Pre-Budget submission 2017-18

Submission to Treasury





January 2017

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 reduce 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 reduce alcohol harms by supporting world-leading research, raising public awareness and advocating for changes to alcohol policy.

In that time FARE has helped more than 750 communities and organisations and backed over 1,400 projects around Australia.

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.

Contents

Introduction

Alcohol harm and its associated costs are significant. Each day, 15 Australians die and a further 430 are hospitalised because of alcohol.[1] These figures understate the significant impact that some individuals' alcohol use has on others, including violence on our streets and in our homes, vandalism, road traffic accidents, child maltreatment and neglect, and lost productivity in the workplace.[2]

The level of harm that children sustain as a result of alcohol consumption is unacceptable. 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 use during pregnancy, which may 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.

The burden on all levels of government of responding to these harms is substantial. This includes the cost of alcohol treatment services, hospitalisations, emergency department presentations, policing, paramedic services, justice services (courts and corrections), child protection, and family and domestic violence services. These services are variously provided directly by governments or by their agents in the not-for-profit sector at a considerable cost to taxpayers. These costs are in excess of gross alcohol tax collections by governments.

The Foundation for Alcohol Research and Education (FARE) welcomes the opportunity to provide a pre-budget submission for the 2017-18 Australian Government Budget. FARE's submission will outline the broad support for alcohol tax reform to address economic distortions that result in perverse incentives for the production of cheap alcohol. The proposed reforms will enable meaningful policy interventions to reduce rates of alcohol harm, including better resourcing of interventions to reduce rates of Fetal Alcohol Spectrum Disorder, eliminating harmful alcohol messaging in sport, and providing additional resources for better coordination between alcohol and other drug and family violence services. Such policy measures will not only contribute to enhanced wellbeing, they are popular policy positions and may be entirely funded through much-needed reform of the alcohol tax system.

The Australian Government needs to urgently identify new sources of revenue to help bring the budget deficit back under control. Reforming the alcohol tax system to eliminate economic distortions and provide a more equitable system for producers will deliver additional revenue for that purpose. In addition to improving the budget, transitioning to a volumetric tax for wine and cider (the same rate that applies to other alcohol products) will deliver significant benefits to the health and wellbeing of all Australians.

FARE's 2017 tax proposal

1. **Prioritise children to reduce the burden placed on them by the drinking of others and establish healthy attitudes to alcohol.**

2. **Phase out alcohol sponsorship of sporting and cultural events, facilitating adjustment through an Alcohol Sponsorship Replacement Fund of $100 million over four years.**

3. **Work with states and territories on programs to reduce family and domestic violence. This should include:**

   - funding states and territories to develop jurisdiction-specific models of care for Alcohol and Other Drug (AOD) and family violence services to work collaboratively ($1.6 million over one year)

   - supporting Alcohol and Other Drug (AOD) services to implement family-centred practice ($24 million over four years)

4. **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 of the risks of drinking alcohol during pregnancy

   - continuing to fund the *Women Want to Know* program with $1 million over four years to ensure women are being provided with the best advice about the risks of alcohol consumption during pregnancy.

5. **Fund these measures by reforming the alcohol taxation system, saving $2.9 billion annually and reducing consumption by 9.4 per cent. Phased reform of the alcohol tax system should include:**

   - transitioning to a volumetric system and discontinuing the Wine Equalisation Tax (WET) rebate

   - introducing a differentiated rate for wine, consistent with other alcohol products

   - increasing excise rates on all alcohol products by a minimum of ten per cent

   - indexing alcohol excise rates to average weekly ordinary time earnings, rather than the Consumer Price Index, to ensure that the cost of alcohol does not reduce relative to personal income.

Addressing alcohol's harm to children

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.[5] 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,[6] 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.

Alcohol harms among Australian children may be reduced through the following initiatives:

- establishing an alcohol marketing replacement fund to phase out alcohol sponsorship in sport
- conducting a nation-wide campaign on alcohol and pregnancy
- continuing to fund *Women Want to Know*, a health awareness program on alcohol and pregnancy for health professionals.

Recommendation

1. That the Australian Government prioritise children to reduce the burden placed on them by the drinking of others and establish healthy attitudes to alcohol.

Remove alcohol advertising from sport

In May 2016, the National Rugby League (NRL) partnered with Carlton & United Breweries and *The Daily Telegraph* to give away free cans of New South Wales Blues-branded Victorian Bitter (VB) beer with each newspaper sold (see Figure 1, below). If alcohol sponsorship had not already pushed the bar too far, now fans could sip from cans of alcohol that were dressed like their sporting heroes.

