohol and calibrated to reflect harm 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 through a staged approach

Given the very large disparity in taxation levels for wine compared to other beverages, a staged approach to the implementation of reforms is important to 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 WET and the new volumetric component, the volumetric tax should be gradually lifted to capture an increasing proportion of excessively cheap wine. This will allow the Government to control the extent and rate of change, while delivering appropriate returns in revenue.

**Figure 5. 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 5 above). The outcome of these reforms would be an equitable, efficient and healthy approach that empowers the Government with a lever to address spillover costs while providing a more 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. To start to address this disparity, the Government should increase all alcohol taxes by a minimum of 10 per cent.

|  |
| --- |
| **Price impacts of increasing all alcohol taxes by a minimum of 10 per cent**Based on excise rates at August 2018, tax on a 375 mL can of Victorian Bitter would change from 92c to $1.01, 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 $22.08 to $24.29, representing an increase of $3.21. This would equate to a 4.8 per cent increase on a carton costing $50. Similarly, the tax on a 700 mL bottle of Jim Beam would change from $23.66 to $26.02, representing an increase of $2.36. This would equate to a 6.2 per cent increase on a bottle costing $38. |

Through Computable General Equilibrium (CGE) modelling, ACIL Allens have found that the outcome of setting a volumetric tax for wine, set at a rate half-way between draught beer and spirits, and increasing all alcohol taxes by a minimum of 10 per cent would deliver additional revenue to governments of $2.9 billion per annum and reduce alcohol consumption by 9.4 per cent[[56]](#endnote-52).

**Recommendation**

1. **That the 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**
* **Fixing 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 WET Rebate**
* **Increasing all alcohol tax by at least 10 per cent, to address negative externalities associated with the liquor trade.**

# Simplify alcohol taxation for beer and end the favourable treatment of big beer

Reform of the alcohol taxation system must also prioritise simplifying alcohol excises for beer. There are eight different excise categories for beer, effective 1 August 2018, and seven different rates levied on commercially produced beer[[57]](#endnote-53). The Henry Review and the five year Productivity Commission review have both recommended phasing out alcohol excise categories that provide concessional treatment for specific products.

One such area for reform is the concessional treatment of draught beer that currently has a lower taxation excise than packaged beer. This measure is unfair and distorts the market to reward economies of scale, hence being detrimental to Australia’s smaller boutique craft brewers. There is no evidence that draught beer consumed at licensed premises is less harmful than packaged beer. Accordingly, the tax on draught beer should be increased to match that applied to packaged beer to allow fair competition for smaller producers, increase government revenue and help to address the spillover costs imposed by the alcohol industry.

Similarly, it is crucial that the government abandon its proposal to extend the tax concession currently applied to beer in kegs greater than 48 litres, to those with a capacity between eight to 48 litres inclusive. This proposal is unsupported by any prior governmental reviews of alcohol taxation, or any other publically-available economic modelling. It will further increase the complexity of the alcohol taxation system, further erode tax revenue and has the potential to increase consumption of draught beer by lowering its price. The likelihood that this measure will deliver on its intention to better financially support craft brewers is questionable. Anecdotally, craft brewers have indicated that kegs of 8 to 48 litres are not standard in the craft brewing industry[[58]](#endnote-54) and it is unclear what proportion of craft brewers use or desire these smaller kegs. Also, because the four largest beer production companies accounted for just under 70 per cent of industry revenue in 2018-19[[59]](#endnote-55), it is unclear what proportion of the proposed benefit from the tax concession will flow to smaller craft producers rather than these large corporate brewers.

**Recommendation**

1. **That the Government lift the concessional 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 prevent alcohol harm

# 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 alcohol-related harm directly by increasing awareness of harms and how to minimise them.

The cost of alcohol misuse to Australian families, particularly 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.[[60]](#endnote-56) Children are directly affected by alcohol consumption during pregnancy through FASD, which incorporates a range of debilitating lifelong conditions that cause suffering by individuals and their families, and that place significant burdens on the healthcare and judicial systems.

FARE has developed and coordinated two programs to reduce drinking during pregnancy. They are Pregnant Pause, encouraging peer support for abstention from alcohol while pregnant, and Women Want to Know, which targets primary healthcare professionals to give women the best advice in relation to drinking while pregnant. The Women Want to Know program has secured ongoing funding, and the Pregnant Pause program has been implemented nationally 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.

## **Prevent lifelong disability from alcohol use during pregnancy: Pregnant Pause and Women Want to Know**

The Pregnant Pause program was introduced to encourage partners, family and friends to support women to abstain from alcohol while trying to conceive and during pregnancy by going alcohol free themselves during 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.[[61]](#footnote-5) 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, 40 per cent report that their partner usually initiates a drinking occasion.[[62]](#endnote-57)

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.

The Women Want to Know program was developed in 2014 to encourage health professionals to routinely discuss alcohol and pregnancy with women, and to provide advice consistent with the Alcohol Guidelines. A detailed evaluation in 2016 demonstrated evidence of the program’s effectiveness in helping to raise awareness of the 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 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.

