



Foundation for Alcohol  
Research & Education

**Exploring the public interest case for minimum (floor)  
price for alcohol**

**Submission to the  
Australian National Preventive Health Agency**

**August 2012**

## About the Foundation for Alcohol Research and Education

The Foundation for Alcohol Research and Education (FARE) is an independent charitable organisation working to prevent the harmful use of alcohol in Australia. Our mission is to help Australia change the way it drinks by:

- helping communities to prevent and reduce alcohol-related harms;
- building the case for alcohol policy reform; and
- engaging Australians in conversations about our drinking culture.

Over the last ten years FARE has have invested more than \$115 million, helped 800 organisations and funded over 1,500 projects addressing the harms caused by alcohol misuse.

FARE is guided by the [World Health Organization's Global Strategy to Reduce the Harmful Use of Alcohol](#)<sup>[1]</sup> for addressing alcohol-related harms through population-based strategies, problem-directed policies, and direct interventions.

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<sup>[1]</sup> World Health Organization (2010). *Global strategy to reduce the harmful use of alcohol*. Geneva: World Health Organization.

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## Executive Summary

The Foundation for Alcohol Research and Education (FARE) welcomes the opportunity to contribute to the discussion on a minimum floor price for alcohol and looks forward to continuing to work with the Australian National Preventive Health Agency (ANPHA) to further develop alcohol pricing and taxation policies to reduce alcohol-related harms.

Alcohol pricing reform is proven to be one of the most effective ways to reduce alcohol-related harms. The World Health Organization reported that policies which increase the price of alcohol have also been found to reduce the proportion of young people who are heavy drinkers, to reduce underage drinking, and to reduce per occasion 'binge drinking'.<sup>1</sup>

Despite the significant evidence demonstrating that increasing alcohol prices can reduce alcohol consumption and associated harms, alcohol is now more available and affordable. A study of the Australian alcohol industry by The Australia Institute (Attachment One) shows that over the last two decades, the cost of alcohol has increased by 15 per cent relative to other consumer prices in Australia. However, during that time Australian incomes have increased by 46 per cent, making alcohol much more affordable. In comparison to other alcohol products, wine is by far the cheapest. A standard drink of wine can be purchased for 36 cents through a cheap cask wine, compared to \$1.75 for beer and \$2.52 for ready-to-drink beverages (RTDs).<sup>2</sup>

The current alcohol taxation system in Australia is in part to blame for the increase in the affordability of alcohol. The alcohol taxation system is illogical, inequitable, and incoherent. The Wine Equalisation Tax (WET) is the greatest example of this. Products taxed under the WET are taxed on wholesale price rather than on the alcoholic content resulting in cheap wine producers paying less tax than more expensive products, regardless of the alcohol content of the product. This means that producers who make and sell dirt cheap cask wine are rewarded with lower tax rates.

Alcohol pricing reform is urgently needed in Australia to prevent alcohol from becoming even more affordable, resulting in greater consumption and related harms. This reform can start immediately with the removal of the WET and replacement with a volumetric tax rate. By introducing changes to the way that wine is taxed, the floor price of alcohol will increase because wine is by far the cheapest available alcohol product.

At the same time there is a need to explore pricing options that can prevent the increasingly reckless discounting of alcohol products by retailers. This is where a minimum price can play a role. A minimum price can prevent retailers from using alcohol as a loss leader to get people into their stores. A minimum price can also guarantee that a product will not be discounted below a certain amount.

While a minimum floor price for alcohol can and should be explored in the Australian context, it is important to acknowledge that there are major implementation considerations that still require policy analysis and it is important that this occurs as part of ANPHA's consultation process. At the same time the current policy discussion around a case for a minimum floor price in Australia should not delay the reform of the alcohol taxation system.

A staged approach to alcohol pricing reform is needed in Australia and this should include immediate action in reforming the WET to raise the price of the cheapest alcohol products, along with further policy consideration of a minimum floor price for alcohol to prevent the reckless discounting of alcohol by alcohol retailers.

Emeritus Professor, Ian Webster AO has said that “Australia is left with a government resistant to a volumetric tax on alcohol and toying with the idea of minimum pricing. A recent review of pricing and tax options to redress alcohol-related harms in Australia, including minimum pricing, concluded that these would be more successful if used together (page 922)<sup>3</sup>.”

Australia can no longer afford to stand by and incur the increasing cost of alcohol-related harms. This consultation process has the potential to influence the direction of alcohol pricing policy in the future. ANPHA should use this opportunity to inform this direction.

