



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

Reference: Customs Amendment (Fuel Tax Reform and Other Measures) Bill 2006; Customs Tariff Amendment (Fuel Tax Reform and Other Measures) Bill 2006; Excise Laws Amendment (Fuel Tax Reform and Other Measures) Bill 2006; Excise Tariff Amendment (Fuel Tax Reform and Other Measures) Bill 2006; Fuel Tax (Consequential and Transitional Provisions) Bill 2006; Fuel Tax Bill 2006

TUESDAY, 6 JUNE 2006

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SENATE
ECONOMICS LEGISLATION COMMITTEE

Tuesday, 6 June 2006

Members: Senator Brandis (*Chair*), Senator Stephens (*Deputy Chair*), Senators Chapman, Murray, Watson and Webber

Participating members: Senators Abetz, Adams, Bartlett, Bernardi, Boswell, Bob Brown, George Campbell, Carr, Colbeck, Conroy, Coonan, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Fielding, Fifield, Forshaw, Hogg, Joyce, Kirk, Lightfoot, Ludwig, Lundy, Ian Macdonald, Marshall, Mason, McGauran, Milne, Murray, O'Brien, Parry, Payne, Robert Ray, Sherry, Siewert, Stott Despoja and Wong

Senators in attendance: Senators Brandis, Murray, Stephens, Watson and Webber

Terms of reference for the inquiry:

Customs Amendment (Fuel Tax Reform and Other Measures) Bill 2006, Customs Tariff Amendment (Fuel Tax Reform and Other Measures) Bill 2006, Excise Laws Amendment (Fuel Tax Reform and Other Measures) Bill 2006, Excise Tariff Amendment (Fuel Tax Reform and Other Measures) Bill 2006, Fuel Tax (Consequential and Transitional Provisions) Bill 2006 and Fuel Tax Bill 2006

WITNESSES

BRODERICK, Mr Gordon James, Executive Director, Distilled Spirits Industry Council of Australia	17
CROSBIE, Mr David William, Chief Executive Officer, Odyssey House	8
EVANS, Mr Paul Andrew, Director, Government Regulation and Community Affairs, Lion Nathan Ltd	21
FORD, Mr Clayton Travis, Manager, Corporate Relations, Diageo Australia Ltd	17
LAWLER, Mr Philip Geoffrey, Board Executive Director, Administration, Alcohol and other Drugs Council of Australia	2
RYAN, Mr Warwick Michael, Director, Government Relations, KPMG	17

Committee met at 7.03 pm*Evidence taken Monday, 5 June 2006*

CHAIR—I declare open the committee’s public hearing into the provisions of the Customs Amendment (Fuel Tax Reform and Other Measures) Bill 2006 and three related bills. These bills make amendments in relation to various customs and excise matters but the committee has decided to limit its consideration of the bills to reviewing the alcohol taxation measures contained in the bills with respect to their likely consumer, social and economic effects and their effect on industry. The committee will present its final report to the Senate on Tuesday, 13 June.

These are public proceedings and, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera, I remind all witnesses giving evidence to the committee that they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and any such action may be treated as a contempt of the Senate. It is also a contempt of the Senate to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on the answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, the witness may request the answer be given in camera and the committee will consider such a request.

[7.05 pm]

LAWLER, Mr Philip Geoffrey, Board Executive Director, Administration, Alcohol and other Drugs Council of Australia

CHAIR—Welcome, Mr Lawler. Do you wish to make an opening statement on the alcohol provisions of the bill?

Mr Lawler—I would like to make an opening statement. If you do not mind, I will read it.

CHAIR—If that is a typescript that could be handed to the secretariat and circulated, that would be helpful.

Mr Lawler—I can do that. During 2004-05, the Alcohol and other Drugs Council of Australia conducted a study on alcohol taxation in Australia, with funding from the Alcohol Education and Rehabilitation Foundation. The key findings arising from the project stem from both the literature review and the economic modelling simulating various taxation reform scenarios. Studies of price and income flexibility of alcohol internationally indicate that alcohol consumers do respond to price changes, although the extent to which this occurs varies between different types of alcoholic beverages. Consumers are more influenced by their levels of income available for spending. Certain consumer groups are more responsive to changes in price than others. Significantly, it would appear that both binge drinkers and heavy drinkers are more flexible with regard to price.

Taxation has been one of the key drivers of the success of the low-strength beer market in Australia. Not only has the structure of beer excise lured consumers to a lower strength beer; it has made the marketing sales of low-strength beers more profitable than marketing and selling full-strength beers. Further, it has also seen brewers reduce the strength of full-strength beers. In the Australian context, outside of beer there has been no real attempt to define or establish a market of lower strength alcoholic products. Internationally, no two alcohol taxation systems are alike, and it is common practice across all the jurisdictions we have reviewed to apply differential tax rates depending on factors such as final product form and the raw material upon which these products are based.

Taxation of alcohol is a complex balance of competing policy interests. As such, there are no guarantees that by simply replicating the Australian beer excise structure for another alcoholic beverage it would result in a similar response from producers and/or consumers. There are five competing policy conditions that have been shaping Australia's alcohol system for the last 30 years. These include the health and social costs of harm done by alcohol consumption; the maintenance and growth of government revenue; the recognition of alcohol as a contributor to the economy in such areas as the manufacturing, hospitality, tourism, retail and export sectors; and the recognition of the importance of alcohol to rural and regional economies in the agricultural and tourism sectors.

Significant results arose from ADCA's wine tax proposal to shift the taxation of wine from one based on value to one based on volume of alcohol. Shifting the wine tax base away from taxing wine value and towards taxing wine alcohol would be expected to reduce consumption of wine alcohol and likely to result in the following: there will be no net change in tax collection for wine in total or for other alcoholic beverages; the price of cask wine would increase by 12.8 per cent and the price of premium wine would decrease by 2.7 per cent; consumption of cask wine would decrease by 9.7 per cent and the consumption of premium wine would increase by 2.4 per cent. The total value of wine consumption would be unaffected, and the annual consumption of wine would decrease by 2.7 per cent, representing some 0.8 per cent of the total allocation of consumption.

Combining the revenue-neutral ADCA model above with the excise-free threshold for ready-to-drink products, it is likely to lead to a loss in annual revenue of some \$98 million, with minimal additional impact on alcohol consumption. The most dramatic impact on alcohol consumption occurs through fully abolishing wine equalisation tax, introducing a volumetric wine tax set at \$11.65 per litre of pure alcohol, reducing excise on low- to mid-strength beers and removing the tax-free threshold on full-strength beers. This model has the potential to increase annual tax revenue by some \$270 million and reduces alcohol consumption by approximately 2.2 million litres per year.

Based on that, the preferred option for changes to the alcohol taxation system are: application of a tax-free threshold of 1.15 per cent for mid-strength, ready-to-drink beverages, being strengths ranging from 3.1 per cent to 3.5 per cent alcohol by volume, and low-strength beverages, that is less than three per cent alcohol by volume, providing a price incentive for production and consumption of low-strength, ready-to-drink

beverages; abolition of the wine equalisation tax, to be replaced by a volumetric tax of \$11.65 per litre of pure alcohol, which will increase the price of cask wine and decrease the price of premium bottled wine; reduction of the excise on low-strength draught and packaged beer to zero; retaining current excise rates for mid- and full-strength draught and packaged beer; and removal of the 1.15 per cent tax-free threshold from full-strength beer.

Economic modelling suggests that changes would result in a reduction of overall consumption in Australia of around 1.36 per cent, or, as I said before, 2.2 million metres per annum, and would have the potential to increase government revenue by around 6.79 per cent, or \$270 million per annum. ADCA canvassed support from other peak bodies in the health and welfare sector for joint accuracy on this admission, on an allocation of 25 per cent. That is, if the \$270 million increase comes to fruition, some \$67.5 million will be set aside as additional revenue to the AERF to allow it to continue with its program in supporting the sector, reducing alcohol related harm in Australia. I am pleased to say that support has been received from the AMA, the Australian Divisions of General Practice, the National Drug Research Institute and many organisations that are our colleagues in the sector.

CHAIR—Who did this economic modelling?

Mr Lawler—Econtech did it. I have a copy of it here, and again I have—

CHAIR—Does that form part of your submission?

Mr Lawler—It did not, but I—

CHAIR—Are you able to table that, please?

Mr Lawler—I can. I was going to suggest that I make that available electronically to the secretariat.

CHAIR—If you could do that, that would be good. But could you also make it available physically to the secretariat, so it can be photocopied and circulated among members and we can be apprised of it for tomorrow morning's continuation of the hearing?

Mr Lawler—Yes.

Senator STEPHENS—How is the Alcohol and Other Drugs Council of Australia funded?

Mr Lawler—It is funded through two programs through the Department of Health and Ageing.

Senator STEPHENS—In your submission you made reference to the Alcohol Education and Research Foundation, which provided funding for your research. Do you know how that foundation is funded?

Mr Lawler—My understanding is that some time back there were some issues around taxation of draught beer on the general community, which realised in the vicinity of \$125 million. As I understand it, the government then decided that they would set up an independent body to manage those funds and put them back into supporting the drug and alcohol sector, and that is how that came about.

Senator STEPHENS—This looks like a substantial piece of research work that you have commissioned and it will be interesting to consume it overnight. On page 7 of your submission, you state:

- ADCA believes that an alcohol taxation system should have at its core the following principles:
 - Volumetric taxation, or taxation based alcoholic strength and not value;
 - Incentives ... to reduce the strengths of their products;
 - Incentives for consumers to purchase reduced strength products; and
 - Equivalence in taxation in beverages competing in the same markets.

Given your comments and your introductory remarks, applying volumetric tax would mean that wine would be the main loser. Is that right?

Mr Lawler—That is correct.

Senator MURRAY—Or the main winner because the cost of high-priced wines would fall.

Senator STEPHENS—Sure. Is wine currently not subject to volumetric tax at all?

Mr Lawler—My understanding is that it is taxed on value.

Senator STEPHENS—Not on strength?

Mr Lawler—On the value of the product, not on the strength.

Senator MURRAY—It is a value added tax. That is why, if you went to volumetric, higher priced wines would drop in price and your class wines would rise.

Senator STEPHENS—Your research findings outline taxation incentives to increase a reduced strength alcohol market, volumetric tax and differential tax rates based on alcohol strength. Are we currently using that system in Australia?

Mr Lawler—I cannot answer that.

Senator STEPHENS—We might have to ask our resident expert!

Senator MURRAY—Beer is a typical example. Low-alcohol, medium-alcohol and high-alcohol beer all have different excise rates to encourage consumption of the lower alcohol products.

Senator STEPHENS—Do we have tax-free thresholds in Australia?

Senator MURRAY—Of beer, yes.