FARE has developed and submitted a proposal for a coordinated ongoing effort to reduce the harms associated with alcohol consumption during pregnancy to the Commonwealth Department of Health and Ageing. It is intended that this project will be implemented in stages, with the first intervention and activities to be tested in the Australian Capital Territory and surrounding regions prior to expansion to other jurisdictions. The proposed project intends to achieve by 2022, an increase by:

* 10 per cent, the proportion of Australians over 18 years who are aware of the Alcohol Guideline for pregnancy
* 10 per cent, the proportion of Australians over 18 years who agree that it is not acceptable for women to drink alcohol during pregnancy
* 90 per cent, the number of women aged 18 to 40 that can accurately identify the safe level of drinking while pregnant
* 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
* 20 per cent, annually, the number of people registered with the Pregnant Pause campaign.

**Recommendation**

1. **That the 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.**

## **Deliver a nation-wide public education campaign about the long-term effects of alcohol consumption**

Too many Australians are unaware of the relationship between alcohol and a range of health problems. 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.[[63]](#endnote-58) Yet, only 11 per cent of Australians are aware of the link between alcohol and breast cancer, and only 24 per cent are aware of the link with mouth and throat cancer.[[64]](#endnote-59)

Awareness of the Alcohol Guidelines which advise on how to minimise the harm associated with alcohol consumption, is also low. Just over half (54 per cent) of all Australians are aware of the Alcohol Guidelines, but relatively few (12 per cent) are confident that they know the content of the Alcohol Guidelines.[[65]](#endnote-60) When asked about the details of the Alcohol Guidelines, 41 per cent of Australians were aware that to avoid long-term harms from alcohol, the maximum number of standard drinks a person can have in a day is two. [[66]](#endnote-61) Only nine per cent were aware that to avoid short-term harms from alcohol use, the maximum number of standard drinks that can be consumed is four.[[67]](#endnote-62) Lack of awareness of the Alcohol Guidelines around alcohol consumption and pregnancy is reflected in the 20 percent of Australian women who continue to drink alcohol after knowing they are pregnant,[[68]](#endnote-63) despite there being no known safe level of alcohol consumption during pregnancy.

So long as there is no public education campaign about the harms of alcohol consumption and how to reduce these, the only messages that Australians will receive about alcohol are those 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.[[69]](#endnote-64)

In Australia and internationally, social marketing campaigns have been effectively used to raise awareness of the harm 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 raised awareness and changed behaviours when planned, well executed, with good audience exposure and implemented in conjunction with other prevention activities, such as high visibility policing for drink driving prevention.[[70]](#endnote-65) These campaigns reduced alcohol-impaired driving and alcohol-related crashes. A review of 26 studies of tobacco mass media campaigns found that campaigns undertaken as part of a broader comprehensive tobacco control program with sufficient population exposure promoted quitting and reduced adult smoking prevalence[[71]](#endnote-66).

Internationally, other countries have been more active in educating their populations about alcohol harm. For instance, England 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 effects the organs in the body. This was again supported through television and radio advertisements, as well as toolkit for health professionals and consumer resources. [[72]](#endnote-67) 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.[[73]](#endnote-68)

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 education 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.[[74]](#endnote-69)

**Recommendation**

1. **That the Government fund a nation-wide public education campaign to highlight the harms associated with alcohol consumption and strategies that individuals can use to minimise their risk ($100 million over four years).**

## **Remove alcohol sponsorship from sport**

Alcohol advertising features prominently in sporting events and culture in Australia. Alcohol brands are in regular view of the public, both on sports grounds 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), which promotes a view that alcohol and sport are intrinsically linked.

Alcohol sponsorship in sport is associated with hazardous drinking by sporting participants,[[75]](#endnote-70) and communicates strong messages about alcohol brands and drinking that are absorbed by children. 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 likelihood that they had been drinking in the past 30 days.[[76]](#endnote-71) 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.[[77]](#endnote-72)

As shown in Figure 6, support among the Australian community for banning alcohol sponsorship is strong and growing with more than 50 per cent of persons surveyed in the 2016 National Drug Strategy Household survey supporting this. A VicHealth survey also reported that 83 per cent surveyed supported the removal of alcohol sponsorship from sporting clubs if help is given to replace lost revenue[[78]](#endnote-73).

Many countries have already successfully removed alcohol sponsorship from sport without any significant impact including France, Qatar, Norway, Denmark, Croatia, Russia and others.[[79]](#endnote-74)

France successfully renamed and held the Heineken Cup Rugby competition – now ‘H-Cup’ in France, as well as the UEFA Euro 2016. The Football World Cup hosted in Russia (2018) and forthcoming in Qatar (2022) also suggest that the removal of alcohol sponsorship does not diminish sport or the capacity to host international sporting events.

Sport has successfully transitioned away from reliance on tobacco advertising. It is 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 harm associated with excessive consumption of alcohol. 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).[[80]](#endnote-75)

**Recommendation**

1. **That the Government phase out alcohol sponsorship in sport by investing $100 million over four years in the implementation of an Alcohol Sponsorship Replacement Fund.**

**Figure 6. 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*.

##

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