## Recommendations

1. Alcohol pricing policies should not be addressed in isolation and instead a comprehensive approach to alcohol pricing is needed that considers both alcohol taxation reform and minimum pricing policies.
2. As part of the development of a minimum floor price for alcohol ANPHA should consider the:
  - i. policy objectives of the Government in achieving alcohol pricing reform;
  - ii. implementation options for a minimum floor price in Australia; and
  - iii. ideal rates for a minimum price to best influence behaviours and reduce alcohol-related harms.
3. Introduce a staged approach to comprehensive alcohol pricing reform by:
  - i. immediately replacing the WET with a volumetric rate of taxation;
  - ii. begin working with the state and territory governments to mandate the collection of alcohol sales data to be used in prioritising further reform;
  - iii. within one year, begin to address the current gaps in alcohol pricing policies; and
  - iv. develop and implement a longer term plan for alcohol pricing reform in Australia.
4. Ensure that a long term alcohol pricing policy addresses the principles identified in the submission, including:
  - i. alcohol pricing must be applied according to the volume of alcohol within products and their potential to cause harm;
  - ii. the policy relevant social costs of alcohol consumption must be used to inform alcohol taxation rates and prices;
  - iii. alcohol pricing policies must minimise distortion that may encourage harmful consumption of alcohol;
  - iv. revenue collected from alcohol pricing policies should be used to pay for the costs incurred by Government to address alcohol-related harms;
  - v. alcohol pricing policies must ensure the cost of alcohol is relative to incomes and Consumer Price Index (CPI) increases;
  - vi. alcohol pricing policies must aim to increase the floor price of the cheapest alcohol products;
  - vii. alcohol pricing policies must ensure harmful discounting by industry does not occur and minimise loopholes; and
  - viii. alcohol pricing policies must be administratively efficient.

## Definitions

### **Differentiated volumetric taxation**

Differentiated (or stepped) volumetric taxation is comprised of different rates of taxation for different categories of beverage or different percentage alcohol bands (e.g. 0 to 3 per cent attracts one rate per litres of alcohol (Lal)).

### **Wine Equalisation Tax**

The Wine Equalisation Tax (WET) is an ad valorem tax which is a tax based on wholesale price, not alcohol content. The WET is currently levied at 29 per cent of the wholesale sale value and applies to certain types of products that have an alcohol content of over 1.15 per cent specifically grape wine, grape wine products (including marsala and vermouth), fruit and vegetable wines, cider, mead and sake.

### **Wine Equalisation Tax rebate**

The WET rebate entitles eligible producers to a rebate of 29 per cent of the assessable dealing, which is typically the price for which the producer sells the wine, excluding wine tax and GST. The maximum rebate that can be claimed by wine producers for each financial year from July 2006 is \$500,000 per eligible producer. In addition to being offered to Australian wine producers, from 1 July 2005 a producer rebate has also been available to New Zealand producers, where that wine is subject to dealing in Australia on which the wine tax is paid.

### **Minimum price for alcohol**

A minimum price as defined by ANPHA sets a minimum price per standard drink (or unit of alcohol) that alcoholic beverages must be sold for. Minimum pricing is not a taxation measure, but rather a regulatory measure used to increase the price of the cheapest alcohol products and decrease discounting of cheaper products. The effect of a minimum price would be to increase takings and profits for some alcohol retailers and producers, unlike an alcohol tax increase in which the increased revenue would go to the Government.

### **Floor price for alcohol**

A floor price is the lowest price for which alcohol can be purchased.

## Alcohol pricing policies

There are two major alcohol pricing policies currently being explored in Australia. These are:

1. Reforming the alcohol taxation system, namely the Wine Equalisation Tax (WET); and
2. Introducing a minimum (floor) price for alcohol.

These pricing policies have been prioritised in alcohol policy discussions because they both have the ability to increase the floor price of alcohol. A change to the WET will increase the price of the cheapest alcohol products and return revenue to the Government and community. While a minimum price for alcohol will prevent the harmful and reckless discounting of alcohol by retailers.

While both of these policies are being explored, they are at very different stages of policy development. Alcohol taxation reform has been analysed for over a decade in Australia. However, minimum pricing is a relatively new concept in the Australian context and further consideration is needed about how it will be implemented and the optimal price to modify behaviours and reduce harms.

This does not mean that one pricing policy is more superior to another, nor does it mean that we should consider each of these policies independently. Both of these policies should be examined when discussing alcohol pricing reform in Australia, as they both serve distinct and different purposes. For this reason, both of these policy options have been described in further detail below.

### Reforming the alcohol taxation system

The current alcohol taxation system is illogical, incoherent and does not adequately recognise the extent and cost of alcohol-related harms in the Australian community. Wine is taxed based on its wholesale price rather than its volume of alcohol, which favours the consumption and production of cheap wine with no regard to alcohol volume. Beer is taxed based on volume, however there are eight different rates depending on the alcohol content (low, medium or full strength), whether it is draught or packaged, and whether it is brewed on premises (non-commercially) or commercially. All spirits (including ready-to-drink beverages) are taxed according to their volume of alcohol content with a single rate for all spirits, except for brandy which has a concessional tax rate.

The Henry Review described the current alcohol taxation system as “incoherent” and stated that the “current alcohol taxes reflect contradictory policies...As a consequence, consumers tend to be worse off to the extent that these types of decisions to purchase and consume, which may have no spillover cost implications, are partly determined by tax (page 436)<sup>4</sup>.”

### Reforming the WET

The WET is the most inequitable component of the alcohol taxation system because it results in wine and other fruit-based products such as cider being taxed based on their wholesale value, rather than their alcohol content. This encourages the production of wine that is sold as cheaply as 25 cents per standard drink, allowing people to purchase 40 standard drinks for just \$10.



The first step to addressing the increasing affordability of alcohol in Australia and its resulting consequences is to reform Australia's alcohol taxation system by abolishing the WET and replacing it with a volumetric tax rate. This would effectively increase the floor price of alcohol, as wine is by far the cheapest product available for purchase in Australia. The interim tax rate applied to wine should be no lower than \$17.39 per litre of pure alcohol (Lal), which takes into consideration the net revenue currently collected from the wine industry and the revenue forgone through the current WET rebate.