Senator STEPHENS—And targeted tax rebates?

Senator MURRAY—Yes, of wine—that is, the wine equalisation tax rebate. I should go and sit over there!

Senator STEPHENS—I am very impressed. Didn't the Northern Territory do something about cask wine?

Senator WEBBER—I was going to raise that. This is all getting a little disjointed probably because of the amount of time we have all been sitting in this room. I am very glad that you have agreed to table both the modelling and your opening statement, because my head cannot take in all that information at this hour of the night. You referred in your opening statement to the need to make some changes to address the particular issue of binge drinking. I was interested in what you were saying: there would be an increase in the price of cask wine. Let's call a spade a spade. Currently, the concern of many people, particularly in Western Australia and the Northern Territory—more than anywhere else—is about binge drinking of cask wine in Aboriginal communities. That is the problem that is out there. I had a recollection somewhere in the dim, dark past that the Northern Territory government did something about putting a special levy—

Senator MURRAY—Yes, they did and the studies—

Senator WEBBER—Did it work and what happened?

Senator MURRAY—Do you remember it?

Mr Lawler—I do not remember it, but that is correct. They have taken other measures as well. I talked about the increase in the price of cask wine, and it may be seen by some as disadvantaging some elements of the community and that is why it was put across that way. That was the reason the statement was made. It will increase; therefore, does it then place a financial burden on some elements of the community, if that were to occur?

Senator STEPHENS—What about the ready-to-drink beverages—the mixes, like Bacardi and Coke in a can?

Mr Lawler—The UDLs and Breezers?

Senator STEPHENS—Yes.

Senator WEBBER—The vibrantly coloured ones.

Senator STEPHENS—I do not know; I do not know very much about them. Mr Lawler, you suggest in your submission on page 6 that:

... the success of these reduced strength beer excise incentives could and should be replicated in Ready-to-Drink (RTD) beverages.

Mr Lawler—If it were at all possible to put something in place that would encourage distillers to produce low-strength ready-to-drink drinks which could be made available within the community, then, hopefully, with other support, education and awareness, we would get consumers to drink those as an alternative to full-strength drinks.

Senator MURRAY—On the low-alcohol beer principle?

Mr Lawler—Yes.

Senator STEPHENS—I think one of the downsides of the ready-to-drink beverages is that they taste like cordial. People do not have a sense that they are drinking a lot of alcohol until all of a sudden they are blotto.

Mr Lawler—The argument could be that if you have something that tastes like cordial, is easy to drink and is five per cent alcohol, then it is going to have an effect. But if you were to make something that was three per cent alcohol or less, then you would still have that same sensation of taste but you would not necessarily get the effect.

Senator STEPHENS—That is a good point.

Senator WATSON—What is your view on the suggestion that Coca-Cola could be going to add alcohol to some of its beverages? We talk about low-strength drinks, but obviously if you were to get that marketing behind a product that would increase the use of alcohol. I am a bit worried about that. I agree with the thrust of your argument, but my first question is about Coca-Cola making alcohol more acceptable as a result of considering adding alcohol to some of their products.

Mr Lawler—If they went down that track, then surely they would have to align themselves with the current distillers that produce these ready-to-drink beverages, and we would treat that the same as we do the current market in those ready-to-drink beverages. I cannot comment on whether Coca-Cola should branch out into other areas or not. The fact is that, if they did, they would have to comply with—

Senator WATSON—That would be a worry, though, wouldn't it? It could introduce a new clientele, I would think, to the alcohol beverage range. I am just interested in your view.

Mr Lawler—That is true, and we are hoping that the existing distillers and distributors of these ready-to-drink products, if given the opportunity, would be eager, and would consider it as a new area of business, to produce low-alcohol drinks.

Senator WATSON—While I agree with the thrust of your argument, I wonder whether now is the time to introduce such a radical change. While premium grapes are still selling relatively well, at the lower end of the grape market, which I would think would go into cask wine, there is such a surplus that there are major problems—people are destroying their crop because they cannot sell it. So I wonder about the timing of your recommendations, given the state of the industry at present and the impact that it would have on growers who produce cask wine at present.

Mr Lawler—That is a valid statement and I accept that. Our submission is based on a recommendation to this committee to ask the government to review the current taxation system—

Senator WATSON—And it has a lot of merit.

Mr Lawler—but that is not going to happen tomorrow. Even if the committee agree that it is a worthwhile area to look at and review, it is probably going to take some time for all the players to get across it.

Senator WATSON—Maybe we could look at it in that light.

Senator MURRAY—Mr Lawler, there are at least three government agencies who should perhaps have a deal of interest in your organisation. One would be that concerned with the economic industries, the department of industry; one is that concerned with revenue, the Department of the Treasury; and the third would be those concerned with the harmful rather than the beneficial effects of alcohol, which would presumably be the departments concerned with social policy. I want to ask you: because of the link between price and consumption, is your organisation consulted by all three of those sectors of government? Who talks to you about alcohol?

Mr Lawler—All those three sectors. I might point out that our chief executive officer would be the one talking with those organisations on a regular basis—and does so—and would under normal circumstances be sitting here tonight presenting this rather than me.

Senator MURRAY—Does Treasury talk to your organisation with the economic side of the industry, the pricing side of the industry and the harmful side of the industry in mind?

Mr Lawler—My understanding is that, no, Treasury does not talk to us about that but that we certainly talk to Treasury about that.

Senator MURRAY—You mean that they are prepared to hear you if you go to talk to them.

Mr Lawler—We have had correspondence recently on this. My CEO has sought their feedback. Depending on the committee's decision on what we have put forward here, we will have ongoing discussions with Treasury around the financial aspects of the consumption of alcohol in this country.

Senator MURRAY—If I were to summarise your submission, I would say that you are not prohibitionists. You are essentially saying that, if you adjust the price settings for certain types of alcohol consumption, you will lessen the abuse and the misuse of alcohol.

Mr Lawler—We have the opportunity to perhaps lessen that.

Senator MURRAY—Based on precedent. We know what happened when low-alcohol beers were introduced.

Mr Lawler—And we are not about prohibition.

Senator MURRAY—That was obvious. Thank you very much; I thought that was very helpful.

Senator WEBBER—I had one last quick question. Does the economic modelling that has been tabled outline the assumptions that have been made about human behaviour?

Mr Lawler—It certainly does.

Senator WEBBER—Excellent. I will read it with interest.

Mr Lawler—It is a very comprehensive document that will take you more than one night to read.

Senator WEBBER—Good.

CHAIR—There being no further questions, I thank you very much indeed, Mr Lawler.

Committee adjourned at 7.28 pm

Committee met at 9.03 am*Evidence taken Tuesday, 6 June 2006*

CHAIR (Senator Brandis)—I declare open this hearing of the Senate Economics Legislation Committee. The Senate has referred to the committee the provisions of the **Customs Amendment (Fuel Tax Reform and Other Measures) Bill 2006** and three related bills. This hearing is a continuation of the hearing which commenced last night. These bills make amendments in relation to various customs and excise matters. The committee is to limit its consideration of the bills to reviewing the alcohol taxation measures contained in the bills with respect to their likely consumer, social and economic effects and their effect on industry. The committee will table its final report to the Senate on Tuesday, 13 June.

These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all witnesses that, in giving evidence to the committee, they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to this committee and such action may be treated as a contempt of the Senate. It is also a contempt of the Senate to give false or misleading evidence to a Senate committee.

If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground that is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera, and the committee will consider that request. Any claim that it would be contrary to the public interest to answer a question must be made by a minister and should be accompanied by a statement setting out the basis of the claim. The Senate has resolved that an officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy and shall be given a reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when policies were adopted.

[9.06 am]

CROSBIE, Mr David William, Chief Executive Officer, Odyssey House

CHAIR—We begin this morning's proceedings with submission No. 7, the submission from Odyssey House. I welcome to the hearing Mr David Crosbie, the Chief Executive Officer of Odyssey House. Mr Crosbie, I invite you to briefly address the committee before we proceed to questions.

Mr Crosbie—As well as being the Chief Executive Officer of Odyssey House in Victoria, I am a member of a range of other health groups. I am a member of the Prime Minister's Australian National Council on Drugs and the Alcohol Education and Rehabilitation Foundation. I was part of the management committee that drew up the national alcohol strategy. I was on the committees and then in the groups that oversaw the development of the last three national alcohol campaigns. I chair the community partnerships initiative group which distributes funds to community groups addressing drug issues. I am on a range of other advisory groups. I have been involved in this area for at least 15 years and I have been making submissions on this issue of alcohol tax for over 10 years.

I would like to thank the committee for the opportunity to present to it. Although I am representing myself and my organisation, many others share the perspective that I will present. If we had had more time, I am sure we would have been able to present a combined submission consistent with the submission that I have presented. I want to say formally that, while I support the passing of the [Customs Amendment \(Fuel Tax Reform and Other Measures\) Bill 2006](#) and the three related bills, I actually think that you have an opportunity as a committee to do something special in this field: to allow good policy to inform decision making. It is a very difficult area and I sometimes think that expediency and making decisions that are less likely to in any way create any kind of reaction from anybody anywhere have tended to be the key informing principles in the development of our alcohol tax system over the last 10 years.

I will very briefly expand on the points on page 1 of my submission. It is often not recognised that, when you do public surveys of the major issues confronting people, drugs is often in the top five and invariably in the top 10 of concerns for parents and the community as a whole. When you talk to people about that, alcohol, if you ask them, is not rated as a significant issue, and yet when people start talking about what happens in real life alcohol quickly emerges as a key issue, if not the major drug issue, for most people. In recent times we have seen an increase in media coverage of alcohol related issues and I think increased awareness within the community of the harms that flow from problematic alcohol consumption.

I am often asked on what basis I say that we have a problem with alcohol. My standard response, because most people do not seem to take any notice of statistics, is: 'I suggest you go and spend Friday or Saturday night in a hospital emergency room or out on a police patrol. Most of the work of those people on patrol or in hospital emergency rooms will be alcohol related.'

The issue of why alcohol tax is significant has been explored in the literature for more than two decades. In the most comprehensive study a panel of 17 scientists reviewed 53 studies on the impact of price on consumption. All of those studies found that increasing price reduces problematic consumption. It is beyond contention that price impacts on consumption. It is also beyond contention that price impacts on the consumption of people who have problematic alcohol drinking patterns.

We have also seen in Australia two recent examples of what can be done if some of the resources that are generated from alcohol excise and taxation are redirected to addressing the problem. The Northern Territory Living with Alcohol Program was seen as an incredibly successful program, saving over 120 lives and millions of dollars. Unfortunately, with the Capital Duplicators tax case in 1997, they had to remove that targeted additional levy on cask wine and full strength beer. But it certainly had a very significant impact on harm when it was imposed in the Northern Territory. The independent evaluation is quite comprehensive and details very real benefits to the whole community.