A variety of 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.[7] 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.[8] 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.[9] 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.[10]

Figure 1. VB NSW Blues promotion in The Daily Telegraph

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.[11] 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.[12]

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.[13,14]

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,[15] 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.[16] 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.[17] 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.[18] 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.[19]

This type of alcohol marketing is visible by 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 $20 million over 4 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).[20]

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 supports a ban on alcohol sponsorship at sporting events.[21] Sport has successfully transitioned away from reliance on tobacco advertising. It is now time to address its growing reliance on alcohol.

Recommendation

2. That the Australian Government phase out alcohol sponsorship of sporting and cultural events, facilitating adjustment through an Alcohol Sponsorship Replacement Fund of $100 million over four years.

Reduce alcohol-related family violence

Alcohol is a significant contributor to family violence in Australia. Across New South Wales, Victoria, Western Australia, and the Northern Territory there were 29,684 incidents of alcohol-related family violence reported to police in just one year.[22] Alcohol was involved in between 23 per cent[23] and 65 per cent[24] of family violence incidents reported to police in these jurisdictions. More recently, research has identified that alcohol is involved in 34 per cent of intimate partner violence incidents and 29 per cent of family violence incidents.[25] In addition, alcohol-related intimate partner violence incidents were more likely to result in either a physical (34.4 per cent) or psychological injury (20.6 per cent) compared with these that did not involve alcohol (19.6 per cent physical; 13.0 per cent psychological).[26]

Alcohol consumption also contributes to child abuse and neglect, including children being left unsupervised, left in an unsafe situation, or being verbally or physically abused. An estimated 10,166 Australian children are in the child protection system at least partly due to the drinking of a carer, and an additional 142,582 are substantially affected by someone's alcohol consumption.[27] In New South Wales, Victoria, Western Australia, and the Northern Territory, carer alcohol abuse is associated with between 15 per cent and 47 per cent of substantiated child abuse cases.[28]

Despite the significant involvement of alcohol in family violence, government actions to prevent family violence rarely give serious consideration to alcohol and its contribution to family violence. No plans, at any level, address the issue adequately. This is a significant failing of Australia's response to family violence to date.

Action is needed to prevent alcohol-related family violence. This includes greater collaboration between the family and domestic violence and Alcohol and Other Drugs (AOD) sectors. All jurisdictions need funding to develop and maintain integrated Models of Care for alcohol-related family violence. It is important that states and territories develop and implement their own Model of Care to encourage collaboration and enable various sectors to work together to determine the most appropriate support mechanisms for the client. To this end, a Model of Care would require:

- common risk assessment frameworks and a shared understanding of alcohol and family violence
- inter-sectoral and joint training
- a standardised approach to information sharing.

AOD services also need funding for training and implementation of evidence-based guidelines on family-centred practice. Strategies are needed for working with clients experiencing family and domestic violence, including the development of clearly defined referral processes if child abuse or neglect is identified or suspected.

Perpetrator programs that directly target alcohol use are also needed. One such program is the award-winning 24/7 Sobriety Program which was first introduced in South Dakota in the United States in 2004. The program required people arrested or convicted for alcohol-related offences to take two alcohol breath tests a day or wear a continuous alcohol monitoring bracelet with immediate, consistent yet modest sanctions. Specifically, an offender who refused or failed a test would be taken into immediate custody and appear before a judge within 24 hours. The program originally targeted repeat drink drivers but has since been modified to include other alcohol-related crimes (including family violence) and adopted in more jurisdictions across the United States.[29] The 24/7 Sobriety Program resulted in a nine per cent reduction in intimate partner violence arrests.[30]

A pilot based on the 24/7 Sobriety Program should be implemented in one Australian jurisdiction with support from the state or territory government. The program should be fully evaluated and findings from this evaluation used to determine whether a greater rollout should occur across the country.

Recommendation

3. That the Australian Government work with states and territories on programs to reduce family and domestic violence. This should include:
    - funding states and territories to develop jurisdiction-specific models of care for Alcohol and Other Drug (AOD) and family violence services to work collaboratively ($1.6 million over one year)
    - supporting Alcohol and Other Drug (AOD) services to implement family-centred practice ($24 million over four years)

Reduce rates of Fetal Alcohol Spectrum Disorder

Reach expectant mothers through a FASD awareness campaign

There is no known safe level of alcohol consumption during pregnancy. For this reason, the National Health and Medical Research Council (NHMRC) *Australian guidelines to reduce health risks from drinking alcohol* (Alcohol Guidelines) state that "for women who are pregnant or planning a pregnancy, not drinking is the safest option".[31] Despite this, the National Drug Strategy Household Survey found that the majority (56 per cent) of Australian women had consumed alcohol during pregnancy and 26 per cent continued to drink after becoming aware of their pregnancy.[32]

