

Dear Sir or Madam,

Re: 16th CPI Review by the Australian Bureau of Statistics

I have become increasingly concerned about the methodology used by the ABS to measure inflation in prices for goods and services available to Australian consumers.

I believe the CPI figures have been corrupted for years due to a “knock-on” effect when taxes are incorporated in the calculation for the general price movement of alcohol and tobacco. The CPI is used to set the level of alcohol and tobacco tax. The tax is then incorporated into subsequent CPI figures, inflating the CPI, time after time. The following excerpt from the Act explains the anomaly that has unfairly affected excise collection in one sector and, collectively distorted overall CPI figures.

Consumer Price Index:

(Released 12/17/2009)

Concepts, Sources and Methods

CHAPTER 8

PRICE COLLECTION

Excise duty on alcohol and tobacco

8.37 In accordance with the indexation provisions of the *Excise Tariff Act 1921* and the *Customs Tariff Act 1987*, the rates of customs and excise duties on spirits, beer and tobacco products are changed twice yearly in line with movements in the CPI. The new rates take effect from 1 February and 1 August each year. Any price change caused by the change in the rate of customs or excise duty is collected as part of the general price movement of alcoholic and tobacco products.

Bi-annual CPI figures released by the ABS usually have a comment about the alcohol and tobacco group. This says that, in around 94% of cases, the price rises in alcohol, in particular, were mainly due to the effect of the increase in Federal excise from a previous CPI reporting. Even if the increase was not wholly due to the increase in Federal Excise Tax it was always a contributing factor. Refer to Addendum.

As alcohol, fuel and cigarettes are all indexed to the CPI. Because there is a cumulative effect on the CPI figures of the following quarter this, over time, has become a compounding increase.

In establishing each new CPI the actual prices of items (including all taxes) are supposed to measure what the consumer pays but when government authorities use the CPI as a gauge on inflation and the Reserve Bank of Australia adjusts interest rates by including the CPI as a part of its statistics, then the calculations are falsely inflated.

There has never been a decrease in the movement of the alcohol segment, even when costs may have decreased due to various external factors. The established CPI methodology ensures that alcohol taxes climb steadily upward.

The Australian Bureau of Statistics includes this constant increase of the CPI in calculating future CPI levels; thus, the CPI continues to rise. This inflates the prices of alcohol and tobacco for the purposes of assessing natural price movements through inflation and costs independent of forced CPI increases.

Petrol and other fuel cost increases caused by CPI increases also are used to calculate the CPI: So, fuel costs suffer the same anomaly - inflation by unnatural causes. And as the cost of fuel rises, this has a flow-on effect to every sector of transported goods, raising their costs accordingly, affecting inflation and subsequent CPI figures.

By always using this flawed method of cost analysis, the CPI must continue to rise because it includes items that have had a CPI increase applied to them in the prior six months: These tax-

inflated increases then are used to calculate the next CPI figures, and so on. Effectively, any CPI increase on goods translates into an “inflationary” increase, which will indicate a higher CPI the next quarter and the price of alcohol, tobacco and fuel will be increased from taxes applied according to that CPI increase.

Although the Consumer Price Index (CPI) is subject to periodic reviews these reviews, so far, have never taken into account the inflationary effect of the CPI itself in respect of alcohol, tobacco and fuel. Hopefully, the current review will provide an opportunity to reassess such methodological issues.

Perhaps, at last, this 16th series review will more closely examine the principal purpose of the CPI and the need for accuracy in its calculation to prevent inflationary practices like those I have described above.

Attached is a list of extracts and commentaries of CPI reports for the past few years that refer particularly to the alcohol industry sector, indicating the cause of prior CPI increases were mainly or otherwise the reason for the increase in alcohol prices.

Sincerely,

Ken Bromfield

ADDEDUM

Below are extracts and commentary from CPI figures for the alcohol and tobacco group of items over the past few years. Note that in the vast majority of cases the major factor in or cause of rises was the increase of the prior quarter's CPI figures applied to alcohol taxation.

Australia Dec 2009

ALCOHOL AND TOBACCO (+0.5%)

The alcohol and tobacco group recorded an increase of 0.5% in the December quarter 2009, with rises in beer (+2.1%) and spirits (+0.8%). Wine (0.0%) recorded no change. The rises in beer and spirit prices were mainly due to the residual effect of the federal excise from August 2009.

Australia Sep 2009

ALCOHOL AND TOBACCO (+0.7%)

The alcohol and tobacco group recorded a rise of 0.7% in the September quarter 2009, with rises in beer (+1.4%), spirits (+1.4%) and wine (+0.9%).

The rises in beer and spirit prices were mainly due to the effect of the federal excise from August 2009.

Australia Jun 2009

ALCOHOL AND TOBACCO (+0.9%)

The alcohol and tobacco group recorded a rise of 0.9% in the June quarter 2009.

There were price rises in tobacco (+1.2%), beer (+1.2%) and spirits (+0.8%). Wine (-0.1%) provided a small offsetting fall.