We have also seen the work of the Alcohol Education and Rehabilitation Foundation, which has had the opportunity over the last three years to distribute the additional taxation collected on bulk beer, which was collected after the gazetted change in excise was lowered nine months after it was introduced.

I find it unbelievable that we are still talking about products that cause the most harm having the lowest level of alcohol tax—products like cask wine. I also find that a lot of the debate in this area is not well informed in terms being based on the actual research of consumption patterns and harm. Sometimes I think we tend to reflect our own biases and our own experiences. When I am training alcohol and drug workers and I

ask them whether or not there has been an increase in youth binge drinking, I often get them to do an exercise where I have all those who strongly believe there has been up one end of the room and all those who strongly believe there has not at the other and get people to stand on that continuum. When I ask them why they are standing where they are, they almost invariably reply with a story about their own youth. I think it is that sense of our own personal bias about our own drinking behaviour that tends to inform some of the public debate about products that we did not use when we were young and are now becoming popular without reference to the data on levels of consumption and levels of harm.

Again, I recognise that alcohol taxation and excise is a very complex area and it is a very challenging area in policy making, but I suggest that you have an opportunity to shift the debate in a way that will make a significant impact on levels of harm from alcohol misuse in Australia. Thank you.

CHAIR—Thank you very much, Mr Crosbie. Do you have a copy of your written submission in front of you?

Mr Crosbie—I have one with notes written on it.

CHAIR—All I want to know is: in the copies that have been circulated to us, we do not seem to have a page 4. Is that an error of ours or is there a numbering error in your submission?

Mr Crosbie—I think there is a numbering error in my submission.

CHAIR—Okay. So we go directly from the page headed ‘recommendations’ to the page headed ‘references’?

Mr Crosbie—Yes.

CHAIR—All right. Thank you.

Mr Crosbie—My apologies.

CHAIR—That is fine. Mr Crosbie, as I understand you, you are saying that behaviour in relation to alcohol is price sensitive. That is the basis of your thesis, isn’t it?

Mr Crosbie—Yes. We all know behaviour in relation to alcohol is price sensitive: as our income increases, we buy better quality wine. It is well documented, and I can assure you that there are many people who I work with in Odyssey House whose level of consumption is determined entirely by how much alcohol they can buy with the amount of money that they have.

CHAIR—Let’s concentrate on that for the moment, because I dare say that this is what is at the forefront of people’s minds. With young alcohol consumers—16, 17, 18 and up to those in their early 20s—I assume that it would be fair to say that, at that time, people’s drinking habits are being formed and that those people have a relatively lower income. Can you speak to the question of the price sensitivity of alcohol for people in that segment?

Mr Crosbie—I am not an economist and, in terms of price elasticity around specific age groups, I am not sure that there is definitive research. I can certainly point to the experience of the last five years, where we have seen a reduction in price in ready-to-drink products and a significant increase in their market share, some of that being directly related to the age group that you are talking about. For us, problematic drinking is by people who are a little bit older than that. Most people’s problematic drinking occurs at an older age. There is a pattern of drinking behaviour that usually involves fairly erratic drinking followed by a period of more systemic drinking that is often characterised by weekend binge-drinking, and then people tend to settle down into what we might call a more normal drinking pattern as their lifestyle changes around having children and increased responsibility at work and those sorts of things.

The patterns of drinking that people have are often influenced more by their parental patterns of drinking and the kinds of patterns that have occurred in people’s homes and in their immediate social environments for long periods of time—and people tend to self-select groups who engage in that kind of drinking pattern. That does not mean they will not move through other drinking patterns, because they tend to. Initially, people tend to move through various drinking patterns until they get to that point in life where some of those drinking patterns become problematic.

CHAIR—You have helpfully supplied us with extensive references. Where would we go to among these references to find the best and most accessible study of the price sensitivity of drinking behaviour and the effect of price on shaping that behaviour? There is an article by Hawks, for example, in the *Health Promotion Journal of Australia* that seems to address the topic.

Mr Crosbie—Yes. I think that is an excellent article, but unfortunately it is also over 10 years old. I think the economic modelling done by Econtech for the Alcohol and other Drugs Council of Australia which I have not referenced but I believe—

CHAIR—Is that here?

Mr Crosbie—No, it is not there.

Senator MURRAY—It was tabled last night.

Mr Crosbie—Yes. It is probably the most up-to-date modelling about the impact of price on consumption. In some ways I suppose I would see it as a mixture of economic theory and research. I do not think you can accurately predict to the litre the level of change in consumption patterns based on price fluctuations.

CHAIR—No, of course you cannot.

Mr Crosbie—There are a whole range of factors around marketing and positioning that obviously have an impact. They do not operate as an independent variable that overrides every other variable in every environment for every group. But what we do know is that, if you follow the trends from decades of looking at price movements, there is no doubt that increased price reduces problematic alcohol consumption.

CHAIR—Have you read the submissions of the two other witnesses who are appearing this morning—that is, Lion Nathan and the Distilled Spirits Industry Council?

Mr Crosbie—I have not read either submission. I think I would be aware of what the Distilled Spirits Industry Council of Australia would be submitting because I have seen their submission to the last inquiry into substance abuse.

CHAIR—Let me read to you something. They say that the Distilled Spirits Industry Council:

... believes that the introduction of these bills provides the Government with an ideal opportunity to amend the taxation regime for beverages with less than 10% alcohol by volume (abv). In particular, it allows an opportunity to provide low and mid-strength packaged Ready to Drink beverages (RTDs) with the same taxation treatment that applies to low and mid-strength packaged beer.

What do you say about that?

Mr Crosbie—I support that. I actually think that, if we—

CHAIR—I imagined that you would. I just wanted to get you on the record, as it were. Lion Nathan, on the other hand, urges the committee not to make a recommendation to change the tax treatment of alcohol without further examination of behavioural issues. I think that is a fair summary of what they have to say. What do you say about that? Is there anything more we need to know about behavioural issues or does the literature you point to deal with the question of the effect of price on drinking behaviour thoroughly?

Mr Crosbie—I think there is a very strong existing literature about consumption patterns and what happens even in Australia with the introduction of the GST and the new excise rates and the lowering of excise on ready-to-drink products. I think we have a fair indication about what happens to patterns of consumption which explains why groups like Lion Nathan might be particularly concerned, given that perhaps some of their products are less competitive from a price perspective if their competitors' products are reduced in price. Clearly there are economic interests motivating the Lion Nathan submission and the Distilled Spirits Industry Council of Australia submission. I would suggest that I have yet to see any evidence from Lion Nathan or anyone else arguing that there would be in any way an increase in harm.

I understand that the distillers may well argue that there is a reduction in harm based on our experience of what happened with beer products. It is interesting that, when I was younger, you did not drink low-alcohol beer, mainly because it tasted terrible. I was going to use an inappropriate phrase to describe the taste of low-alcohol beer when I was younger. I think the concessional licensing provisions and the taxation concessions in the late eighties that allowed Lion Nathan to penetrate the Melbourne market so successfully with Tooheys Blue is an example of what actually happens when you make lower alcohol products cheaper and provide incentives for producers to produce and market products that have less harm associated with them from a health perspective.

The penetration of Tooheys Blue and the creation of a legitimate—in the male macho trend—darker coloured beer that was launched around a major boxing championship in Melbourne, I think had such a positive impact in terms of reducing levels of drink-driving and other related harm. People could stand around and drink low-alcohol products, enjoy them and feel they were participating in the social, cultural milieu of standing around a bar and drinking and being part of a group made a very significant impact on levels of harm

in our experience. I have always been a supporter of Lion Nathan's capacity to seize upon excise and taxation advantages to produce products that reduce harm.

Senator STEPHENS—Most of the submissions we have received welcome the discussion but recommend that this committee should not make recommendations without a much broader consideration of the whole alcohol industry and the taxation regimes. Your submission, like many others, concentrates on wine and the availability of bulk and cask wine. Firstly, you touch on ready-to-drink products and the rise in consumption since the excise on those products was reduced. Do you have anything more to say about ready-to-drink products?

Mr Crosbie—I think there are real concerns about marketing and the degree to which they are marketed to young people. In fact, we were asked, as a member of the National Expert Advisory Committee on Alcohol, to provide advice to the government on the impact of those increased sales. I have yet to see any evidence in all that work that there has been any per capita increase in alcohol consumption or levels of harm.

As I said before, we tend to tell anecdotes rather than look at statistics around alcohol. These two anecdotes are from my own family—I probably should not say which members of my family. I was asking my son why he was buying ready-to-drink bourbon and Coke to take to a party rather than using his, undoubtedly, economic skills to buy a bottle of bourbon and a bottle of Coke and to split it because there were a number of young men going to this party. He explained to me that the problem with mixing it there and taking a large bottle and sharing it is that you had to drink quickly to get your share. In fact, the quicker you drank the more you got. Whereas if you got it in a premixed measured, even though it was a bit more expensive, at least you knew you would get your share of the dozen that they were buying and you could take your time drinking it if you wanted to.

I know with a young female member of my family that the habit of mixing white spirits and soft drinks in a soft drink bottle before they go out to parties has been replaced with taking various, what would be termed when I go to the pub, 'girlie drinks' in premixed bottles and packages. I sometimes think we miss the point of having a measured dose, if you like, of alcohol in a set container that is more expensive than if they bought larger containers or if they bought equivalent product such as full-strength beer.

I think sometimes we overreact because we did not use those products or they were not part of our experience growing up. We see young people experimenting with drinking and moving through those phases of learning about their limits and how to drink with others. We see them doing that sometimes using these products and, because they are not products we are familiar with, I think they get targeted.

And yet the research suggests that the products are not increasing the drinking. I have yet to see anything that suggests that that is the case. I think they are substituting for other products. Because of the nature of the alcohol market and the economic interests of some of the people making submissions before you, I am sure there are people here who have done more detailed analysis of exactly what products they are substituting for.

Senator WATSON—I was very interested in your presentation. Thank you very much for your perseverance on this issue. I think in the long term you will get there, but there are lots of issues for government to take into account before they get quite where you would like them to be.

Mr Crosbie—As I said, I first made a submission—I am not sure it was to exactly this committee—when we were redefining the definition of 'spirituous beverages' back in the nineties because some of the clever distillers had learned that if they used a wine based spirit and mixed it with one per cent of their own spirit they could avoid paying the spirits tax on products. We had to redefine the notion of 'spirituous beverages' so that spirits could not avoid the tax by that loophole. There has been such a long history of inquiries; there was the wine inquiry and all the inquiries into alcohol issues. I find myself wondering why what is so clearly good policy continues to get railroaded.