The significant growth in the cider market in recent years provides a further argument for addressing the WET as a priority. As a fruit based product, cider is currently taxed under the WET and is the largest growing segment in the alcohol market with sales by volume and value having almost tripled from 2005 to 2010.<sup>5</sup> Much of this growth and diversification into the cider market has coincided with the increased taxation applied to ready-to-drink beverages (RTDs) as a result of the alcopops tax introduced in 2008. Cider is taxed more lightly than RTDs, making it a more price competitive prospect for the producer. In this way, the growth in the cider market demonstrates the alcohol industry's capacity to adapt quickly to changed taxation arrangements for one product (RTDs), and diversify into products that appeal to a similar consumer market.

### **Support for alcohol taxation reform**

There is substantial support for reforming the alcohol taxation system in Australia including from public health advocates, leading economists and most of the alcohol industry. This is a view shared by segments of the wine industry including Treasury Wine Estate and Pernod Ricard (otherwise known as Premium Wine Brands) who together account for 20.5 per cent of Australian wine producers. Both have called for a volumetric tax to be applied to wine.

The Henry Review is one of eight government reviews over the last 15 years to recommend introducing a volumetric tax on wine. The Henry Review in 2009 suggested that the WET needed to be reformed as a matter of urgency.<sup>6</sup> Regrettably, the Australian Government's response to the Henry Review stated that it would not reform alcohol taxation while Australia is "in the middle of a wine glut and where there is an industry restructure underway (page 30)".<sup>7</sup>

The Government's reason for delaying alcohol taxation reform in Australia is erroneous. Analysis of the WET by the Allen Consulting Group demonstrates that the WET and WET rebate are contributing to the wine glut.<sup>8</sup> There is also speculation that the glut is at an end. In August 2011, the Managing Director of Treasury Wine Estate has said that "The Australian wine sector is 12 to 24 months away from supply and demand being in balance".<sup>9</sup>

### **A minimum floor price for alcohol**

There is increasing public discussion regarding a minimum floor price for alcohol in Australia. Internationally there have been significant developments in progressing a minimum floor price in both England and Scotland.

A minimum floor price increases the price of the cheapest alcohol products and ensures that alcohol retailers cannot use reckless discounting practices. A minimum price also prevents any undermining of the alcohol taxation system, where alcohol producers innovate to avoid higher alcohol taxes. An

example of this is the beer-based alcopops (e.g. Smirnoff Platinum) that were developed to avoid the RTD tax increase.<sup>10</sup>

The Henry Review identified that while a volumetric tax would provide a floor price for alcohol, alcohol could still be sold below cost.<sup>11</sup> Loss-leading strategies are frequently used in retail settings, such as supermarkets, where alcohol is often heavily discounted to attract customers into their stores. A minimum floor price for alcohol would counteract these types of discounting practices.<sup>12</sup>

### **Australian example of a minimum price**

In 2011, Woolworths announced that it would no longer sell 750ml bottle wine under \$8.00 in their Alice Springs store and would exclude lower cost bottled wine from discount specials. In June 2011, Coles announced that it would withdraw from sale all cask wine in their Alice Spring stores and declared a floor price of \$1.00 per standard drink.<sup>13</sup> Independent Grocers Australia (IGA) also trialed a minimum floor price on bottle wine of \$1.00 per standard drink, which has been extended to all IGA stores in Alice Springs.

While the majority of alcohol retailers in Alice Springs introduced these minimum pricing measures, there are still two local hotel take-away retailers in Alice Spring that continue to sell two-litre cask wine. From mid-2011, due to the actions of Alice Springs retailers, the minimum take-away price effectively became around 80 cents for alcohol purchased from hotel bottle-shops and \$1.00 or more at the supermarkets and smaller grocery shops.<sup>14</sup>

While the minimum pricing restrictions have only been in place since mid-2011, recent figures released by the Northern Territory Department of Justice show a decrease of 12 per cent in total alcohol supply between 2004 and 2011.<sup>15</sup> The most significant change was in the supply of wine casks and fortified wines, coinciding with sales restrictions and price increases. In 2011, there was an additional seven per cent decrease in wine sales.<sup>16</sup>

### **International examples of a minimum floor price**

Internationally there have been significant developments in minimum pricing policies for alcohol, particularly in Scotland. Modelling work undertaken by the University of Sheffield has measured the effect of a range of minimum price policies on improving health, reducing crime and improving productivity.<sup>17</sup> In early 2012, the Scottish Parliament requested, an updated version of the Sheffield Study with the aim to re-examine the effect of a 45 pence minimum price. The updated model found that weekly alcohol consumption would decrease by 3.5 per cent, with alcohol-attributable deaths reducing by an estimated 68 within the first year, and 354 fewer deaths per annum after 10 years. This decrease in consumption and health gains were found to be greater for harmful drinkers than moderate drinkers.<sup>18</sup> This is because minimum pricing policies target alcohol products, which are often purchased by heavier drinkers, over moderate drinkers.<sup>19</sup> The revised model also found that a 45 pence minimum price would increase a moderate drinker's annual alcohol expenditure by £6, but a harmful drinker's by £98.