Alcohol consumption during pregnancy is associated with a range of adverse outcomes, including Fetal Alcohol Spectrum Disorders (FASD). FASD is a lifelong disability resulting in a variety of issues including poor memory, difficulties with speech and language, cognitive deficits, difficulty with judgement, reasoning or understanding consequences of actions, as well as social and emotional delays.[33]

FASD conditions and other adverse outcomes stemming from alcohol consumption during pregnancy – such as low birth weights, stillbirth and miscarriage – are entirely preventable. However, awareness of the effects of alcohol consumption during pregnancy remains low.[34] A survey conducted in 2014 among women who had recently been pregnant or breastfed a baby found that 15 per cent believed that "drinking while pregnant is ok in moderation" and one per cent believed that "drinking while pregnant is not harmful to the fetus".[35] These false beliefs can be addressed through public education and social marketing interventions.

Social marketing involves the use of marketing methods to "design and implement programs to promote socially beneficial behaviour change".[36] These campaigns are more successful when well-funded, repetitive, and ongoing.[37] 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 through health professionals. The campaign rationale must clearly identify the target audience and the behaviour change sought, such as no alcohol consumption during pregnancy.[38]

FARE's *Pregnant Pause* campaign is an example of a consumer program and is currently being implemented in the Australian Capital Territory (ACT). *Pregnant Pause* encourages women who are pregnant, and their partners, friends and families, to pledge to avoid alcohol during pregnancy. By doing this, *Pregnant Pause* aims to create a strong support system to assist women to abstain from alcohol during pregnancy. This campaign provides a transferable model for a national consumer campaign.

Another example is the West Australian television campaign '*No alcohol during pregnancy is the safest choice'.* An evaluation found that three out of four women who had seen the campaign said it had made them consider the effects of drinking while pregnant. The majority said they would be extremely likely to stop drinking alcohol completely if they became pregnant in the future. Additionally, around half reported feeling confident to stop drinking alcohol if pregnancy due in part to the campaign.[39]

The need for a national campaign is supported by feedback from health professionals as well as the evaluation of the *Women Want to Know* project (outlined in the following section). A public education campaign would counter common misconceptions and reinforce the advice given by health professionals on alcohol consumption during pregnancy.[40]

A wider awareness raising campaign also aligns with specific actions that the Australian Government has outlined in its Action Plan to respond to the impact of FASD in Australia. FARE recommends a modest investment of $10 million over four years to develop and create the campaign.

Ensure expectant mothers receive the best advice from healthcare professionals

Health professionals have a key role in raising awareness of the risks associated with alcohol consumption during pregnancy. There is a 'window of opportunity' when a woman visits a health professional to discuss alcohol and pregnancy issues and provide information relevant to the individual. *Women Want to Know,* an initiative developed by FARE and funded by the Australian Government, is an example of a successful project that can achieve change in this area.

Women Want to Know promotes the Alcohol Guidelines among health professionals, providing them with resources to support conversations about alcohol with pregnant women. The program also works with leading health professional bodies including the Royal Australian and New Zealand College of Obstetricians and Gynaecologists (RANZCOG), Australian College of Midwives, and the Royal Australian College of General Practitioners (RACGP) to deliver accredited training to health professionals.

Women Want to Know was launched by Senator the Hon Fiona Nash in July 2014, and received renewed funding in July 2015 to continue to promote the project and training to health professionals. Funding for this program ceased in June 2016.

An independent evaluation of *Women Want to Know* found that the project has been successful in raising awareness of the Alcohol Guidelines among Australian GPs and specialists. There was also evidence key messages from the project had been picked up by health professionals and had a positive impact on their attitudes when discussing alcohol consumption with pregnant women. The evaluation recommended that *Women Want to Know* should be complemented by a broader campaign to raise awareness and understanding of alcohol and pregnancy among the wider population.

The results of the evaluation illustrate the need for ongoing investment in projects like *Women Want to Know.* The evaluation found that gaps in funding had resulted in reduced awareness about the project, a lack of continuity, and a lack of momentum. There is a need for ongoing promotion of *Women Want to Know*, with a particular focus on increasing the uptake of the online training and further refinement of the resources that are available based on the feedback received during the evaluation.

The funding required for this is estimated to be $1 million over four years and would include funding for a project manager, promotion and update of the online training courses, resource development, and pre and post evaluation surveys.

Recommendation

4. 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.
    - continuing to fund the *Women Want to Know* program with $1 million over four years to ensure women are being provided with the best advice about the risks of alcohol consumption during pregnancy.