I was also fortunate to be in Tasmania on Thursday last week running a workshop around alcohol related problems. I have to say there are some incredibly committed people doing wonderful work in Tasmania trying to reduce the harm. But, again, their capacity to do that is constantly thwarted by a lack of will from the government to commit serious resources and provide serious support to those people who are battling a very real issue in Tasmania.

Senator WATSON—Can you articulate those areas where you think government support should be stronger?

Mr Crosbie—I think there is the enforcement of liquor-licensing laws, the acceptance of the serving of people on premises who are drunk, the lack of follow-up around alcohol related incidents and where people

last drank, and the level to which there is almost an acceptance of the levels of harm associated with intoxication. Tasmania is largely a rural community, and the level of tolerance around intoxication is problematic.

Senator WATSON—What about the licensing laws? Can you articulate further the changes that you would like there?

Mr Crosbie—I suppose we are off topic here, but there is one thing that we know works exceptionally well. It was funded by the Alcohol Education and Rehabilitation Foundation and trialled in the Hunter region, which is not dissimilar in some ways to parts of Tasmania. It required police, wherever there was an incident, to ask the people involved where they last drank.

If particular licensees were associated with increased harm, the police would visit those licensees and say: ‘Look, we had 10 drink-drivers on Saturday night and eight of them came from your premises. We want to know what measures you are putting in place to reduce the number of people leaving here and hopping in cars after having had enough to drink to put them over the limit and be a hazard or a risk to other people.’ If licensees do not seek to redress the number of incidents that are being reported or are associated with people who have been drinking at their premises then there should be a review of their licence provisions. I think we need to start linking the harm that occurs from people getting drunk, largely, back to the people who are making money out of that drunkenness at a retail level, and, I believe, eventually at a producer level.

Senator WATSON—What about the hours of hotel opening?

Mr Crosbie—Where you can show that there is harm associated with that—and I think in some cases you can—either that harm needs to be managed or those licences need to be reviewed. There are many programs that have had a significant impact on reducing levels of harm, even from late night trading, by putting in place provisions including transport. There is a project in Newcastle, funded by the Alcohol Education and Rehabilitation Foundation, that has people providing food after people leave late night premises. The fact that there are sober people standing there offering something—barbecued sausages and things—creates an entirely different mood around the outside of those licensed establishments. There are also buses and other transport provided. There has been a significant reduction in the levels of violence and other associated harm. I think we know what can be done. Many Australians are remarkably innovative in trying to address local issues. Unfortunately, we have not resourced them or given them the support they need to do that effectively.

Senator MURRAY—The value of what you said is that, whilst something like price and excise is a universal mechanism, hours can be calibrated to the community, the problem, the locale. In my own state of Western Australia—Senator Webber would know this—some northern towns have had a particular problem where they have simply introduced later opening hours for both retail sellers and for on-consumption sellers and that sort of thing. The great advantage of what you have said is that hours of regulation can be locally calibrated, whereas what we are talking about is a universal issue, which is what should be the common price level.

Mr Crosbie—This is one of the reasons why I would argue that you are in a position to do something now. If you say that you want to rebuild the elephant, you are going to have real problems. If you say you want to reform the whole taxation system and you are not going to do anything until you can then I think that is an incredible challenge. If we can make incremental changes that have a real impact and provide incentives for changing some of our consumption patterns across the board, I fail to see why those opportunities will not be seized. I suppose you could go one step further and say, ‘If we are going to review alcohol taxes then perhaps we should review petrol taxes and all excise.’ When does it stop? At some point—

CHAIR—Those arguments never appeal to me, Mr Crosbie. They seem to me to be a counsel for inaction. I do not think you need worry about that.

Mr Crosbie—There is that sense of: do not touch alcohol tax unless you do the whole thing. I am just saying that I would be very concerned if that were the case, because getting reform across the whole alcohol tax system is, from my experience, very difficult.

Senator WATSON—Where do we start with this incremental approach?

Mr Crosbie—I think you start it now.

Senator WATSON—Yes, I know, but in what area?

CHAIR—What sector? I agree with Senator Watson. What is the best point of entry? This is not an area in which I profess any particular expertise, but the question of wine taxation has its own complications because

of the particular regime of wine taxation. The situation in relation to spirit products and in particular ready-to-drink products seems to me to be a bit less complicated. Should we enter the incremental process at that point, for instance?

Mr Crosbie—I certainly think in the first instance equivalents for mid- and low-strength ready-to-drinks would be a good incremental step, and I support that as a step forward.

Senator WATSON—By doing what? That is the area, but what do we do?

Mr Crosbie—I think I would make them equivalent, to provide the same incentives that low-alcohol beer and mid-strength beer get, which means offering them the 1.15 per cent concessional exemption that allows low-alcohol beers and mid-strength beers to be cheaper than full-strength beers.

CHAIR—And do you make revenue neutral by increasing the excise on full-strength ready-to-drink products?

Mr Crosbie—I am not sure that there are any significant revenue implications because I know of no low-alcohol RTD products that are already bringing in a windfall of excise or taxation to the government. I would have thought—again as a consumer and a parent of consumers—even the mid-strength products would have very low penetration. So I would not have thought there were any significant offsets.

CHAIR—We will ask Treasury people about that.

Senator MURRAY—Mr Crosbie, we have almost become old friends facing each other in this committee over the years. You have a close interaction with government agencies of all kinds because of your status, your reputation and your position. You do not need to comment on my qualification, but you have had a close interaction with government agencies over the years, haven't you?

Mr Crosbie—Yes.

Senator MURRAY—Have you ever found in your experience that government agencies do not understand the broad principle that price and consumption are linked?

Mr Crosbie—No. I think most people I have spoken to recognise that it is good policy.

Senator MURRAY—Therefore, if the bureaucrats, if I can put it that way, understand that, the issue of addressing greater consumption of low- to medium-strength alcohols, for instance, would be a policy matter for government. It is not a question of persuading bureaucrats as to the links.

Mr Crosbie—I think those involved in either excise and taxation or even alcohol policy are very familiar with the policy implications. I have yet to have anyone present to me or discuss with me why it is not good policy to do that and not be supportive of those kinds of changes. The experience of the strength of the brewing lobby around the introduction of the GST and the strength of the wine lobby around arguments to do with the removal of sales tax when the GST was introduced seem to be the major informing experiences. People will say, 'But if you do that you might offend one of the most important and powerful economic interests in Australia,' and I think we need to recognise that that is the case. Groups that produce alcohol obviously have an incredibly strong vested interest in ensuring that they continue to profit from their endeavours. That informs their lobbying and advocacy around this issue.

CHAIR—As they are entitled to.

Mr Crosbie—Yes, of course.

Senator MURRAY—As you know, I have been on the record for 10 years as supporting an excise and pricing regime that encourages the consumption of low- and medium-alcohol products. Let me put that prejudice again on the record. But the thing you are alluding to more, if I am correct, is not normal lobbying and self-interest, which is perfectly acceptable—people are entitled to defend their economic interest—but the political campaign by the brewing industry which attempted to target marginal seats some time back. That is what you are referring to, isn't it?

Mr Crosbie—I am sure that people here would be able to give you the details of that campaign. My understanding was that it did not just target marginal seats. It created a beer drinkers support group. It created a national telephone phone-in. It produced three, I think, different television advertisements. It was a very significant campaign that involved local action as well as national action and media campaigns. Unfortunately, the reality is that we in the public health industry—for want of a better term—do not have the same capacity to mount campaigns.

Senator MURRAY—The point I want to make is this, Mr Crosbie: even if such campaigns were effective on the political psyche, which I suspect they were, even though perhaps a little questionable from some perspectives, I can hardly see the brewing industry, the spirits industry or the wine industry separately campaigning effectively against a government decision to introduce low- and medium-alcohol pricing strategies across the board. You are not going to get a beer supporters group out there saying, ‘We really are opposed to low-alcohol wine,’ or something of that sort. So I think that, in terms of your incremental strategy, there are areas of policy introduction which have such obvious social attractions that an industry lobbying against them is going to be far less effective than it might be where it was less obviously socially desirable.

Mr Crosbie—I agree with you. That is the advantage, obviously, of an incremental approach. I do not think the change, for instance, on ready-to-drink products poses a huge risk. I would argue that in fact, because people of my generation did not have the same access to ready-to-drinks and we tend to be a bit more suspicious, a bit less accepting of them as being a legitimate product in the market, the idea that you are actually reducing their alcohol content or providing incentives for their alcohol content to be reduced would be welcomed by the broader general community. When you go and talk to people, as I do, at a public level, people will sometimes express concerns about these products because they see them as being associated with youth binge drinking. I often say to them that it is not so much the product; it is the behaviour we have that is the issue, and if it was not that product it would be another product. If I could say to them, ‘We’d like to see price incentives for those products that they’re using in that way to be lower strength,’ I think there would be broad community support for that position.

CHAIR—It is right, isn’t it, to say that the ready-to-drink products are the rapidly growing products among the youth market? That has been my impression.

Mr Crosbie—It depends upon your definition of youth. My understanding is that the biggest growth in ready-to-drink products—and, again, I am sure the Distilled Spirits Industry Council of Australia will provide more concrete evidence and facts—was amongst the older males, the above-20-year-old males, and mostly around brown spirits. The bourbon and Coke type ready-to-drinks have expanded very significantly. There has been an increase in white spirits sales in the below-18-year-old age group, in the younger drinkers, but my understanding is that they have been offset by a reduction in wine consumption and full spirit consumption by young women. So the overall trend is basically that, if anything, young men are bingeing less than we did when we were young, which is sometimes hard for a father to say, and younger women are binge drinking more than their mothers did, which is a good thing for mothers to point out to their daughters.

Senator MURRAY—Let us switch briefly to wine. You made the point—and I think it is a very accurate point—that the early low-alcohol beers were awful, and that is also my opinion. When the excise and pricing regime was adjusted to make it a profitable market for the brewers to pursue—and you might recall that I and my party were very strong supporters of the government’s changed excise regime with respect to that—and when it was introduced, the technology followed and the brewing products out today in low and medium strength are absolutely outstanding in terms of taste and character.

CHAIR—They have really become a standard, haven’t they?

Senator MURRAY—Yes. The question is: can the same be done with wine? We do not have the same opportunities because it is a value added regime and there does not seem to be an incentive for low-alcohol cask wines to be developed to an appropriate standard. Again, in my state of Western Australia, the ‘green suitcase’, as it is pejoratively known, is a terrible blight in some communities. In other communities, cask wine is a terrific adjunct to social life. Have you given much thought to or come across much work on how to introduce incentives for low- and medium-alcohol wine products?