In May 2012 the Health Secretary, Ms Nicola Sturgeon announced that the preferred minimum price for alcohol would be 50 pence per unit.<sup>20</sup> On 24 May 2012 the *Alcohol Minimum Pricing Bill* was

passed by Parliament with the implementation of the minimum floor price policy to occur in April 2013 at the earliest.<sup>21</sup>

Setting a minimum floor price for alcohol has also occurred at local levels throughout England and Northern Ireland, with the aim to reduce harmful alcohol consumption. In 2009, Oldham, an area in Greater Manchester was branded the 'binge drinking capital of Britain' by national media due to high rates of alcohol-related violence.<sup>22</sup> The Oldham council conducted a review of the 22 licensed bars and clubs in the town and passed a regulation in August 2009 whereby premises wishing to sell alcohol below 75 pence per unit of alcohol had to adopt a series of measures. These measures included prohibiting customers from standing near the bar and allowing customers to buy a maximum of two drinks at a time.<sup>23</sup> Most of the bars and clubs in the town accepted the conditions. Statistics indicate that violent crime dropped from 24 incidents per month in 2008 to 18 incidents per month in 2010.<sup>24</sup>

In March 2012 the British Prime Minister David Cameron announced that England and Wales would be introducing a minimum price for alcohol, which is expected to be 40 pence per unit. The Prime Minister made this decision because he felt it was no longer acceptable that 'beer is cheaper than water'.<sup>25</sup>

### Minimum price benefit cost analysis

A benefit cost analysis shows that implementing a minimum price is less effective policy than tax reform. As part of an unreleased benefit cost analysis of various alcohol taxation reform scenarios prepared by Marsden Jacobs Associates and commissioned by FARE, an analysis was conducted to look at the likely benefits and costs of imposing a minimum floor price on alcohol in Australia.<sup>26</sup>

A confidential copy of the benefit cost analysis has been provided to ANPHA, and will be publically released later in 2012. Below is an excerpt from the report.

*Excerpt from benefit cost analysis:*

*For excise tax reform, this first application of a fully specified economic framework consistent with the needs of public policy formation and economic evaluation strengthens the separate arguments based on public health alone.*

*Excise tax reform is not the only method of increasing alcohol prices to reduce harms to others. However, the option of minimum price regulation (as currently contemplated for Scotland and England and now the subject of an Australian National Preventative Health Agency Issues Paper) performs badly when assessed in a benefit cost framework. This is so because in contrast to excise tax options, minimum price regulation creates and legitimises monopoly rents for alcohol suppliers. These monopoly rents are of the same magnitude as the increase in tax revenue that would occur under the option of a (discriminatory) increase in excise rates. Consequently:*

- *whereas raising beverage prices by increasing tax rates and tax revenue provides a mechanism to offset the loss of consumer surplus from reduced consumption, this does not occur when prices are raised by minimum price regulation; and*

- *minimum price regulation will achieve a net benefit only if the benefits from reduced harms exceed the gross (as distinct from the net) loss of consumer satisfaction/surplus (since there is no offsetting tax effect). For the benefits of price regulation to exceed the costs requires that the benefits of (minimum) price regulation be a significant multiple of the benefits of increased taxation.*

*This raises the question why bother with minimum price regulation when the same or greater benefits can be achieved through the tax option, such as (and more simply) by abolishing the WET and/or increasing alcohol excise rates generally?*

*The rationale for comprehensive minimum price regulation cannot depend on the argument that it would avoid penalising Moderate drinkers since this study has shown that Moderate drinkers are unequivocal beneficiaries when excise tax rates are increased. This is not to say that other arguments may not be made to introduce minimum pricing.*

*As with alcohol taxation reform, arguments against minimum pricing focus overwhelmingly on the costs of the reform to particular sub-groups. This focus is partial: any universal approach to reducing alcohol related harms is likely to impact moderate drinkers, but the issue is not whether they are impacted, but whether there are net benefits. We find that in Australia, Moderate drinkers are the major beneficiaries of alcohol taxation reform and for the same reasons they are a priori likely to be the major beneficiaries of minimum price regulation.*

## **Implementation of a minimum floor price**

Further policy analysis is needed from Government on the implementation of a minimum floor price in Australia. Consideration also needs to be given on how a minimum floor price for alcohol interacts with existing pricing and taxation laws, regulations and policies. Two of these implementation considerations are explored further in the sections below and should be prioritized by ANPHA in the progression of a public interest case for a minimum price for alcohol.

### *Legislating for a minimum floor price*

Minimum floor pricing has been introduced in Scotland as an amendment to the *Licensing (Scotland) Act 2005*. This amendment was passed by Parliament on 24 May 2012 and specified that alcohol cannot be sold below a minimum price, with Scottish Ministers being given the power to specify the price at which it is set.<sup>27</sup> In Australia a minimum floor price for alcohol can be introduced at the state or territory level through liquor licensing legislation or at the Commonwealth level under new legislation.

- State and territory based legislation

A minimum floor price could be included within existing state and territory liquor licensing laws, as occurred in Scotland. The concern with implementing a minimum price as part of state and territory legislation is that this may result in inconsistency in pricing across states and territories if all jurisdictions do not choose to adopt the policy.

