AUSTRALIAN CHRONIC DISEASE PREVENTION ALLIANCE

Alcohol Pricing and Taxation

Position Statement

Key messages

- Alcohol consumption is a major cause of harm in Australia and is an important risk factor for a range of chronic diseases including cardiovascular disease, cancer, type 2 diabetes and chronic kidney disease. It may also contribute to the development of other major chronic disease risk factors such as high blood pressure and obesity and overweight.
- Increasing the price of alcohol through taxation is one of the most effective ways to reduce alcohol consumption and associated harms.
- Alcohol taxation measures should be implemented as part of a broader range of strategies including restrictions on alcohol advertising and marketing, improved licensing systems and adequate enforcement, to achieve the greatest reduction in alcohol related harms.

Recommendations:

- Australia's alcohol taxation system needs to be reformed to minimise alcohol-related harms.
- All alcohol products sold in Australia should be taxed on the basis of alcohol content through the introduction of a volumetric excise duty.
- Changes to tax levels should not allow prices for alcohol products to decrease, other than for low alcohol products.
- Modelling should be used to establish appropriate levels of taxation across beverage types to discourage harmful consumption and encourage safer consumption patterns.
- A minimum price per unit of alcohol (per standard drink) should be introduced to reduce substitution effects and to minimise the impact of alcohol discounting on consumption levels.
- The current Australian practice of adjusting excise taxes every six months in line with the CPI should be continued, so that alcohol prices are maintained in real terms.
- A proportion of alcohol tax revenue should be used to fund alcohol prevention and treatment programs and other costs arising from alcohol related injury and disease.
- The alcohol taxation system should be continually monitored and evaluated with research into potential improvements.

Alcohol related harm in Australia

Excessive alcohol consumption is a major contributor to both social and health-related harms in Australia. In 2004-05 the total cost of alcohol-related harm in Australia was estimated at $15.3 billion (1).

Alcohol consumption, especially at high levels, can increase the risk of developing a range of chronic diseases including cardiovascular disease, type 2 diabetes and chronic kidney disease. Alcohol is a cause of cancer and consumption at any level increases cancer risk. In addition alcohol consumption may contribute to the development of other major chronic disease risk factors such as high blood pressure and obesity and overweight. An overview of the evidence concerning alcohol use and

chronic disease risk is provided in the ACDPA Position Statement: *Alcohol and Chronic Disease Prevention*.

Alcohol is also a major cause of acute and social harms including intoxication, alcoholic poisoning, road accidents, falls, drowning, traumatic injuries, suicide and violence. Alcohol -related social costs include reduced workplace productivity and increased crime (2).

The risk of injury and harm from drinking alcohol increases with the amount consumed (3).

The link between alcohol price, consumption and related harms

Alcohol price is a key determinant of alcohol consumption levels and of the harmful use of alcohol (4).

There is strong and consistent evidence that higher alcohol prices decrease both alcohol consumption and alcohol related harms while lower prices increase them. This effect is seen in overall consumption as well as in heavy or problem drinkers, and in harms to the drinker as well as to others (4-8). It has been estimated that a price increase of 10 per cent reduces overall alcohol consumption by an average of 5 per cent with the demand for wines and spirits being more responsive to price than the demand for beer. (7;9)

Younger people amongst whom the risk of alcohol-related harms is particularly high (10)are especially responsive to alcohol prices (5-7). Increased alcohol prices have been shown to reduce the proportion of young people who are heavy drinkers, to reduce underage and binge drinking, to delay intentions among younger teenagers to start drinking and to slow progression towards drinking larger amounts. (5-7)

The role of alcohol taxation

The price of alcohol can be efficiently controlled by taxation. Hence alcohol taxation provides an effective lever to influence alcohol pricing to encourage more responsible consumption of alcohol and to minimise alcohol related harms.