Mr Crosbie—We have had this discussion on a number of occasions, and I am not an expert on wine. I do have my preferences and I appreciate the aesthetic of wine. Fundamentally, the people who I look at in my work at running a drug treatment agency—and most of our clients have alcohol related problems; the number of alcohol problems is higher than that of illicit drug issues—is that the aesthetic of wine is not the primary driver of their consumption. The taste is not what they are drinking for. Wherever we have a product that is at the floor price for delivering alcohol—the cheapest form and most amount of alcohol—I do not think taste is a significant issue for people who are consuming vast quantities of that. At the very cheaper end of bulk wine and cask wine, you would be hard pushed to make an argument to me—and I do not claim, as I said, to be a wine expert—that the loss of aesthetic, the loss of taste, is an impediment to producing low-alcohol cask wine. I would have thought that that would not have been the major issue driving sales anyway.

Senator MURRAY—If my memory is correct, without finding it again, I note that in Lion Nathan's submission they have probably recognised that argument and simply said, 'The only way to adjust the price consumption ratio with respect to cask wine is to introduce a special tax on cask wine.' As an economist, my fear would be that that would simply result in a substitution. People would switch from cheap cask wine to cheap bottle wine, especially with the current glut that is out there. Have you thought at all about the Lion Nathan approach to a special tax on cask wine?

Mr Crosbie—Again, maybe it is one of those incremental steps that we should be supporting. Ideally, in relation to alcohol taxes, something delivering four litres of 11 or 12 per cent alcohol by volume would be taxed according to the level of alcohol in that product.

Senator MURRAY—I should remind the committee that I am a supporter of the volumetric taxing of wines. My prejudices ought to be put on the record.

Mr Crosbie—We do know that when a special levy was introduced on cask wine in the Northern Territory, its benefit was immense on a relatively small population. What made the benefit particularly useful was that some of the additional levy was then directed to reducing the problem. The Living with Alcohol Program in the Northern Territory was funded entirely by a levy on cask wine and full-strength beer. We know that when that levy went off, cask wine sales went up and problems increased. I would like to see a volumetric tax on cask wine, but if the step is saying, 'We are going to put a levy on cask wine according to its alcohol content', you still have that issue of trying to create incentives for having lower-alcohol cask wine. If we could actually reduce the alcohol content of cask wine, I think that would be a great step in the right direction. I think whatever levy you put on needs to have a volumetric component to encourage people who are producing. My understanding is that there is really only a handful of large companies who produce over 80 per cent of the cask wines that are sold in Australia and that those companies should have an incentive to invest in the technology around low-alcohol wines.

Senator MURRAY—Would you be encouraging the committee to recommend to the government that they seek to find ways either to allow the flexible pricing of wine in those areas where it is a problem, which is essentially to allow a Northern Territory type program to be developed, or to recommend that they examine the area to see what policies they could come up with which would give a flexible response to problems where they exist? My assumption is that cask wine is not universally a problem; my assumption is that it is a problem in particular communities and particular areas.

Mr Crosbie—A recent experience in New Zealand concerns a product that was created that took advantage of their excise rules. It was a product that was stronger than wine—I think it was about 17 per cent or 18 per cent alcohol by volume—and it was marketed very cheaply. People could actually buy it very cheaply. The New Zealand government ended up making changes to excise so that that product became more expensive. It disappeared off the shelves almost overnight, once its price advantage was gone—which suggests, again, that people were not drinking it for its taste. For me, the biggest issue, and I think I need to emphasise this in response to your question, is floor price. If you asked me, 'Ideally, what should we be doing?', I think you should be looking at pegging a floor price and having, if you like, a benchmark minimum price for alcohol.

Senator MURRAY—Which I assume would be indexed.

Mr Crosbie—Yes. Whilst I think cask wine is the major issue at the moment in terms being advantaged by the excise system and producing very large quantities of alcohol at very cheap prices, that does not preclude the possibility that other products can move into that area. The reason I argue for a volumetric tax across the board is that you could knock cask wine over perhaps with a levy or something and provide incentives for lower-strength casks, but my question would be, 'Are there going to be other products that come along that we then have to put a levy on because they are pushing that floor price down?' For me, wherever we have an issue with the floor price of alcohol, we are going to have an issue with abuse.

I suppose the hardest example for me to talk about is the alcohol essences example. Some producers took advantage of creating a product that was called a food product, had up to about 80 per cent alcohol by volume and was being sold at \$5 for a 375 ml bottle. I know a family who lost their son through him consuming that product. Again, that is an example where a product was able to avoid paying an appropriate level of excise or taxation or being priced at a level that actually reflected how much alcohol was in that container.

While I support levies and incremental pushes, I think we also have to be aware that there are people who seek to make money out of selling as much alcohol as they can at the cheapest price possible. Fortunately they are mostly outside the alcohol producing industry, but there are people who do that. We need to be able to

ensure that, whatever we do in the broader targeting of individual products, we still work towards that volumetric tax, because that would knock over all those products.

Senator WEBBER—In light of the time I will restrict myself to one question and try and keep it as brief as I can. Going back to the Northern Territory example and following on from some of the discussion you had with Senator Murray, is there any evidence of what substance replacement went on in those communities that increased the cost of cask wine? The Senate has another inquiry into petrol sniffing in Indigenous communities, and there is a lot of evidence that, when you put Opal fuel in, these people move to something else to abuse their bodies with.

Mr Crosbie—There will always be people who substitute. The question is the level of substitution and whether or not it is the same as what was there previously. The experience in the Living with Alcohol Program levy example was that cask wine consumption went down. There was some increase in the consumption of fortified wines but it was nowhere near the level that had been in place for cask wine. My understanding was that in some retail outlets there was increased supervision put on to those products, some cleaning products and other products that might have been used as substitutes.

Senator WATSON—I was just a little bit worried that, in following your suggestion about bringing, say, the three per cent rate down to one per cent, you might get the one per cent producers moving out of the market and going up to three per cent. I would see that as an unfortunate aspect if we recommended that.

Mr Crosbie—What I was suggesting was equivalence with RTDs and beer products. At the moment the excises apply to low-strength beer and mid-strength beer products as a whole, excluding the first 1.15 per cent. So if I have a 2.15 per cent beer, I effectively only pay excise on one per cent of that product. If I have a 2.15 per cent ready-to-drink product, I pay excise on the whole 2.15 per cent.

Senator WATSON—What are you suggesting, then?

Mr Crosbie—The only change I am suggesting is that the RTD products actually get the same rate as the mid- and low-strength beers. To do that would mean extending the 1.15 per cent exemption that currently applies. There is an exemption on the excise rate.

Senator MURRAY—A threshold.

Mr Crosbie—I think the reason it was there originally was that apparently there are products that are under 1.15 per cent that people wanted to be exempt from all alcohol excise.

CHAIR—Thank you very much indeed, Mr Crosbie. That is very helpful.

Mr Crosbie—Thank you for your time.

[10.05 am]

BRODERICK, Mr Gordon James, Executive Director, Distilled Spirits Industry Council of Australia

FORD, Mr Clayton Travis, Manager, Corporate Relations, Diageo Australia Ltd

RYAN, Mr Warwick Michael, Director, Government Relations, KPMG

CHAIR—Good morning, Mr Broderick; gentlemen. The committee has before it your submission, No. 8. Do you have anything to add about the capacities in which you appear?

Mr Ryan—I am a tax consultant to DSICA.

CHAIR—I invite Mr Broderick to briefly address the committee.

Mr Broderick—I might add that Diageo is the largest spirit manufacturer in the world, and certainly the largest spirit distributor in Australia, both of full-strength spirits and ready-to-drink products. They are the owners of Bundaberg Rum. On behalf of my council, we would like to thank the committee for inviting us to appear before you today regarding this package of amendment bills. I want to briefly say something about DSICA, the Distilled Spirits Industry Council of Australia, and the Australian alcohol market. We are the peak spirits body representing the interests of distilled spirits manufacturers and importers in Australia. We represent companies that command in excess of the spirit market in Australia and certainly the major manufacturers of ready-to-drink products.

DSICA and its members are committed to the responsible marketing and promotion of spirits in Australia. We are also committed to supporting social programs that are aimed at reducing the harm associated with excessive or inappropriate consumption of alcohol. Senators will see references to some of the programs our members are engaged in by referring to the submissions lodged with the committee by two of our members, the Bundaberg Distilling Company and BM Global Spirits and Wine.

DSICA was an important player in the creation of Drink Wise Australia, an industry funded body aimed at encouraging socially responsible alcohol consumption. DSICA commends the government for the support it has shown to Drink Wise Australia by providing funding in last month's budget to assist with its campaign to promote responsible alcohol consumption and its recent contribution of \$5 million to Drink Wise Australia.

I will now talk about the bills that are being reviewed. We would like to take this opportunity to congratulate the government and Treasury for their work in streamlining the excise and customs legislation through amendments contained in these bills. Further, we congratulate the government for retaining in the legislation a number of measures regarding product standards of critical importance to our industry and to the consumers of our products. We refer here to the issue of maturation standards to be mandated by the amended excise and customs acts.

DSICA would like to open its presentation by stating clearly that it has no objections to the contents of the amendment bills. As I said, DSICA congratulates the government on its reform efforts. However, like Mr Crosbie, DSICA sees that the government and the Senate have an opportunity with these bills to implement a small change to the alcohol taxation system. DSICA believes that the government reopened the issue of alcohol taxation by announcing significant changes to the wine equalisation tax in this year's budget. Those changes will cost more than \$120 million over the next four years. The changes that DSICA is seeking are supported by the health lobby and are estimated to cost less than \$2 million in the first year. You have before you a copy of the DSICA submission. While the submission is quite long, our message is short and simple.

CHAIR—It is really in the second dot point on page 3, under the executive summary, isn't it?

Mr Broderick—Where?

CHAIR—The dot point commencing:

DSICA believes that the introduction of these bills provides the Government with an ideal opportunity ...

Mr Broderick—Yes.

CHAIR—That is what you have come to tell us, isn't it?

Mr Broderick—Among other things, yes.

CHAIR—Is that your main point?

Mr Broderick—Yes. Many senators may be aware of our submissions in the past asking for the government to provide full tax equivalence between all RTDs and beer. It is still our long-term aim that RTDs

should receive the same excise free threshold as beer—1.15 per cent of alcohol content. But that is not what we are asking for today. We are simply asking for incremental change in the way that low- and mid-strength packaged RTDs are taxed. This is not a major change in the architecture of the alcohol taxation system. The change that we are seeking would affect only about 0.1 per cent of the total alcohol market in Australia. This change would provide to low- and mid-strength packaged RTDs the same taxation treatment as is currently available to low- and mid-strength packaged beer. As I said, this incremental change would come at very small cost to government revenue.

CHAIR—How much?

Mr Broderick—In the first year, \$2 million. However, it will achieve a major health outcome in that it will produce a practical incentive to produce more low-alcohol and mid-strength RTDs. This is a measure specifically identified in the government's National Alcohol Strategy 2006-2009, which identifies a need to encourage the consumption of lower-strength alcohol products.