➤ Commonwealth implementation

Legislation could also be introduced at the Commonwealth Government level. Section 51 of the *Commonwealth Constitution Act* allows for the Australian Parliament to grant legislative powers when subject to the constitution. Further examination is required of the powers included within the Act which may allow for a minimum price to be introduced.<sup>28</sup>

*Setting a rate for a minimum floor price*

Scotland’s decision to introduce a minimum floor price of 50 pence was based on modeling which demonstrated its impact on consumption and alcohol-related harms. No such modeling has been undertaken in Australia. The rate at which a minimum price is set should take into consideration the impact on the real price of alcohol. In exploring possible models for a minimum floor price in Australia, analysis is required by Government to ensure that the price is set at a rate that would influence consumption and harms.

The below table is an example of how different rates of a minimum floor price would influence the prices of alcohol products. Where the minimum floor price is applied and leads to a price greater than the current price. It has been highlighted. As highlighted below, a four litre cask of wine and an \$8 bottle of wine would be most impacted by the introduction of a minimum floor price.

	Current price <sup>a</sup>	\$1.00 per standard drink	\$1.20 per standard drink	\$1.50 per standard drink	\$2.00 per standard drink
375 ml full strength beer (1.4 standard drinks)	<b>\$1.75</b>	\$1.40	\$1.68	\$2.10	\$2.80
750 ml bottle of white wine (7.7 standard drinks)	<b>\$8.00</b>	\$7.7	\$9.24	\$11.55	\$15.40
750 ml bottle of red wine (7.7 standard drinks)	<b>\$12.00</b>	\$7.7	\$9.24	\$11.55	\$15.40
275 ml RTD (1.1 standard drinks)	<b>\$3.50</b>	\$1.10	\$1.32	\$1.65	\$2.20
700 ml bottle of spirits (22 standard drinks)	<b>\$35.90</b>	\$22.00	\$26.40	\$33.00	\$44.00
Four litre cask of wine (36 standard drinks)	<b>\$13.99</b>	\$36.00	\$43.20	\$54.00	\$72.00

<sup>a</sup> These prices are based on prices advertised on the Dan Murphy’s website in August 2012.

## Principles for an ideal alcohol pricing policy

In assessing the effectiveness of alcohol pricing policies, eight key principles have been established. These principles reinforce the need to use alcohol pricing policies to address overall consumption of alcohol, particularly harmful consumption, decreasing the availability of cheap alcohol products and generating revenue for Government. The principles also address the need to use pricing policies to remove industry discounting and minimise loopholes.

### 1. Alcohol pricing must be applied according to the volume of alcohol within products and their potential to cause harm

Price and taxation are effective levers for moderating alcohol consumption. A meta-analysis of 112 international studies showed that the price of alcohol is inversely related to overall consumption of alcohol including at harmful levels.<sup>29</sup> It found that on average, a 10 per cent increase in the price of alcohol reduces consumption by five per cent.<sup>30</sup> Price affected all types of alcoholic beverage consumption across the entire spectrum of consumption and young people have been shown to be especially responsive to price.

Reiterating the significance of their findings, the authors of the meta-analysis noted that: “We know of no other preventive intervention to reduce drinking that has the numbers of studies and consistency of effects seen in the literature on alcohol taxes and prices (page 187).”

Volumetric taxation is one of the most cost-effective means of preventing and reducing harmful alcohol consumption.<sup>31</sup> A differentiated volumetric tax on alcohol ensures that all alcoholic products are consistently taxed according to their alcohol content. Differentiated volumetric taxation can influence price in a way that simultaneously encourages the consumption of lower alcoholic products while discouraging the consumption of higher alcoholic products.

By contrast, when alcohol is taxed based on wholesale value, as is the case with wine and other grape-based products, cheaper products such as cask wine attract far less tax than more expensive premium wines irrespective of their alcohol content. A value based tax encourages people to consume cheaper products, regardless of the volume of alcohol. This is problematic given that wine varies significantly in volume from eight per cent alcohol by volume for table wines, to up to 22 per cent alcohol by volume for fortified wines such as port. Consequently, a value based tax allows people to consume potentially harmful amounts of alcohol extremely cheaply. For instance, a four litre cask of red wine of 13 per cent alcohol by volume retailing for \$10 contains 41 standard drinks which equates to each standard drink costing 24 cents.<sup>32</sup> By consuming this product, an individual can exceed the current National Health and Medical Research Council (NHMRC) *Australian Guidelines to Reduce Health Risks from Drinking Alcohol* (2 standard drinks per person per day) for just over 50 cents per day.

### 2. The policy relevant social costs of alcohol consumption must be used to inform alcohol taxation rates and prices

Alcohol use results in a range of harms to individuals and the people around them. The Henry Review recommends that alcohol taxation should be set to “address the spillover costs imposed on the

community of alcohol abuse (page 431)<sup>33</sup>. In defining these costs, the Henry Review states that they include the “costs of alcohol abuse include foetal damage and child abuse, domestic violence, road accidents, crime and violence, increased mortality and a range of diseases and medical conditions (page 435)<sup>34</sup>”.