Over the twelve months to June quarter 2009, the alcohol and tobacco group rose 4.7%.

Australia Mar 2009

ALCOHOL AND TOBACCO (+1.0%)

The alcohol and tobacco group recorded a rise of 1.0% in the March 2009 quarter.

Rises in tobacco (+1.9%), spirits (+1.9%) and beer (+0.5%) were due to the effects of the federal excise tax increase from 1 February 2009, as well as general price increases and the cessation of specials in some cities. A decrease in wine (-0.7%) was mainly a result of price reductions and store specials in most cities.

Through the year to March quarter 2009 the alcohol and tobacco group rose 5.7%.

Australia Sep 2008

ALCOHOL AND TOBACCO (+1.4%)

The alcohol and tobacco group recorded a rise of 1.4% in the September 2008 quarter. All components in the alcohol and tobacco group rose this quarter, with price increases in spirits (+4.8%), tobacco (1.6%), beer (+0.8%) and wine (+0.1%).

The rises in spirits, tobacco and beer prices were mainly due to the effect of the increase in Federal excise from 1 August 2008. Spirits also incurred an additional tax in the previous quarter, which also impacted on prices this quarter.

Through the year to September quarter 2008, the alcohol and tobacco group rose 5.8%.

Australia Jun 2008

ALCOHOL AND TOBACCO (+1.9%)

All four components in the alcohol and tobacco group rose in all cities this quarter with price increases in spirits (+6.1%), tobacco (+1.5%), wine (+1.7%) and beer (+0.5%).

This is the largest quarterly increase in the price of spirits since the series began in September quarter 1980 and was predominantly due to the introduction of an increased tax on all pre-mixed spirits from 27 April 2008.

The rises in tobacco prices are mainly due to the residual effects of the increase in the Federal excise tax in the March quarter 2008. The index for wine prices rose this quarter mainly due to the discontinuation of specials and some price rises. The increase in beer prices is also due to a combination of the discontinuation of specials and price rises, some of which may be attributable to the flow on effects of the excise increase in the March quarter.

Over the twelve months to June quarter 2008, the alcohol and tobacco group rose 4.8%, with increases for the year ranging from 3.0% for wine to 9.2% for spirits.

Australia Mar 2008

ALCOHOL AND TOBACCO (+1.0%)

All four components in the alcohol and tobacco group rose this quarter with increases in beer (+1.6%), spirits (+1.2%), wine (+0.9%) and tobacco (+0.6%).

The rises in tobacco, beer and spirits are due to the effects of the increase from 1 February in the Federal excise tax, as well as some pure price rises and the cessation of specials in some cities. The increase in wine is mainly due to the discontinuation of specials.

Over the year to March quarter 2008, the alcohol and tobacco group rose 3.8%, with increases for the year ranging from 1.7% for wine to 6.3% for beer.

Australia Dec 2007

ALCOHOL AND TOBACCO (+1.3%)

Beer (+2.1%) and tobacco (+1.1%) provided the most significant contributions to the rise in prices for the alcohol and tobacco group this quarter. There were no falls in any category in any city.

The rise in beer is due to widespread general price rises and the cessation of specials in some cities. Increases ranged from 0.6% in Perth to 3.5% in Melbourne.

Tobacco prices rose in all cities, ranging from 0.7% in Perth and Hobart to 2.0% in Darwin.

In the twelve months to December quarter 2007, the alcohol and tobacco group rose 3.6%, with rises in all categories.

Australia Sep 2007

ALCOHOL AND TOBACCO (+0.6%)

The alcohol and tobacco group rose this quarter with tobacco (+0.9%) and beer (+0.7%) providing the most significant contributions. Wine prices fell slightly (-0.4%).

The rises in tobacco and beer prices are attributed to the excise increase in August along with prices in some cities returning from specials. There were small increases in prices of spirits.

Over the year to September quarter 2007, the alcohol and tobacco group rose 3.1%, with rises in all categories except wine, which showed no change over the year.

Australia Jun 2007

ALCOHOL AND TOBACCO (+0.8%)

All four components in the alcohol and tobacco group rose this quarter with the most significant being contributions from beer (+1.8%), and spirits (+1.0%).

The rises in beer and spirit prices are attributed to higher raw materials costs and residual effects of the excise increase in the March quarter. There were small increases in prices of tobacco (+0.3%) and wine (+0.3%).

Through the year to June quarter 2007, the alcohol and tobacco group rose 3.0%, with rises in all categories except wine, which fell 1.0% over the year.

Australia Mar 2007

ALCOHOL AND TOBACCO (+0.9%)

All four components in the alcohol and tobacco group rose this quarter with the most significant being contributions from tobacco (+1.4%), beer (+0.7%), and spirits (+1.1%).

The rises in tobacco, beer, and spirit prices are attributed to the effects of the increase in Federal excise and customs duty from 1 February and to some discontinuation of specials. There was a small increase in wine prices (+0.1%).