CHAIR—Have you set out in your submission the page numbers you have referred to in the government's alcohol strategy?

Mr Broderick—Yes, we have. It is at page 33. I would like to briefly talk about RTDs, as we call them, and the alcohol market in Australia, because there are a lot of misconceptions. Despite their relatively high media profile, RTDs comprise a relatively small percentage of the alcohol market in Australia. I refer the committee to graph 11 on page 21 of our submission, which indicates that, in terms of the consumption of pure alcohol in Australia, RTDs comprise only 10 per cent of the total market—that is, less than a quarter of the size of the total beer market. However, in retail turnover terms, RTDs represent about one-third of the value of the total beer market—that is, RTDs are an expensive way to obtain your alcohol. An average four-pack of RTDs costs about the same as an average six-pack of beer. There are three segments in the part of the market in which beer competes directly with RTDs: firstly, low-alcohol products with up to three per cent alcohol by volume—typically, low-alcohol beer is approximately 2.7 per cent alcohol by volume; secondly, mid-strength products above three per cent and up to 3.5 per cent—typically, mid-strength products are 3.5 per cent alcohol; and, thirdly, full-strength products above 3.5 per cent alcohol.

Mid-strength RTDs comprise only 0.1 per cent of the total alcohol market in terms of litres of pure alcohol. DSICA is not aware of any low-strength RTDs. Mid-strength RTDs comprise only two per cent of the total mid-strength market comprising beer and RTDs. Later in our presentation, with the agreement of the committee, we will show you some examples of the mid-strength products that some of our members sell in the market today.

CHAIR—I do not think we need that. I appreciate that you have gone to a lot of trouble in bringing all this booze in, but I think we will be right.

Mr Broderick—We are happy to leave it behind.

CHAIR—Don't do that!

Mr Broderick—It is a very good product.

Senator MURRAY—I think the committee would say, 'Good try!'

CHAIR—I think you may take it, Mr Broderick, that we are quite interested in your proposition in relation to your recommendations on the RTDs. If you would just focus on that for us, please, that would be helpful.

Mr Broderick—Thank you, but, to focus on that, I need to talk about some misconceptions about the health aspects. We are under no illusions regarding the difficulties of implementing our proposal. We are aware of the perceptions in some sections of the community about the consumption of RTDs, particularly by young people, and we appreciate the government sensitivity about not wanting to do anything that would reduce the price of RTDs when there is this perception. But this is a misconception created primarily by the media. It is a popular misconception that there are increasing rates of harmful alcohol consumption amongst young people. Mr Crosbie addressed this issue this morning. It is also a misconception that, in some way, RTDs are responsible for this.

In order to have these issues independently investigated, DSICA has engaged a leading research academic, Professor Ian McAllister from the Australian National University. Professor McAllister has analysed the best available evidence regarding patterns of alcohol consumption amongst young people, and his conclusions are summarised in the table of 'Indicators of alcohol consumption amongst young people', which is found on page 3 of appendix 1 of our submission. Indicator 1 shows that young people are not commencing alcohol

consumption at significantly younger ages than before. Indicator 2 shows that the proportion of underage people who are drinkers is not increasing. Indicator 3 shows that the proportion of underage drinkers who engage in high-risk drinking is not increasing. Indicator 4 shows that the amount of alcohol being consumed by risky and high-risk underage drinkers is not increasing. Indicator 5 shows that there has been a 10 per cent fall in the number of underage people who are dying from alcohol attributable causes.

Consequently, there is no evidence of any link between the increasing popularity of RTDs and the levels of harmful alcohol consumption amongst young people. Of course, the council is concerned about any harmful use of our members' products, and it is keen to work with governments and the health lobby to see existing rates of harmful use reduced. That is why we are making this proposal. The fact is that RTD sales have been growing at the expense of full-strength beer and spirit sales. There has been no increase in the per capita alcohol consumption in Australia in over 10 years, and certainly not since tax reform. The National Alcohol Strategy 2006-2009 says:

A new tax structure that increases the affordability of low-strength alcoholic beverages is one potential way of achieving both ... health and economic benefits.

It is these potential health benefits of DSICA's proposal that explains why there is so much support amongst the health and medical lobby for the change we are seeking. The committee has heard from leading health advocates such as the Alcohol and Other Drugs Council of Australia and Odyssey House supporting our call for change in this area. These groups see such a change as good policy. They agree that beer enjoys an unfair tax advantage over RTDs in the low- and mid-strength segments.

Of course, beer manufacturers will seek to persuade the committee not to change the existing system. That is because it significantly favours their products. It is understandable that they will resist any proposal to remove a tax advantage that they have in a competitive marketplace, but alcohol taxation bills only come up for debate every four or five years. We last presented these issues to this committee in 2002. The Association of Australian Brewers argued then that there was no need for change, and we urge the committee not to miss this opportunity to recommend some small changes that would ensure increased incentives to produce lower alcohol RTDs. There would be significant health outcomes for the community if we can encourage the production and consumption of lower alcohol products in substitution for full-strength products. I thank you for your indulgence.

CHAIR—It is not an indulgence at all; it is a pleasure. Where does this \$2 million figure come from as a cost to revenue?

Mr Ryan—The \$2 million and the way that is calculated is set out in appendix 2 of the DSICA submission. It can be seen in table 3. This table lists the volumes of ready to drink products in the mid-strength market and compares them with those in the mid-strength beer market. In the third column from the left, there are about 24 million cases of mid-strength beer in the Australian alcohol market, but only 400,000 cases of mid-strength RTDs.

CHAIR—So that table gives us the derivation of your estimate.

Mr Ryan—That table outlines the size of the market, and when you turn to the next page, you will see the calculation that leads to the \$2 million.

CHAIR—I see.

Mr Ryan—So the calculation is set out in table 6, but it builds from analysis of the current market.

CHAIR—Thank you. Senator Stephens, do you have some questions?

Senator STEPHENS—Just one question. Mr Broderick, your submission deals directly with your products and RTDs; you make no comments or observations about wine. Did you want to put something on the record about wine?

Mr Broderick—No. We viewed this inquiry as dealing with the excise bills and did not see it as appropriate to make a submission about wine.

Senator STEPHENS—Okay. Thank you.

CHAIR—Senator Murray?

Senator MURRAY—I think it was a good question from the deputy chair. You were on the record in 2002, as an industry, supporting the volumetric taxing of wine. Is that correct?

Mr Broderick—That is correct.

Senator MURRAY—I seem to recall from 2002—and I am pretty certain it has not been corrected since—that you actually advocated an increase in excise for one category of products. I seem to recall that you recommended that brandy spirits be taxed at the same level as all spirits, which struck me as sensible. Does your industry still hold to that view?

Mr Broderick—You have a very good memory, Senator. That is correct. That was our position and that remains our position.

Senator MURRAY—Would you be suggesting to the committee that, with respect to the spirits industry—you have made it clear you do not want to make recommendations with respect to the wine industry—we should again consider recommending that that occur?

Mr Broderick—Yes, we would support that position, and of course that would make any reduction in the mid- and low-strength RTDs even more revenue neutral.

Senator MURRAY—In other words, if the government were to tax brandy spirits at the same rate as all other spirits, which seems to me eminently sensible, that would provide sufficient revenue to cover the cost of your other recommendations?

Mr Broderick—That is correct. It would exceed it. Our estimation is that that would raise an additional \$5 million per annum for the government.

Senator MURRAY—So it would be not just revenue neutral but revenue positive for the government?

Mr Broderick—Correct.

Senator MURRAY—Thank you.

CHAIR—Thank you, Mr Broderick, Mr Ryan and Mr Ford. You are excused.

Mr Broderick—Thank you very much for the opportunity.

[10.23 am]

EVANS, Mr Paul Andrew, Director, Government Regulation and Community Affairs, Lion Nathan Ltd

CHAIR—I now invite to the table the witness from Lion Nathan Ltd. Welcome, Mr Evans. I invite you to address the committee.

Mr Evans—I would like to first thank the committee for adding me to today's agenda at such late notice. This is my first time in front of such a committee, so forgive me if I demonstrate any stage nerves today.

CHAIR—We are very easy to appear before, Mr Evans.

Senator STEPHENS—Very accessible.

Mr Evans—Thank you. I would like to focus my opening remarks on the issue that has clearly emerged as the key matter in the submissions and in the evidence today, and that is the proposal for tax equity between RTDs and beer. I would like to take senators to page 6 of Lion Nathan's submission, paragraph 2, where we discuss the growing popularity of RTDs. I want to summarise.

CHAIR—By the way, Mr Evans, this submission is lodged in your name; are you the author of it?

Mr Evans—Yes, I am.

CHAIR—Okay. Thank you.

Mr Evans—As you will see from our submission, we argue against any tax changes at this time, particularly for RTDs; let me summarise why. First, we know a lot about the dramatic popularity of RTDs but we do not yet have clarity around their current and potential impact on misuse. From the submissions and research around RTDs, it is obvious to anyone that there is no consensus about their role in misuse. Every week, it seems, new research is released that contradicts previous data. It would be a stretch for any interest to say that there is a firm research base on which to drive any changes in RTD taxation; it is certainly not fertile ground to drive reform and important questions about palatability and drinkability. RTDs are a gateway product for young consumers, and are not well known by either the health or RTD lobby at this stage. I think broader community opinion would support that conclusion.

What we do know is that providing incentives for low- and mid-strength RTDs may result in and contribute to further growth in their higher-strength parent brands, many of which are well in excess of full-strength beer ABV rates. With that in mind, I am surprised that many health and community representatives have argued that low- and mid-strength RTD tax bans could drive more responsible youth consumption. Mid- and low-strength alcohol has always been a difficult sell to young consumers, regardless of the category or price point; and I can assure the committee that low- and mid-strength alcohol is something that Lion Nathan knows a lot about. Some say, with very little supporting evidence, that lower-strength RTDs will encourage more responsible RTD consumption in young consumers; but it is just as likely that they will simply provide profile for and a gateway to the higher-strength parent brands—ranging up to nine per cent ABV.

In Lion Nathan's view, alcohol is not alcohol is not alcohol. We should also look at how alcohol is delivered, such as when it is mixed with sweetened soft drinks, and how it is packaged, such as when 14 per cent wine is presented to consumers in four-litre boxes, and a raft of other variables. As producers, we know that consumers engage different alcohol types for very different reasons and, subsequently, demonstrate very different drinking behaviours.

In conclusion, we do not yet know enough about RTDs and their impact to proceed with confidence, and we cannot ignore the fact that RTD innovation is increasingly around high ABV rates of around eight and nine per cent. Regardless of the proposals put forward by the RTD lobby, at the end of the day they offer only incremental change in favour of a largely import business that will create as many anomalies as they say will be addressed. Supporting them, I think, would fly in the face of much needed caution in this area.