Secure revenue by correcting the alcohol tax system

Consumer preferences on whether to drink alcohol, how much, and how frequently are most influenced by the price of alcohol. Alcohol taxation can direct consumers to beverages with lower alcohol content, which are associated with lower levels of harm. Tax on alcohol also influences consumption and harm among specific high-risk populations, including young people and heavy drinkers.[41] Evidence suggests that taxation is not only the most effective alcohol harm prevention measure,[42] it may also be the most efficient.[43] In addition to reducing harmful consumption, a well-designed alcohol tax system ensures that economic externalities are reduced by holding the alcohol industry more accountable for public expenses associated with its operation.

Alcohol taxes may be levied under a volumetric or ad valorem (value-based) system. A volumetric system applies tax on the basis of the amount of pure alcohol contained within the product (alcohol by volume). This form of 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 applied in this manner where the volume of product sold is of greater significance than the value, due to public health, environmental or supply constraint considerations.

Most alcohol products are taxed on a volumetric basis. 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 on the basis of 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 applied in Australia since the 1980s.[i] It was believed that a lower taxation rate for low-strength beer would result in consumption changes towards a less harmful product. These changes contributed to strong growth in the representation of low-strength beer in Australia's beer consumption, which now accounts for 20 per cent of the total Australian beer market.[44] XXXX Gold, a low-strength beer, is now Australia's biggest selling beer brand.

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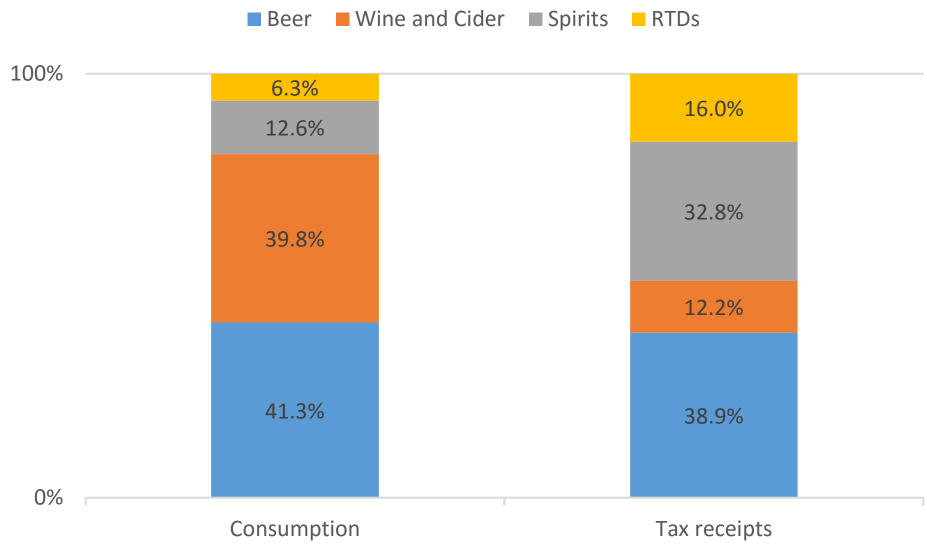
[i] Low-strength beer was first given a lowered tax rate in 1984 to encourage consumers to switch to less harmful products. Further changes in 1988 meant beer was taxed in the same way as spirits, on the basis of volume of alcohol. This resulted in beer being taxed significantly less than spirits for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

Unlike other alcohol products, which are subject to a differentiated volumetric tax, wine and cider are currently taxed on the basis of their value.[ii] In particular, the tax is levied at a rate of 29 per cent of the wholesale price of wine and cider under the Wine Equalisation Tax (WET). As a consequence, premium (higher priced) wine and cider products pay significantly more tax than cheap bulk wine.

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 12.2 per cent of alcohol tax receipts (see Figure 2). 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.[45] Increasing the rate of tax applied using an ad valorem system will exacerbate the incentive for winemakers to create cheap bulk product. A differentiated scale allows greater control over the quantity sold without creating such distortions.