The tangible social costs of alcohol that result from an individual’s alcohol misuse include an estimated \$1.9 billion for healthcare, \$2.2 billion for road traffic accidents, \$1.6 billion for criminal justice and \$3.6 billion in lost productivity.<sup>35</sup> Third party costs that arise from someone else’s drinking have been estimated to amount to more than \$14 billion in tangible costs. These costs include health care and child protection costs, lost wages and productivity, and out-of-pocket expenses such as property and personal damage, costs of professional counselling to cope with the drinker, and the cost of having to leave home and stay elsewhere to avoid the drinker.<sup>36</sup>

However, there are many other costs that result from alcohol-related harms which should be considered when determining the rates of alcohol taxation. These costs include the intangible third party costs of alcohol consumption such as lost productivity, family income foregone, and time caring for the family member with alcohol use problems. All the tangible and intangible (such as loss of life, pain and suffering) third-party costs of alcohol consumption must be included within a social cost as they are the costs borne by society. This issues needs to be addressed by policy makers as part of efforts to raise the welfare of society and address the market failure of irrational, dependent alcohol consumption.

Additionally, all the private costs of dependent alcohol consumption including intangible costs must also be included in estimates of spillover costs because the costs of such irrational, dependent consumption outweigh any benefits the drinker may yield from their consumption.<sup>37</sup> Irrational, dependent consumption of alcohol is a market failure that alcohol taxation and pricing policies must seek to address.

Further analysis is required of the social costs which are to be considered by policy makers in determining alcohol taxation and minimum pricing rates. These costs should go beyond those that were noted in the Henry Review and include the cost of a broader range of social harms that result from alcohol use.

### **3. Alcohol pricing policies must minimise distortion that may encourage harmful consumption of alcohol**

The inconsistencies in taxes applied to different alcoholic products create economic distortions whereby some products and producers are favoured over others. These inconsistencies and the resulting distortions violate the principles of efficiency and simplicity which the Henry Review has outlined as principles of an effective tax system.<sup>38</sup> In so far as they influence price, these inconsistencies also send confusing signals to consumers that certain alcoholic products should be preferentially consumed over others. Instead, tax and price should be used as a mechanism to signal to the consumer the volume of alcohol in the product and by implication, its potential for harm.

The current taxation system leads to the following distortions, which need to be examined in relation to their potential to lead to harmful consumption:

*a. The WET favours the production and consumption of cheaper wine*

The value-based WET encourages the production and consumption of cheap wine rather than premium wine, with no regard given to alcohol content. In favouring the production of cheaper wine, cheaper products become more readily available. This is reflected in our current wine market, where cask wine accounts for 45 per cent of domestic sales of Australian produced wine<sup>39</sup> and approximately 65 per cent of all wine sold in Australia is less than \$8.00 per bottle.<sup>40</sup>

*b. The consumption of wine, which is cheaper than all other alcohol products per standard drink, is favoured over the consumption of all other beverages*

The consumption of cheaper wine is favoured over the consumption of beer and spirits because wine is taxed based on wholesale price, but beer and spirits are taxed using a volumetric tax. The WET is also not indexed, unlike the excises for beer and spirits which are subjected to bi-annual Consumer Price Index (CPI) based indexation increases. If wine is moved onto a volumetric tax regime, its excise must be increased with the CPI bi-annually as is the case for the excise applied to beer and spirits. This will help to ensure that the taxation component on wine maintains its real value over time. It is critical that the excise for all beverages is indexed in this way so that the real value of the taxation component for all beverages is at least maintained over time.

*c. The concessional rate for draught beer favours beer consumed on-licence over beer consumed off-licence*

There are eight different taxation rates for beer depending on its packaging and alcohol volume. Draught beer and beer sold in a container exceeding 48 litres (e.g. a keg) attracts a lower tax excise per volume of alcohol than packaged beer. A range of reasons have been provided for this, including that draught beer is consumed in a controlled environment and that overheads for on-licence consumption are higher making the price of draught beer higher. The differentiation in price between on and off-licence beer needs to be examined in detail to determine whether there is justification for this differentiation in price to remain.

#### **4. Revenue collected from alcohol pricing policies should be used to pay for the costs incurred by Government to address alcohol-related harms**

In Australia there is a significant gap between the tangible alcohol relevant costs and the amount of tax collected by the Government. Estimates show that the Australian Government each year collects over \$6 billion as a result of the production and consumption of alcohol.<sup>41,42</sup> A recent study found that the economic impact of alcohol on the Australian community and found that tangible costs from the third party harms from alcohol, which consists of out-of-pocket costs, forgone wages or productivity, and hospital and child protection costs \$14.3 billion.<sup>43</sup> These costs are a significant underestimate of the total cost of alcohol-related harms as they do not consider those incurred by individuals or intangible costs that also result from alcohol. Revenue collected from alcohol tax should be used to reduce the disparity that exists between the amount of tax revenue received and the tangible costs of alcohol-related harms.



Taxation also provides a revenue stream for Government which can be used for prevention and treatment programs.<sup>44</sup> An example of this is the *Living with Alcohol* policy implemented in the Northern Territory; as a result resources became available to deal with the immense alcohol-related problems among the community.<sup>45</sup>

Implementing a minimum floor price as a standalone policy would see revenue going back to the industry, in particular retailer and producers. As demonstrated by the benefit cost analysis conducted by Marsden Jacobs Associates, which found that a “minimum price regulation endorses cartel behaviour. Moreover, rather than increasing excise tax revenue which can be rebated to taxpayers, the equivalent amount is given to the suppliers of alcohol as monopoly profits (i.e., increased producer surplus)”.<sup>46</sup> Ideally revenue collection from pricing policies would go to the Government rather than back to industry.