Numerous international studies and reviews have found very strong evidence that higher alcohol taxation is effective in reducing both alcohol consumption and alcohol related harms. (5;7;11) Consequently, the use of increased alcohol taxation as an effective preventative strategy to reduce alcohol related harm has been strongly endorsed by a range of national and international health organisations, including the World Health Organization and Australia's National Preventative Health Taskforce. (12;13)

The Australian Government's comprehensive review of Australia's tax system (the Henry Review) also identified alcohol taxation as an appropriate measure for improving social outcomes in Australia because of the high costs imposed by excessive alcohol consumption. (14;15)

Alcohol taxation is a very cost-effective strategy for reducing alcohol related harms. One Australian study found that taxation measures could reduce the social costs of alcohol in Australia by between 14 and 39 per cent (or between $2.19 and $5.94 billion in 2004-05 dollars)(2). Another more recent study identified increased alcohol taxation as one of a limited number of highly cost-effective preventative health interventions with a large impact on population health that were not only cost-effective but cost-saving. This assessment was based on two scenarios: a 30% increase in tax, or a volumetric tax at 10% above the current excise on spirits (16).

Alcohol taxes received by government can further assist the reduction of alcohol-related harms by funding and/or recovering the costs of prevention and treatment programs.

Current alcohol taxation and pricing arrangements in Australia

Alcohol prices in Australia are controlled by three different federal taxes: the Excise; the Wine Equalization Tax (WET), and Customs. In addition to these, the 10% Goods & Services Tax (GST) is applied to all retail alcohol sales (15).

Under this system, different products – wine, spirits, beer, ciders and fortified wines - are taxed differently. The excise tax (applying to beer and spirits) is based on the volume of alcohol contained in the product, while the WET (applying to wine) is an ad valorem tax (based on the value of the product). Customs duties are a combination of both per-unit of alcohol and ad valorem levies.

Revenue from the taxation of alcohol in 2008–09 is estimated at $6.1 billion. This consists of $3.8 million from excise and the WET, $1.2 billion from the GST, and $1.1 billion in customs duty on beer, spirits and ready-to-drinks(15).

Limitations of current arrangements

A primary shortcoming of the current alcohol taxation system in Australia is that it is not based on public health or alcohol harm minimisation principles. Its incremental development has resulted in a medley of inconsistencies, which influence alcohol consumption and related harm in a way which does not encourage responsible consumption. There is substantial scope to improve the taxation system to better reflect the burden of illness and injury imposed by alcohol and to encourage more responsible consumption to minimise alcohol related harms.