Figure 2. Alcohol consumption and tax receipts, 2013-14

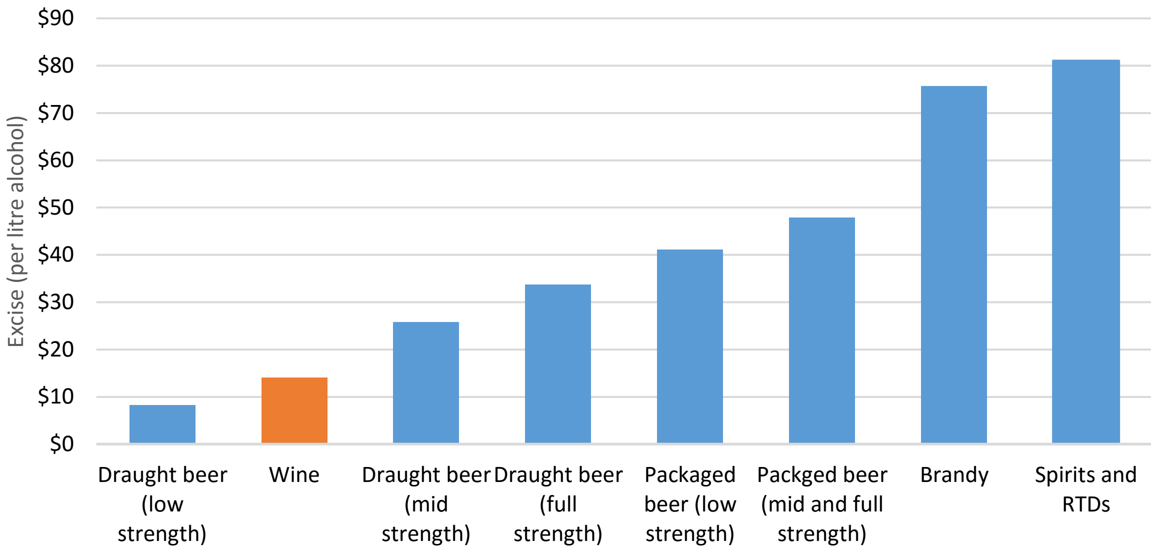


Sources: Commonwealth of Australia *Australian budget strategy and outlook 2013-14*, and the Australian Bureau of Statistics (ABS) *Apparent consumption of alcohol 2013-14*.

The current system is now a convoluted mix of different products being taxed by different methods. Figure 3 further illustrates the considerable variation in tax rates across product classes, including the low rate of tax applied per unit of alcohol to wine.

[ii] It is worth noting that no tax is applied to alcohol products that are exported.

Figure 3. Excise rates by alcohol product class



Source: Excise rates are current from the Australian Tax Office (ATO) from 1 February 2016. The excise rate for wine was calculated from modelling by the Allen Consulting Group.

Support for reforming the current alcohol taxation system

There is broad support for reform of the alcohol tax system. In addition to a variety of government reports recommending such reform (with many specifically recommending a transition to volumetric tax), alcohol industry businesses and representing bodies have also advocated for change. To date, at least ten government reviews have concluded that the alcohol tax system should be overhauled.[iii]

Foremost among these was the 2009 Henry Review, which determined that reforming the WET was a matter of urgency for the Australian Government.[46] In 2011-12, the Australian National Preventive Health Agency (ANPHA) concluded that the WET required reappraisal.[47] In its final report, ANPHA stated that, "There was strong endorsement from a wide range of stakeholders for a volumetric tax on all alcohol products and many noted, referring to the Henry Tax Review, that reform of the WET could have similar effects in reducing alcohol harm as those of a minimum price".[48]

The Henry Review stated that the "current alcohol taxes reflect contradictory policies… As a consequence, consumers tend to be worse off to the extent that these types of decisions to purchase and consume, which may have no spillover cost implications, are partly determined by tax".[49] The

[iii] Reviews that have recommended a volumetric tax be applied to wine include:

- 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 Australia's future tax system (Henry Review)
- the 2009 National Preventative Health Taskforce report on *Preventing alcohol related harms*
- the 2010 Victorian inquiry into strategies to reduce assaults in public places
- the 2011 WA 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*.

Henry Review recommended that alcohol taxes should be set to address the spillover costs imposed on the community of alcohol abuse.