CHAIR—You said in your oral presentation that 'every week new research is released which contradicts previous data'.

Mr Evans—I guess that is a crude summation.

CHAIR—Allowing for the fact that everybody is entitled to a little bit of rhetorical flourish in these committees, I am surprised that you do not anywhere in your written submission verify that statement.

Mr Evans—By way of referencing the research?

CHAIR—Yes.

Mr Evans—I have to apologise to the committee for that. We have not previously had a comprehensive tax position. Given the shortness of time between when submissions were called for and when it was put together, we do not have, like our colleagues in the spirits industry, a long history of making submissions with well thought out and well-researched papers. I hope that changes in the future. I apologise for the—

CHAIR—You do not need to apologise. I just wonder about the claim. It is not right to say that every week more research is produced that contradicts previous research. It is an overstatement, isn't it?

Mr Evans—As I said, it is a crude representation of the reporting that is in the media. We see releases from various research institutes about such things as the role of sugar in RTDs and the average number of standard drinks. We get research on secondary school students that says RTDs are becoming more popular with drinkers that drink at higher risk levels. We see DSICA putting forward research that contradicts that. It is not an area in which you will find a great deal of consensus about the role of RTDs.

CHAIR—Mr Crosbie, the witness from Odyssey House who was not here to defend an economic interest but to advocate essentially a particular health related point of view, put before us about 2½ pages of references which he told me, and I am prepared to take it at face value, show that the research all goes one way—that is, there is a direct empirically demonstrable relationship between the price of alcohol and behavioural patterns. He drew from that proposition—and I hope I am putting this fairly—the conclusion that lower rates of taxation on low- and mid-strength alcohol products have the outcome of reducing overall alcohol consumption. If I may say so, you seem to say that about beer, on page 5 of your submission. I am not saying that Mr Crosbie is right—I do not know anything particularly about this area—but he comes as a quasi-expert witness without an economic interest to defend. As it is the custom of this committee to take questions on notice, I invite you or your company to put before the committee any academically respectable, relevant research which contradicts the proposition that Mr Crosbie contended for. You have indicated in your oral submission that the research is inconsistent and goes all over the place. That is certainly not my impression gained from the other witnesses. Would you take the opportunity to do that?

Mr Evans—Yes. I would have to point out that I do feel like a shag on a rock here because, from my reading of the submissions, I am the one that is arguing for the status quo on this matter.

CHAIR—That is fine. I am glad you are, because we are getting two points of view. But I want you to back your assertion, that the academic research goes both ways, by directing us to some academic research that goes your way.

Mr Evans—I am happy to do that. Can I give you an initial response to that. The important matter here is where we are expecting to see the benefits of that switch to low- and mid-strength beer. Our experience of low- and mid-strength beer is that it is a phenomenon that has benefits for older consumers and consumers worried about such things as drink driving—and that is an excellent outcome. But some interests say that giving encouragement to low- and mid-strength RTDs is somehow going to bear significant fruit among young consumers. I think that is unproven at this stage.

CHAIR—Except that you could draw an analogy with your own company's experience in the beer market, can't you?

Mr Evans—As I have said to you in my verbal submission, we have found it very difficult to push low- and mid-strength beer at any price point among young consumers. The proposition that I am putting to you is that, if we replicate with RTDs what we have done with beer, there may be a benefit for older consumers. But with younger consumers the reason why they drink spirits is different from why they drink beer and there are questions about whether lower strength RTDs will introduce them to their higher strength parent brands. Those are questions that we do not have definitive answers to, I have to say, and I think it would be bold to propose significant and profound tax changes around RTDs while those questions remain unanswered.

CHAIR—You say they remain unanswered but it seems to me—and I commend you for not overstating your case—that your case at its highest is 'we don't know', so with your case at its highest you are putting a neutral position.

Mr Evans—I am not arguing for change; I am arguing for a maintenance of the status quo. The burden of proof, I guess, is on those who say, 'There is so much weight of conclusive evidence that it is commonsense for things to change.' I do not think we are there yet.

CHAIR—I understand your position. The way the parameters of the discussion this morning shape up to me are that you are defending the status quo by saying, ‘We can’t be sure that the position is neutral.’ Those such as Mr Broderick who are advocating change, albeit motivated by self-interest, are saying, ‘We can discharge the burden of proof because here is the research, and we can also draw some’—you say limited—‘analogies with the beer market and that makes our case.’ And, then, the independently minded person who is interested only in the health consequences is putting his money on Mr Broderick’s case. That is the way the parameters of the debate look to me at the minute, Mr Evans.

Mr Evans—I am happy to come back and try to make our submission more robust around supporting research. Again, I apologise for that not being a part of it. Hopefully, in future discussions on this we will come to the table with some more considered documentation.

CHAIR—It must be your position, surely, Mr Evans. You proudly say at page 5 that you are a pioneer of the mid-strength beer market. I notice that XXXX Gold, which as a Queenslander I contend is the best beer in Australia, is in fact the third most popular beer in Australia.

Mr Evans—It is going gang busters, Senator.

CHAIR—Going gang busters—that is great. I help it along from time to time. You say that the experience of the beer market has produced some beneficial changes in that market. What you challenge is the extent to which one can derive any indicative lesson from the beer market and apply it the RTD market. That is your point, isn’t it?

Mr Evans—I think we have to be careful. The benefits that I see from low- and mid-strength beer have been for older consumers.

CHAIR—Although the demographic issues are relevant, they are not the only issue. Let us take a holistic view of the market. Even if this has an effect among any age level, if it produces as an end result less alcohol abuse that is a good thing, isn’t it?

Mr Evans—This is where I get back to my point. If it is a good thing for the older drinkers, we have to assess whether there is a negative impact with another demographic. The point I would put to you is to again say that, whilst we might have a drop in consumption to lower strength in older consumers, it may just be that we are providing a very convenient gateway to high-strength RTDs by providing greater incentive for young consumers to initially go to low- and mid-strength and then to say, ‘Hang on, I’m drinking spirits for certain reasons, and those reasons justify me going to higher ABV rates.’

CHAIR—Yes. I think that is your best point, if I may say so.

Mr Evans—You have to balance these things. There are very complex issues at play there. I certainly do not have the answer, and I do not think anyone has. Again, I would say that that is certainly not fertile ground on which to go forward with confidence.

CHAIR—So your point is that, if we further increase the popularity of RTDs by tax changes, that will also potentially increase the popularity of full-strength RTDs and we might end up with more not less alcohol abuse of RTDs?

Mr Evans—Absolutely. I have a couple of examples in the beer category that might be relevant: Hahn Premium Light and its impact on Hahn Premium, and the kick along that full-strength XXXX Bitter has got from the growing popularity of XXX Gold. We know that there are spin-off benefits. I would assume that any RTD that has five, six or nine per cent ABV products and which points out a popular 3.5 per cent or a 2.4 per cent is going to get brand exposure across the category.

CHAIR—I am sure that is true.

Mr Evans—We know that. We know what we are doing. We know how to build parent brands.

CHAIR—But I suppose what you have to then do is make a judgment about the degree of selectivity within the brand, the extent of preference for the lower priced low-alcohol RTD. This brings in the discussion that I particularly had with Mr Crosbie about the extent of price sensitivity.

Mr Evans—Yes. Another issue that we have to think about is the impact across socioeconomic groups. I think we could say with confidence that lower socioeconomic groups are very price sensitive on alcohol. But there is another group of young consumers who have an unprecedented level of disposable income.

CHAIR—I know that, due in part to the beneficial policies of the Howard government, everybody has more money than they used to have, practically, including very young people. But, by and large, I think it is

pretty true to say that, comparatively speaking, uni students and people in their late teenage years or early 20s are as poor as church mice.

Mr Evans—I am not sure.

CHAIR—Most uni students I know are.

Mr Evans—I know that I certainly was when I went to university. But I think this discussion is indicative of the complexity of the issues. I think it adds to my point that we certainly need to know a lot more about this area.

CHAIR—I think that is a sound caution if it is the case that the behavioural studies are as inconsistent or uncertain as you claim. But I must say that, looking at some of the data that has been presented by other witnesses, I am sceptical that the position is as uncertain as you claim, hence my invitation to you to put forward the contradictory data that you say exists.

Senator STEPHENS—In your submission on page 7 in the third paragraph, which notes recent overseas experience in comparable markets, are you actually suggesting that requests by industry here in Australia to reduce the tax on RTDs is going against an international trend?

Mr Evans—I think we have to be careful about international trends. The drinking cultures and experiences and where they happen and so forth are very different. The reason why we included those examples is just to spell out that in other comparable markets—and I guess Ireland and the UK are about as similar as we can hope to get—the decision makers have seen RTDs as something they should turn their attention to. But, again, international comparisons are extremely difficult to make in this area.

Senator STEPHENS—Is the research that you referred to in your opening statement the London Institute of Alcohol Studies research that was released last week? Is that what you were talking about?

Mr Evans—I am not familiar with the way that you have described it. It could well be. But, again, I will take up Senator Brandis's invitation to get back to the committee.

CHAIR—You will need to do that fairly promptly, by the way, because we have a very tight reporting deadline.

Mr Evans—Yes, I know. Thank you.

Senator STEPHENS—That report was the Anderson and Baumberg report, *Alcohol in Europe*. It is by the London Institute of Alcohol Studies. In the US, I understand, some RTDs are based on alcohol stripped from beer and they are called 'malternatives' or flavoured malt beverages. They derive lower taxes as a result of that. The US Treasury issued a proposed ruling to end this practice in 2003. Do you know what happened about that?

Mr Evans—I cannot answer that with confidence.

Senator STEPHENS—That is fine. I would certainly be interested in any other information that you can provide to the committee on the impacts of RTDs in your experience. But your recommendation is to resist the arguments for tax parity until we know more?

Mr Evans—Absolutely. We are not closing the door. Through a joint venture we produced RTDs ourselves. What we are saying is: let us get on top of the situation and take the community with us. From any cursory read of the media coverage on this issue I think it is fair to say that, if that reflects community sentiment on this issue, the community would not have the stomach for reform on this position. We need to take the community with us on this one. That will require a great deal more consensus and the promotion of that consensus before that is achieved. That would be my view.

Senator STEPHENS—You have not elaborated on your recommendation about the WET. Do you want to make some comments about the whole issue of cask wine and bulk wine and the WET and its future?