## **5. Alcohol pricing policies must ensure the cost of alcohol is relative to incomes and CPI increases**

Given that alcohol is continuing to be more affordable, it is essential that an alcohol pricing policy maintains the cost of alcohol products relative to Australian incomes and adjusted in accordance with CPIs. Maintaining the cost of alcohol products to these facts ensures that the cost of cheaper products continue to rise with other products on the market. Research has shown that spirits and beer prices have increased relative to the CPI while wine prices have fallen 25 per cent relative to the CPI.<sup>47</sup>

The impacts of alcohol pricing reform on alcohol consumption and production must be regularly evaluated and alcohol taxation excise rates reviewed in accordance with this information. An agenda for alcohol pricing policies must include such ongoing evaluation and adjustment.

Reducing the alcohol-related harms experienced by Australians requires a range of responses, including pricing which has been demonstrated to be the most cost effective policy response. Alcohol related-harms in association with alcohol products getting cheaper are reason for immediate Government action to address the availability of cheap alcohol products.

## **6. Alcohol pricing policies must aim to increase the floor price of the cheapest alcohol products**

Low alcohol prices result in higher consumption, including heavier drinking, occasional drinking and underage drinking.<sup>48</sup> Young people and heavy drinkers are particularly sensitive to alcohol price. The heaviest drinkers are more likely to seek out cheaper drinks than moderate drinkers. Population-based policies to influence price are effective for targeting the groups that drink most heavily.<sup>49</sup>

A standard drink of cheap cask wine, containing 12.5 ml of alcohol, can be obtained for 36 cents compared with \$1.75 for beer and \$2.52 for ready-to-drink beverages.<sup>50</sup> An effective pricing policy should eliminate these cheap alcohol products which have been proven to be favoured by heavy drinkers.

## **7. Alcohol pricing policies must ensure harmful discounting by industry does not occur and minimise loopholes**

It is known that heavy drinkers tend to seek out the cheapest forms of alcohol however the effectiveness of increasing the price can be diminished if consumers are able to choose cheaper, lower quality products to compensate.<sup>51</sup>

Discounting practices by industry like ‘loss leading’ should not occur if an optimal pricing policy is effectively implemented. Loss-leading strategies are frequently used in offtrade settings, such as supermarkets as alcohol is often heavily discounted to attract customers into their stores, a minimum floor price would counteract these types of discounting practices.<sup>52</sup> An example of loss-leading practice is leading Australian supermarkets reportedly planned to sell beer below costs price, were planning to sell cases of beer (24 cans) for \$28, which effectively is \$1.10 per standard drink.<sup>53</sup> These supermarkets together control 50 per cent of Australia’s alcohol distribution.<sup>54</sup>

Bulk buying specials are also a common practice by retailers to make alcohol cheaper for consumers. First Choice liquor are currently selling a 750ml bottle of Sauvignon Blanc, with a 14 per cent alcohol content for \$1.80<sup>55</sup> when purchased in a pack of six, these works out to be less than 24 cents a standard drink.

It is essential that pricing policies do not provide the alcohol industry the opportunity to undermine pricing policies that aim to reduce alcohol consumption and alcohol-related harms.

## **8. Alcohol pricing policies must be administratively efficient**

Any alcohol pricing policy should be administratively efficient. Efficiency and equity have been described as two factors that need to be taken into consideration for an effective taxation system.<sup>56</sup> The Henry Review describes efficiency as making the best use of resources, also describing ‘technical’ or ‘productive’ efficiency as producing as many goods or services as possible from a given set of inputs.<sup>57</sup>

Alcohol taxation reform can be administered with greater efficiency than minimum pricing policies. The systems for administering and enforcing alcohol taxation policies have been established in Australia for many years. Furthermore the Henry Review has stated that “alcohol excise is administratively simpler than other taxes (page 431)<sup>58</sup>.” Minimum pricing policies require the establishment of new legislative frameworks and regulatory structures, both of which are yet to be determined.

Administrative efficiency is an important factor in assessing the cost-effectiveness of various policy options. While it is not the only factor for consideration, the cost of implementing and enforcing pricing policy options should be a considered in addition to the other principles to ensure that the benefits to the community of introducing pricing policies are valued.

# Applying the eight principles

Alcohol taxation and minimum floor price should not be examined in isolation. Australia is now at a time where reforming alcohol pricing needs to occur as a matter of urgency, starting with reforming the alcohol taxation system particularly the WET. This should occur concurrently with an examination of how the implementation of a minimum floor price for alcohol could be implemented alongside a differentiated volumetric taxation system. The current policy discussion around a case for a minimum floor price in Australia should not delay reforming the alcohol taxation system.

Principles for an effective pricing policy should be established so that the Government can be clear on what it is trying to achieve by implementing such policies. This will assist with determining the best mix of policy options to address alcohol-related harms.