Tax disparities

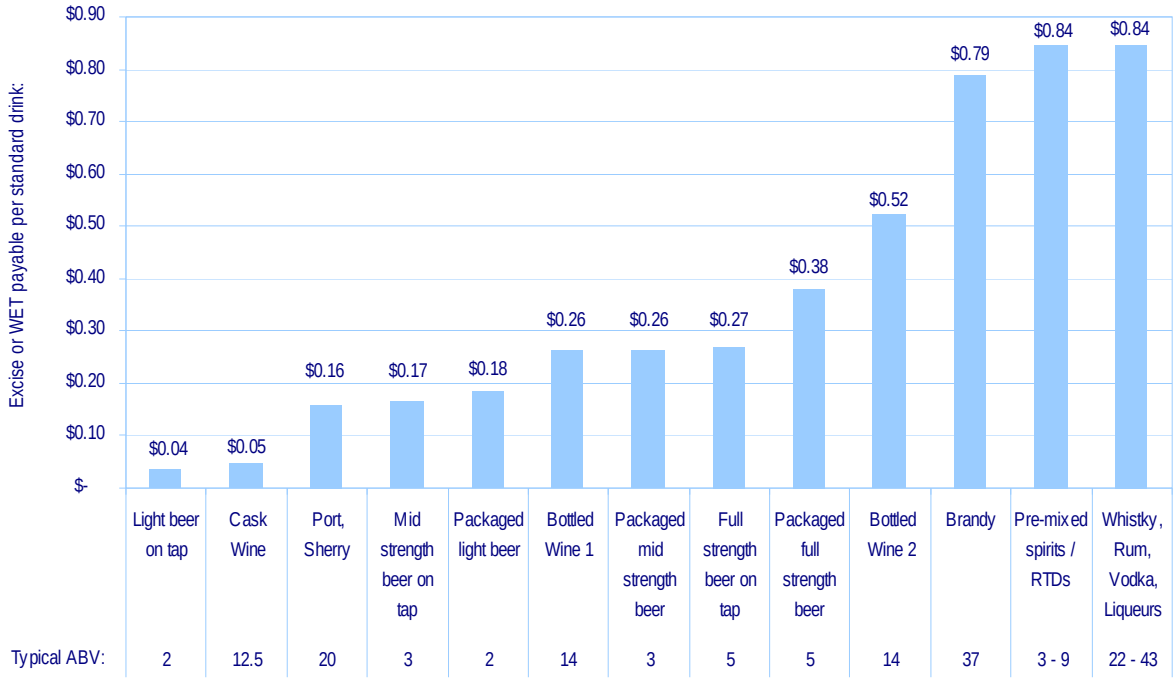
Currently, the tax payable by consumers per standard drink (10 grams of pure alcohol) for different types of alcoholic beverages varies considerably (see figure 1). These variations in tax payable do not on the whole reflect the relative contribution of different beverage types to alcohol-related harms. In Australia, regular strength beer (34.4%), spirits (30.5% for straight and premixed spirits combined) and wine (23.6% for cask and bottled wine combined) were identified as the main contributors to risky alcohol consumption in 2004, while mid or low strength beer was less likely to be drunk at risky levels (17).

From a public health perspective, some tax disparities are desirable, such as the reduced tax on low-strength beer as an incentive for its production and consumption. Other disparities are highly problematic especially where they provide incentives for the production and consumption of higher strength products. For example, the tax payable per standard drink for cheap cask wine with an alcohol content of 12.5% is only $0.05, whereas the tax payable per standard drink of mid-strength beer in a can/stubbie with an alcohol content of just 3% is $0.26.(18)

The World Health Organization recommends a volumetric taxation approach where tax is levied on the alcohol content per volume of product.(6) This approach has also been recommended in Australia by the National Preventative Health Taskforce and the Henry review of Australia's taxation arrangements (13;14).

Volumetric taxation has been shown to be highly cost-effective, especially at higher tax rates which do not allow the price of spirits to fall (16;19)): a volumetric tax set at the existing rate for spirits has been estimated to reduce consumption by 24% resulting in a net health gain of 170,000 disability adjusted life years (DALYs) and an increase in revenue of over$3 billion (19).

However, an across the board volumetric taxation rate may not take into account the levels of harm associated with particular beverage types. Consequently a tiered approach which allows products associated with the greatest levels of harm to be taxed at a higher rate, offers the greatest scope for minimising alcohol related harms.



Note: WET payable per standard drink of wine is based on a 4 litre cask of wine selling for $13.00 (incl. GST), a 750 bottle of wine selling for $15.00 (incl. GST) ["Bottled Wine 1"], a 750 bottle of wine selling for $30.00 (incl. GST) ["Bottled Wine 2"], and a 750 bottle of port selling for $13.00 (incl. GST). * A standard drink is equal to 0.001267 litres (or 10 grams) of pure alcohol.

Figure 1. Tax payable per standard drink* of alcohol, various products, Australia, June 2008. (20)

Substitution

Substitution effects in response to alcohol price rises or reduced affordability can encourage a shift to cheaper products although overall consumption is still reduced. (6-8). This is problematic when the substituted product has a higher alcohol content than the product it replaces. For example, some remote communities in Australia have banned or restricted the price of cheap wines, and so effectively increased the minimum price of alcohol. Although the overall effect was decreased harm in the communities (18), the benefit of the initiative was reduced by a shift to fortified wine, a higher alcohol product that was the next cheapest beverage (21). A more rational harm minimisation approach to alcohol taxation, together with a minimum price for alcohol per standard drink, may encourage substitution of high alcohol products with lower alcohol products.