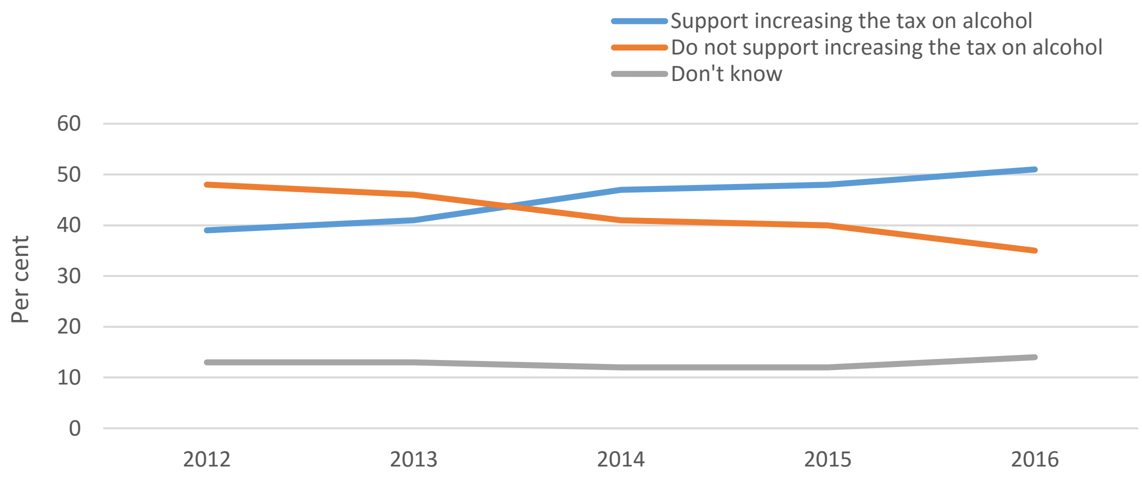
There is a common misconception that the wine industry is not supportive of alcohol taxation reform. To the contrary, there is now evidence of support from large, medium, and small producers within the industry. The Distilled Spirits Industry Council of Australia[50] and Brewers Association, for example, both support the introduction of a volumetric tax on wine.[51]

In addition, two of the largest wine producers and a variety of boutique producers are supportive of reforming the WET. Treasury Wine Estates and Pernod Ricard Winemakers collectively represent 20.1 per cent of Australian wine production.[52] 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".[53] 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".[54] Pernod Ricard Winemakers (formerly Premium Wine Brands) have also publicly criticised the WET, advocating instead for a volumetric system.[55]

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".[56] 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".[57]

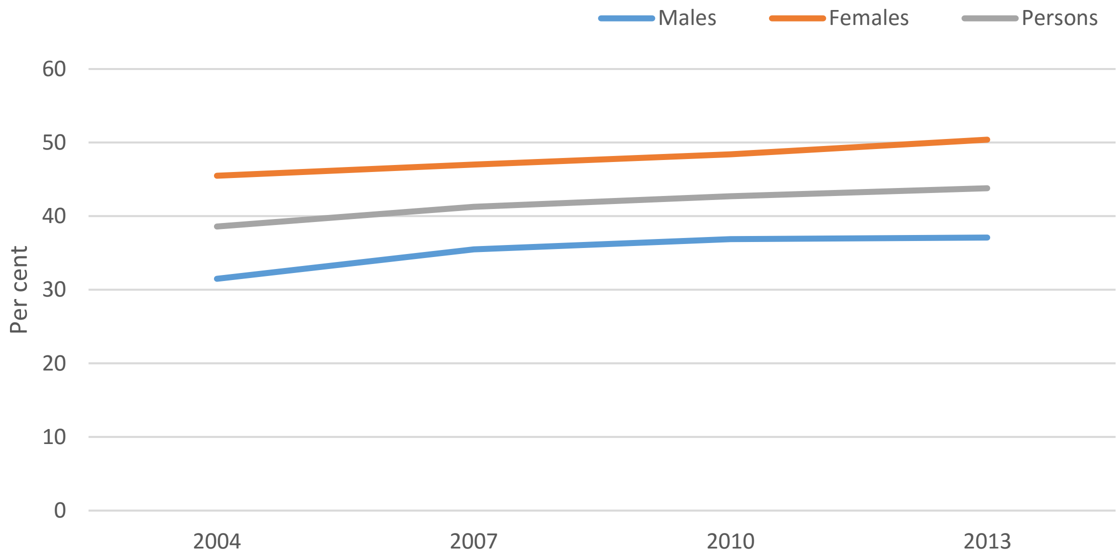
There is also increasing support for higher taxes on alcohol among the public. Independent polling conducted by Galaxy Research revealed that the majority (51 per cent) of Australian adults support increasing alcohol tax, while the proportion that does not support increasing the tax has reduced to 35 per cent (see Figure 3).[58] These findings mirror those provided by the Australian Institute of Health and Welfare, which has found growing support for increasing alcohol taxes (see Figure 4).[59]

Figure 3. Support for increasing tax on alcohol, 2012 to 2016



Source: Foundation for Alcohol Research and Education (FARE), *Annual alcohol poll*, 2012 to 2016.

Figure 4. Support for increasing tax on alcohol to pay for health, education, and the cost of treating alcohol-related programs, 2004 to 2013



Source: Australian Institute of Health and Welfare (AIHW). (2014). *National Drug Strategy Household Survey 2013*.