No pricing policy should be considered in isolation and a minimum price should be considered as a complementary policy to a differentiated volumetric alcohol taxation system. This would protect against the harmful discounting of alcohol retailers, while also ensuring that revenue is returned to Government to address the substantial cost of alcohol-related harms.

The table below provides a snapshot of how a minimum floor price for alcohol and reforming the WET would address the principles identified for an optimal alcohol pricing policy.

Principle	Minimum floor price	Reforming the WET
Principle One - Alcohol pricing must be applied according to the volume of alcohol within products and their potential to cause harm.	✓/✗ This could be achieved if a different rate was set per product based on alcohol content.	✓
Principle Two – The policy relevant social costs of alcohol consumption must be used to inform alcohol taxation rates and prices.	✓	✓
Principle Three - Alcohol pricing policies must minimise distortion that may encourage harmful consumption of alcohol.	✗	✓/✗ This would minimise distortion of products taxed under the WET but not other alcohol products.
Principle Four - Revenue collected from alcohol pricing policies should be used to pay for the costs incurred by Government to address alcohol-related harms.	✗	✓

Principle	Minimum floor price	Reforming the WET
Principle Five – Alcohol pricing policies must ensure the cost of alcohol is relative to incomes and CPI increases.	<p style="text-align: center;">✓/✗</p> <p>This would be dependent on the framework of which alcohol pricing policies are established.</p>	<p style="text-align: center;">✓/✗</p> <p>This would be dependent on the framework of which alcohol pricing policies are established.</p>
Principle Six - Alcohol pricing policies must aim to increase the floor price of the cheapest alcohol products.	✓	✓
Principle Seven - Alcohol pricing policies must ensure harmful discounting by industry does not occur and minimise loopholes.	✓	✗
Principle Eight - Alcohol pricing policies must be administratively efficient.	✗	✓

## A staged approach to achieving comprehensive alcohol policy reform

A plan for alcohol pricing policy reform must be established by Government for achieving an optimal alcohol pricing policy. This plan needs to prioritise reforming the WET, the most inequitable part of the taxation system, in the next federal budget. A longer term plan is also needed for alcohol pricing policy reform that examines the implementation issues of a minimum floor price and considers addressing the further inequities in the alcohol taxation system. A range of pricing policies are required to address alcohol-related harms, for this reason a staged approach to reform is recommended. This approach is outlined below.

### 1. Immediately replace the WET with a volumetric rate of taxation

The current WET and WET rebate results in the mass production of bulk cheap wine which makes wine by far the most affordable alcohol product available for consumption and is contributing to the current wine glut. Furthermore the public health sector and majority of the alcohol industry are supportive of such reforms. Reform must start by replacing the WET with a volumetric tax and abolishing the current WET rebate.

### 2. Begin working with the state and territory governments to mandate the collection of alcohol sales data to be used in prioritising further reform

A long term plan for alcohol pricing policies should include the collection and publication of alcohol sales data by all states and territories to inform alcohol pricing policy reform. This data is needed to provide policy makers with more reliable information on the alcohol products that are associated with the most harm in Australia. Without access to reliable estimates of alcohol consumption in all states and territories, public policy makers and researchers have limited capacity to effectively evaluate the harms associated with different alcoholic products or to evaluate the effects of alcohol pricing reforms on consumption.

### 3. Within one year, begin to address the current gaps in alcohol pricing policy

Along with reforming the WET, analysis is needed to address the current gaps in alcohol pricing policy. This analysis should include:

- Consideration of the implementation and enforcement of a minimum floor price in Australia using current legislative and regulatory frameworks;
- Analysis to determine the optimal rate for a minimum floor price to influence behaviours and reduce harms; and
- Analysis of further options for alcohol taxation reform. Consideration could be given to the alcohol content of the product, the product's propensity to cause harm, and the production and consumption impacts of the distortion.

#### **4. Develop and implement a longer term plan for alcohol pricing reform in Australia**

A long term plan for the development and implementation of alcohol pricing policies in Australia should be developed with the aim to address the inconsistencies in the current alcohol pricing system. A longer term alcohol pricing policy should be based on the results from the analysis on minimum pricing and optimal alcohol taxation rates and should focus on how a longer term plan for alcohol pricing in Australia would address the principles covered in this submission.

### **Conclusion**

This submission demonstrates that we are now at a point where reforming alcohol pricing policies in Australia needs to occur immediately, starting with reforming the WET. Reforming the WET will increase the price of the cheapest products, which are products known to be sought out by heaviest drinkers. Examining how a minimum floor price for alcohol could be implemented alongside a differentiated volumetric taxation system is important. Consideration to the implementation of a minimum floor price should not delay reforming the WET but should be used as a policy option to support and compliment a differentiated alcohol taxation system.

The Government has an opportunity to develop and implement a longer term alcohol pricing policy that addresses all aspects of alcohol pricing, including taxation and minimum floor pricing. We know that price is one of the main policy measures in a comprehensive approach to reduce alcohol-related harms. Ensuring that a long term alcohol reform plan is carefully considered and priority is given to reforming the WET will be the first step in eliminating discrepancies and price distortions in the current alcohol taxation system.

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**Foundation for  
Alcohol Research  
& Education**

Level 1  
40 Thesiger Court  
Deakin ACT 2600

PO Box 19  
Deakin West  
ACT 2600

[www.fare.org.au](http://www.fare.org.au)