Minimum pricing

Another problem with the current system is that it does not provide a minimum (or floor) price for alcohol products, per standard drink (10g pure alcohol). Alcohol products that are inherently inexpensive to produce and distribute can be sold very cheaply, irrespective of alcohol content. As a result high alcohol products can be cheaper than low alcohol products per standard drink. Alcohol discounting, sometimes to below cost prices, can also affect pricing and encourage increased consumption (7).

There is strong evidence that young, binge and harmful drinkers tend to choose cheaper drinks (5-7). As a result, establishing a minimum price for alcohol which raises the cost of alcohol at the cheapest end of the spectrum is likely to have a substantial impact on overall consumption levels and on drinkers at most risk of harm (7)

The National Preventative Health Taskforce recommended that the public interest case for introducing a minimum floor price for alcohol be developed to meet the requirements of the National Competition Council (13).

ACDPA Position

Alcohol is a hazardous and special commodity. Consumer products containing alcohol warrant specific taxation in addition to that applied generally to consumer products and services.

Australia's alcohol taxation system should be coherent, consistent and based on public health (harm minimisation) principles.

Increasing the price of alcohol through taxation is one of the most effective ways to reduce alcohol consumption and associated harms. Australia's alcohol taxation system should moderate alcohol consumption. It should also raise revenue to recover the social, health and economic costs of alcohol use, and to fund initiatives to prevent harmful use of alcohol.

Alcohol products should be taxed on the basis of alcohol content (volumetric taxation). This is because the health risks and other harms from alcoholic beverages are caused by alcohol regardless of the form in which it is consumed. A volumetric taxation system establishes economic incentives to produce and consume low alcohol products, and disincentives to produce and consume high alcohol products.

The tax rates set for particular beverage types should reflect the level of harms associated with consumption of that type of beverage.

A minimum price per standard drink should also be established for all alcohol products to reduce substitution effects.

Modelling should be used to establish appropriate levels of taxation across beverage types to discourage harmful consumption and encourage safer consumption patterns.

Ongoing data collection and analysis is necessary to ensure the capacity to monitor the impact of changes in taxation on alcohol consumption patterns and related costs and harm. Improved access to wholesale and retail alcohol sales data, an essential indicator of consumption levels and patterns and the impacts of prevention policies and programs is required to enable thorough evaluation. Research and evaluation must be independent of vested interests (22).

Alcohol taxation measures should be implemented as part of a broader range of strategies including reforms to alcohol advertising and marketing, licensing systems and adequate enforcement, to achieve the greatest reduction in alcohol related harms.

Acknowledgement

This position statement is based on the Marketing and Advertising of Alcohol position statement developed by the Alcohol Policy Coalition.

Further information

Related ACPDA Position Statements available from www.cancer.org.au/acdpa

- *Alcohol and Chronic Disease Prevention*
- *Marketing and Promotion of Alcohol*
- *Health information and warning labels on alcohol*
- *Alcohol Supply*

Reference List

(1) Collins D, Lapsley H. The costs of tobacco, alcohol and illicit drug abuse to Australian society in 2004-05. 2008. Canberra, Department of Health and Aging. National Drug Strategy Monograph Series no 66.
Ref Type: Serial (Book,Monograph)

(2) Collins DJ, Lapsley HM. The avoidable costs of alcohol abuse in Australia and the potential benefits of effective policies to reduce the social costs of alcohol. Commonwealth of Australia 2008; 2008.

(3) National Health and Medical Research Council. Australian guidelines to reduce health risks from drinking alcohol. Canberra: NHMRC; 2009.