Reform the alcohol taxation system beginning with the WET and WET rebate

The most illogical component of the alcohol taxation system is the Wine Equalisation Tax (WET). Under the WET, wine and other fruit-based alcohol products are taxed based on their wholesale price, rather than alcohol content. The WET favours the creation of large volumes of cheap wine, cider and imitation spirits over other alcohol products.

This situation does not benefit the wine industry and it does little to support small producers. It does not meet community expectations that governments work to reduce alcohol harms rather than encourage them. Due to the incentive provided by the WET to produce cheap bulk alcohol, the value of Australian wine production has decreased while the volume has remained stable (see Figure 5).

The WET also results in significant foregone revenue that could be collected by taxing wine in the same volumetric alcohol taxation system applied to other beverages.

To make matters worse, the WET rebate subsidy[iv] introduced in 2004 has resulted in 90 per cent of wine being made by 24 producers.[60,61] In fact, 98 per cent of wine producers pay no WET after taking into consideration the receipt of the WET rebate, and many receive a net income from the rebate.[62]

The WET rebate was originally introduced to support small wine producers in rural and remote areas who were disadvantaged by the WET. However, the WET rebate now props up unviable producers who would otherwise not be able to compete in the market and discourages consolidation.[63]

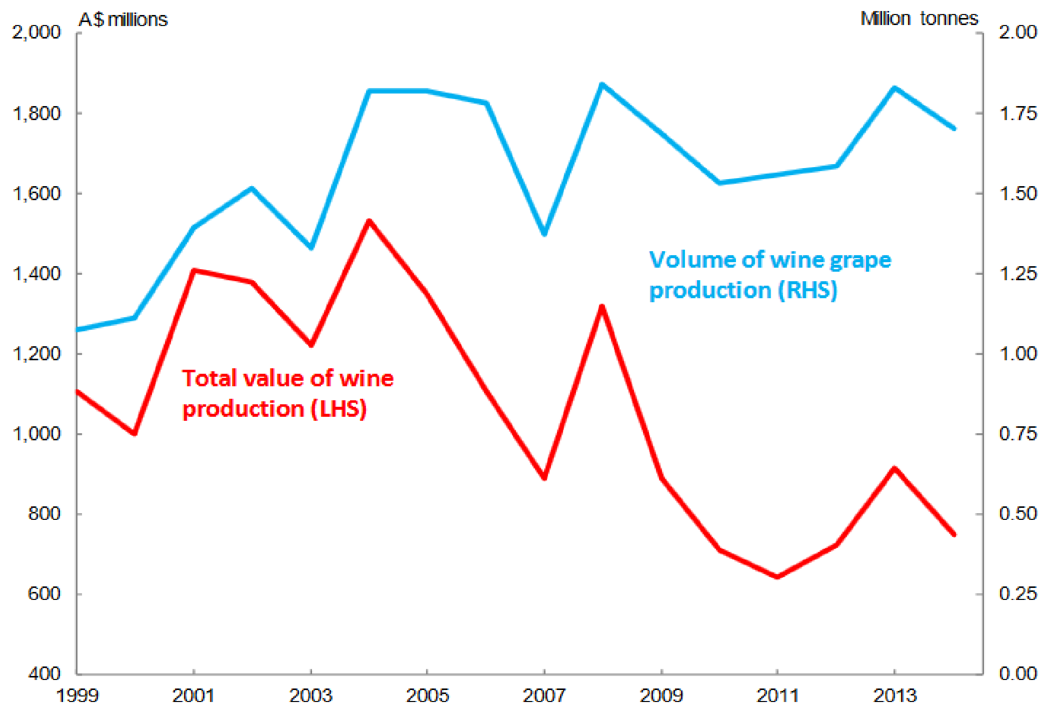
[iv] The WET Rebate entitles wine producers to a rebate on producer's assessable deals, up to a maximum of $500,000 each financial year. The WET Rebate applies to all products subject to the WET, and can be claimed by producers for up to $1.7 million in domestic wholesale wine sales. In 2005, the WET 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.

The WET rebate costs the Australian Government $333 million annually (2013-14), an amount that could have paid for the entire *National Drug Strategy* in 2013-14, which was $258.8 million. In fact, there would have been an additional $74.2 million available for alcohol and drug treatment services if the rebate did not exist. This is a strong incentive for change.

The 2016-17 Commonwealth Budget proposed minor changes to the eligibility of the WET rebate eligibility and these will go some way to addressing the rorting of the system that is occurring. It is clear, however, that the WET rebate has failed to meet its objectives and should be abolished.