Mr Evans—Sure. It is a difficult issue to engage without looking at the state of the wine industry at the moment. We have said that we support the status quo until the wine industry is back on its feet. Our position on cask wine is as Senator Murray has already provided to the committee but, to be honest, it would be difficult to see how you could move on cask wine when it is providing such a safety valve for wine producers at the moment. By that, I mean the industry is awash in oversupply—a lot of good quality grapes are going into cask wine at the moment and it is providing a crutch to the industry. I think that to move against it in the current climate would be a blow to an industry that is under the pump at the moment. That is the first thing:

until some robustness returns to the wine industry, it would be difficult to move against one of its important safety valves without some serious economic implications for the industry.

When we are there, it is fair to say that cask wine is special. The committee will no doubt get bombarded from many vested interests with many opinions on what is fair and what is not fair. I think cask wine, by any measure, is a spectacular exception that is clearly beyond the bounds of any sense of what a tax regime on alcohol should be doing. In my travels, I speak to directors-general of liquor licensing around the country. I speak to senior ranked police officials who work in Indigenous areas. If you ask them what the No. 1 problem is, they will repeatedly tell you that it is cask wine—its price and what it does to those who consume it. If you talk to the police, they will tell you that the ability to consume and absorb 14 per cent ABV into the bloodstream has enormous repercussions for them. It is inexcusable that that tax rate exists. As soon as industry conditions allow us to address that, it should be done either by levy or when wine is caught up in a broader shift from WET to a volumetric based tax.

Senator MURRAY—Is my impression correct that the broad approach of Lion Nathan is that the volumetric taxing of wine should be pursued?

Mr Evans—You will note my previous comments.

Senator MURRAY—Let me put it bluntly: do you support volumetric taxed wine—and I am not saying that it should be introduced tomorrow—in preference to value added tax of wine?

Mr Evans—I think, in theory, yes. That is the direction we should be aiming for. In theory, if I take you to my submission, we have four objectives that we think should be uppermost in decision makers' minds when coming to alcohol tax—that is, the promotion of the domestic industry, the provision of greater incentives for the consumption of lower-strength beers, alignment with community views around what is appropriate and, lastly, simplicity and uniformity where possible, but only once those three abovementioned objectives have been achieved. Yes, we should be looking at uniformity where possible, but we have to deal with the political and health realities along the way.

Senator MURRAY—If you ever get more interested in the matter, I refer you to my proposition, which I put to the parliament—that is, the transitional arrangement for the taxing of wine could commence with an option to choose either WET or volumetric taxing. That is now less attractive to the industry because of the higher WET tax-free thresholds, but there was the opportunity for industries to choose, and I have developed that at some length. Let us not get distracted by that. If you want to pursue it further, I will be happy to talk to you.

Mr Evans—I will look that up.

Senator MURRAY—I am always surprised by how creative people are. Today I came across a proposition from Mr Crosbie that interested me and that I have not heard put before. He essentially said that one of the policy measures a government could consider is the introduction of a floor price for all alcohol, below which it could not be sold for either on- or off-site consumption. That would essentially be a price mechanism to ensure that no full-strength alcohol could be sold at such a price that it was so cheap that it would have detrimental social effects. I will not ask you to respond to that now, because it is a new concept. But, if you are going to come back to the chair with other considerations, you might give some response to that proposition by Mr Crosbie, because it does get around the difficulties of levies and all of those sorts of things. It essentially determines a common price law for everybody. So I ask you that on notice. The third area I wanted to explore with you is your gateway idea. As I understand your proposition—

Mr Evans—It is not my idea.

Senator MURRAY—It is the proposition that you have put to the committee. Essentially, you have said that producers of alcohol produce low-alcohol products for young consumers so as to provide a gateway to higher-alcohol products. You mentioned shifting from three per cent to nine per cent. Is that essentially what you said?

Mr Evans—I think, as we are producers and as brand builders, it would hardly come as a surprise to the committee that we are trying to shift consumers to the most commercially attractive brand. Within our portfolio, that is typically at a certain ABV rate, it has a certain production cost and we will give all sorts of incentives to get consumers to that point. It may come through advertising or marketing, but it also might come through other initiatives, such as getting consumers to try something, which is a stage in going to that product. Undoubtedly, building a cluster of brands that have certain ABV rates is a good way to capture

consumers. The trick then is to get your consumer to consume your most profitable brand within those ABV rates.

Senator MURRAY—So Lion Nathan introduced low-price beers not with the idea of encouraging good social benefits but with the idea of shifting consumers from a low-alcohol product up to full-strength products—is that what you are telling us?

Mr Evans—No, not at all.

Senator MURRAY—But that is the proposition you put with respect to the spirits industry. What you have said is—

Mr Evans—No, I have said that we do not know the answer to that.

Senator MURRAY—Hang on. Let me complete my proposition to you. What you have said to us is: ‘We are pure. We introduced low-alcohol products without any desire to use that as a gateway to shift young people to higher-alcohol, more profitable and more attractive products. We didn’t do that; we were pure. But these terrible spirits people are going to introduce low-alcohol products and use that as a gateway to manoeuvre kids into drinking high-alcohol spirits.’ That is a crude way of putting the proposition you put. By the way, I do not ascribe that motive to Lion Nathan when they introduce low-alcohol products, but nor do I ascribe that motive to the spirits companies introducing low-alcohol products. For them I see it as a market opportunity.

Mr Evans—I have couple of initial responses. Firstly, we did release a number of mid- and low-strength brands which had no parent brands—they were just put out there. That would seemingly support my proposition that it was not just to shift consumers around. Secondly, as I said in my verbal submission, drinkers drink different types of alcohol for different reasons and subsequently demonstrate different behaviours. I would put it to you as a gross generalisation that the reason why young consumers drink beer differs from why they drink spirits and hence the potential to use lower strength RTDs as a stepping stone to higher strength RTDs is a greater concern in the spirits area than, say, it is in the beer area. The concern with spirits is that they have an ability to go to higher ABVs than beer does, and I think that has to be factored into the committee’s considerations.

At the moment you can produce commercial quantities of beer up to 6.5 per cent at a stretch and still make beer with a viable taste as a commercial proposition. RTDs have the luxury of going up to a ceiling that is currently there from the tax department of 10 per cent and the excise almost doubles beyond that. But we see in New Zealand where that ceiling does not exist that they are happily on their way to 11 and 12 per cent ABV. I am sure that that would be the case in Australia if that ceiling were not there at the moment. Beer does not have that potential. I fear that a lot of the discussion around RTDs has not appreciated that fact. That innovation in RTDs is increasingly around those higher ABV rates and that will create another range of problems if you provide the category with further incentives and that range of incentives includes those proposals that have been put forward to you today.

CHAIR—It is a question of netting out the effect. I am sure that you are right, Mr Evans, when you say that, if RTDs develop a larger profile in the market, more full-strength RTDs will be consumed. But it seems to me that that is not the question. It seems to me that the question is whether proportionately greater low-strength RTDs will be consumed so that on balance there is less, not more, alcohol abuse.

Mr Evans—You might be right.

CHAIR—That is why we need the research. All the research we have heard today suggests that that is what will happen: that there will be less, not more, alcohol abuse. If you are right in saying that that research is wrong and in fact the increasing profile of that type of drink will increase, not decrease, the amount of alcohol abuse, then we are with you, I think it is fair to say.

Senator MURRAY—I think that the chair has made a very valid point. If you accept the long-term Australian data indicating falling, then stabilising, overall alcohol per capita consumption levels in Australia, we recognise as legislators that within that you are going to have fierce competition for market share. I am not at all offended by the self-interest that you present or the self-interest that the spirits people present.

CHAIR—This is the last place in Australia anyone could criticise self-interest, isn’t it, Senator Murray!

Senator MURRAY—Quite right. It is the very essence of our society to have that competition and self-interest, and we would say never apologise for it as long as it is on the table. But we have a social concern, and the social concern is the use and misuse of alcohol. We are well aware of the beneficial effects, both economic and social. The principal interest concerns the people who drink to excess; the people who are violent when

they consume alcohol, particularly in the home; and particular demographics and ethnic groups within the community. Therefore, we have a strong interest in encouraging the consumption of low- and medium-strength alcohol. I put it as simply as that. The difficulty I have with your proposition is that you are recommending the status quo.

Mr Evans—For now.

Senator MURRAY—You criticise the fact that products with higher alcohol levels are being consumed and they have detrimental effects, but you resist the introduction of lower alcohol products. The problem is—to use that much-used phrase—you would say that, wouldn't you? Because the introduction of a low-alcohol product has to compete with your low-alcohol product. It just has to. How can you satisfy me that your arguments are not simply a construction of market self-interest? That is legitimate, but is it just that rather than a genuine social concern?

Mr Evans—As I said in my submission, we know a lot about low- and mid-strength products. It would be fair to say we have led the market around that innovation. We know a lot about beer, how it is consumed, why it is consumed et cetera. What I am putting to the committee today is that we do not have that kind of confidence yet with RTD consumption. Certainly, my point of view is that the community feels that way. All I am saying is that we need that confidence through more consensus in the research and then we have got the job of convincing the community.

Senator MURRAY—As a human being, as opposed to a Lion Nathan representative—I do not know whether you are a father or a family man, but I am sure you have friends and relatives—would you rather see someone who you think might be inclined to drink to excess consume a low-alcohol RTD, at three per cent, than a high-alcohol RTD?

Mr Evans—Yes, but unfortunately life is not a snapshot. If you could convince me that that young consumer would stay on the low-strength—

Senator MURRAY—I did not say 'young consumer'; I said any person who might drink to excess.

Mr Evans—Any person who might drink to excess; if that brought about a lifestyle change or if that brought about long-term benefits, I would be with you 100 per cent of the way. What I am cautioning against is the assumption that that will be the case. We do not know yet whether that encouragement to go to low- and mid-strength RTDs will not translate, especially with young, at-risk groups, to higher strength ABV rates that far and away exceed those for beer.

Senator MURRAY—I must confess to you I have nearly 40 years experience in this field. I have never come across a non-industry health spokesperson who has not said that price and consumption are linked and that low-alcohol products should be fostered.

Mr Evans—In response, RTDs are only a recent phenomenon and we have not yet seen the full range of products and propositions that will come forward from that category. It is a growth category; it is an expanding category. I note that a lot of the references that Mr Crosbie and DSICA have put forward are four, five or six years—or sometimes a decade or more—old. They do not account for the recent and rapid increase in RTD consumption, particularly in certain groups. So, with great respect, this is a recent phenomenon and we do not yet know how it will play out. As I have said before, I do not think that that is a reason to throw further fuel on the RTD fire.

Senator MURRAY—I misled you; it is 35 years, not 40 years.

CHAIR—Thank you very much, Mr Evans. That is very helpful. The committee does not have any questions for Treasury. The hearing is concluded, and I thank the secretariat and Hansard for their assistance, both yesterday and today, with these long and complex hearings.

Committee adjourned at 11.05 am