(4) Babor TF, Caetano R, Casswell S, Edwards G, Giesbrecht N, Graham K, et al. Alcohol: No Ordinary Commodity - Research and Public Policy. Oxford and London: Oxford University Press; 2003.

(5) Anderson P, Baumberg B. Alcohol in Europe: a public health perspective. A report for the European Commission. Institute of Alcohol Studies, UK; 2006.

(6) World Health Organization. WHO expert committee on problems related to alcohol consumption. Technical Report. Geneva: World Health Organization; 2007.

(7) Meier P, Booth A, Stockwell A, Sutton A, Wilkinson A, Wong R, et al. Independent Review of the Effects of Alcohol Pricing and promotion. Part A: Systematic Reviews. The University of Sheffield; 2008.

(8) Loxley W, Toumbourou JW, Stockwell T, Haines B, Scott K, Godfrey C, et al. The preventin of substance use, risk and harm in Australia: a review of the evidence. 2004. The National Drug Research Institute and the Centre for Adolescent health. Commonwealth of Australia.
Ref Type: Serial (Book,Monograph)

(9) Gallett CA. The demand for alcohol: a meta-analysis of elasticities. Australian Jounal of Agricultural and Resource Economics 2007;51:121-35.

(10) Roche AM, Bywood PT, Borlagdan J, Lunnay B, Freeman T, Lawton L, et al. Young people and alcohol: the role of cultural influences. Adelaide: National Centre for Education and Training on Addiction; 2007.

(11) Wagenaar AC, Salois MJ, Komro KA. Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies. Addiction 2009 Feb;104(2):179-90.

(12) World Health Organization. Global strategy on diet, physical activity and health. Fifty-seventh World Health Assembly. Geneva: World Health Organization; 2004.

(13) National Preventative Health Taskforce. Australia: The Healthiest Country by 2020 - National Preventative Health Strategy - the roadmap for action. Canberra: Commonwealth of Australia; 2009.

(14) Henry K. Australia's future tax system: Report to the Treasurer. Commonwealth of Australia 2010; 2009 Dec.

(15) Webb R. Alcohol taxation reform: considerations and options. Parliamentary Library, Parliament of Australia; 2009 Nov 20.

(16) Vos T, Carter R, Barendregt J, Mihalopoulos C, Veerman L, Magnus A, et al. Assessing Cost-Effectiveness in Prevention (ACE-Prevention) Final report. University of Queensland, Brisbane and Deakin University Melbourne; 2010.

(17) Stockwell T, Zhao J, Chikritzhs T, Greenfield TK. What did you drink yesterday? Public health relevance of a recent recall method used in the 2004 Australian National Drug Strategy Household Survey. Addiction 2008 Jun;103(6):919-28.

(18) Gray D, Saggers S, Atkinson D, Sputore B, Bourbon D. Beating the grog: an evaluation of the Tennant Creek liquor licensing restrictions. Aust N Z J Public Health 2000 Feb;24(1):39-44.

(19) Byrnes JM, Cobiac LJ, Doran CM, Vos T, Shakeshaft AP. Cost-effectiveness of volumetric alcohol taxation in Australia. Med J Aust 2010 Apr 19;192(8):439-43.

(20) Vandenberg B, Livingston M, Hamilton M. Beyond cheap shots: reforming alcohol taxation in Australia. Drug Alcohol Rev 2008 Nov;27(6):579-83.

(21) Hogan E, Boffa J, Rosewarne C, Bell S, Chee DA. What price do we pay to prevent alcohol-related harms in Aboriginal communities? The Alice Springs trial of liquor licensing restrictions. Drug Alcohol Rev 2006 May;25(3):207-12.

(22) Miller PG, Kypri K, Chikritzhs TN, Skov SJ, Rubin G. Health experts reject industry-backed funding for alcohol research. Med J Aust 2009 Jun 15;190(12):713.