FARE also proposes that the WET be transitioned to a volumetric tax through a phased approach. This would remove the incentive for wine and cider producers to prioritise the production of bulk cheap alcohol and deliver large and sustained health benefits.[64]

Figure 5. Wine grape volume and value, Australia, 1999 to 2014



Source: Reproduced from Treasury. (2015). *Wine equalisation tax rebate – discussion paper*. Canberra: Commonwealth Government.

Transitioning to a volumetric system

A staged approach to alcohol taxation reform needs to be established by the Commonwealth Government. This should particularly focus on how the WET and the WET rebate can be replaced with a volumetric tax system. A differentiated volumetric alcohol tax system recognises that higher strength alcohol products are more likely to be abused (through speed to intoxication) and seeks to address these issues through economic incentives. FARE has undertaken significant work on how this transition could take place and has outlined these steps below.

Phase 1 – Transitioning to a volumetric system and discontinuing the WET rebate

To prevent the continued production of cheap bulk alcohol and associated harm, the WET must move to a volumetric tax as a matter of urgency. In order to allow time for businesses and consumers to adjust to the changes, a transitionary arrangement could first set a rate that is revenue-neutral relative to the amount currently received under the WET. Independent modelling[65] suggests that this arrangement would result in:

- an increase in the price of non-premium cask wine of 28.54 per cent, and a corresponding 8.5 per cent reduction in cask wine consumption
- a small decrease (of less than one per cent) in the consumption of beer
- a decrease in total alcohol consumption of just under one per cent
- an increase in revenue of $73 million per annum (through taxes other than alcohol tax as a result of economic stimulus).

Under a volumetric system, it is no longer necessary to subsidise businesses disadvantaged by the current system. The WET rebate may, therefore, be discontinued, saving an additional $333 million per annum.[66]

A volumetric tax system would support the viability of smaller producers by taxing wine based on alcohol content rather than price. This would support premium wine brands and maintain the reputation of Australian wines internationally. As such, the $50 million in corporate welfare earmarked for the wine industry will not be necessary. Instead, boutique wines would be supported by an equitable alcohol tax system that rewards quality rather than bulk production. It is recommended, therefore, that corporate welfare to the wine industry is discontinued, with support to tourism and boutique wine exports provided by an equitable and economically sound volumetric approach.

Phase 2 – Introducing a differentiated rate for wine, consistent with other alcohol products

Wine should then be transitioned to a rate that appropriately reflects its alcohol content. Other alcohol products, including beer and spirits, are currently charged a differentiated volumetric rate based on their alcohol content. Stronger products, such as spirits, are charged a higher rate, reflecting their susceptibility to abuse and subsequent alcohol harm. To apply a rate of tax commensurate to its strength, wine should be taxed at a rate halfway between full-strength beer and spirits.

Modelling undertaken by ACIL Allen Consulting[67] suggests that, relative to current levels, this rate ($56.46/LAL at the time of research) would result in:

- an increase in tax revenue of $2.3 billion per annum
- a 30 per cent reduction in the consumption of cask wine
- a decrease in total alcohol consumption of 7.1 per cent.

Phase 3 – Increasing excise on all alcohol products by ten per cent

Finally, while excise rates have been indexed to the Consumer Price Index, they have reduced relative to income. To ensure that the cost of alcohol does not reduce relative to personal income in the future, excise rates should be indexed to average weekly ordinary time earnings. This approach would be consistent with excise rates applied to tobacco products and recognise that alcohol consumption should not increase with prosperity. To reinstate an appropriate level of excise, a ten per cent increase should be applied to excise on all alcohol products.

ACIL Allen Consulting modelling[68] suggests that moving wine and cider to a volumetric tax at a rate halfway between full-strength beer and spirits, and applying a ten per cent increase to excise charged on all alcohol products, would result in:

- a reduction of alcohol consumption by 9.4 per cent
- an increase in revenue by $2.9 billion per annum.

The reduction in consumption offers clear benefits to the community, with research demonstrating that volumetric taxation is effective in reducing alcohol consumption and consequent harms.

The restored rate of excise should then be maintained by indexing to average weekly ordinary time earnings, rather than Consumer Price Index. This will prevent the rate from reducing relative to personal income.

Recommendation

5. That the Australian Government reform the alcohol tax system through a phased approach that will save $2.9 billion annually and reduce consumption by 9.4 per cent. This should include:
   - transitioning to a volumetric system and discontinuing the Wine Equalisation Tax (WET) rebate
   - introducing a differentiated rate for wine, consistent with other alcohol products
   - increasing excise rates on all alcohol products by a minimum of ten per cent
   - indexing alcohol excise rates to average weekly ordinary time earnings, rather than the Consumer Price Index, to ensure that the cost of alcohol does not reduce relative to personal income.

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