Through the year to March quarter 2007, the alcohol and tobacco group rose 3.1%, with rises in all categories except wine, which fell 0.6% over the year.

Australia Dec 2006

ALCOHOL AND TOBACCO (+0.8%)

Three of the four components in the alcohol and tobacco group rose this quarter with contributions from beer (+1.2%), spirits (+1.5%) and tobacco (+0.6%). Wine prices fell slightly (-0.1%).

The rises in beer, spirit, and tobacco prices can be attributed to the discontinuation of specials and to the flow on effects of the increase in Federal excise and customs duty from 1 August.

Through the year to December quarter 2006, the alcohol and tobacco group rose 3.5%, with rises in all categories except wine, which fell 0.3% over the year.

Australia Sep 2006

ALCOHOL AND TOBACCO (+0.5%)

Three of the four components in the alcohol and tobacco group rose this quarter with contributions from tobacco (+1.4%), beer (+1.0%), and spirits (+0.9%) being partly offset by wine (-1.4%).

The rises in tobacco, beer and spirit prices were mainly due to the effect of the increase in Federal excise and customs duty from 1 August. However, competitive pressures resulted in widespread discounting in beer, particularly in the earlier part of the quarter.

Through the year to September quarter 2006, the alcohol and tobacco group rose 3.2%.

Australia Jun 2006

ALCOHOL AND TOBACCO (+0.9%)

All components in the alcohol and tobacco group rose this quarter with contributions from tobacco (+1.2%), beer (+0.7%), wine (+0.7%) and spirits (+0.8%).

The rise in tobacco and beer prices was mainly due to the residual effect of the increase in Federal excise and customs duty from 1 February. A reduction in the alcohol content of some beers, which is treated as a quality adjusted price increase, also contributed to the increase in beer prices.

Through the year to June quarter 2006, the alcohol and tobacco group rose 3.6%.

Australia Mar 2006

ALCOHOL AND TOBACCO (+1.3%)

Prices for all components of alcohol and tobacco rose this quarter with beer (+1.6%), tobacco (+1.4%), spirits (+1.5%) and wine (+0.4%) all contributing.

The increase for beer, tobacco and spirits was mainly due to the indexed adjustment to the rate of Federal excise and customs duty from 1 February.

Through the year to March quarter 2006, the alcohol and tobacco group rose 3.3%.

Australia Dec 2005

ALCOHOL AND TOBACCO (+0.5%)

The rise in alcohol and tobacco this quarter was due to tobacco (+0.6%), spirits (+1.0%) and beer (+0.5%).

The rise in tobacco prices was mainly due to a residual of the increase in Federal excise and customs duty from 1 August, together with the end of some discounting. Increases in both bar service and bottle shop prices accounted for the increase in spirits.

Through the year to December quarter 2005, the alcohol and tobacco group rose 3.3%.

Australia Sep 2005

ALCOHOL AND TOBACCO (+1.0%)

All categories of alcohol and tobacco rose this quarter with beer (+1.8%), tobacco (+1.0%), wine (+0.3%) and spirits (+0.4%) contributing to the increase.

The rise in beer prices was mainly due to the increase in Federal excise and customs duty from 1 August, with some respondents also citing manufacturers' price rises and increased transportation costs as contributing factors. The increase in Federal excise and customs duty and end of discounting was the reason for the rise in tobacco prices.

Through the year to September quarter 2005, alcohol and tobacco prices rose 3.5%.

Australia Jun 2005

ALCOHOL AND TOBACCO (+0.5%)

Alcohol and tobacco rose this quarter with tobacco (+1.0%) and beer (+0.5%) being the main contributors. This rise was partially offset by a small fall in wine prices (-0.3%).

The rise in tobacco and beer was mainly due to the residual impact of the February increase in Federal excise and customs duty and the end of discounting on some tobacco and beer products. The fall in wine prices was mainly due to discounting.

Over the twelve months to June quarter 2005, alcohol and tobacco prices rose 3.4%. Prices for tobacco (+4.4%), beer (+4.4%), spirits (+2.2%) and wine (+1.1%) all rose.

Australia Mar 2005

ALCOHOL AND TOBACCO (+1.3%)

Prices for all components of alcohol and tobacco rose this quarter with tobacco (+2.2%), beer (+1.2%) and wine (+0.5%) being the main contributors.

The increase for tobacco and beer was mainly due to the indexed adjustment to the rate of Federal excise and customs duty from 1 February. A reduction in the alcohol content of some beers, which is treated as a quality adjusted price increase, and the reversal of some discounting also contributed to the increase in beer prices.

Over the twelve months to March quarter 2005, alcohol and tobacco prices rose 3.7%. Prices for beer (+4.9%), tobacco (+3.9%), wine (+2.1%) and spirits (+2.4%) all rose.

Australia Dec 2004

ALCOHOL AND TOBACCO (+0.7%)

Prices for all components of alcohol and tobacco rose this quarter. Beer rose 1.5%; wine 0.3%; spirits 0.7% and tobacco 0.1%.

The increase for beer and spirits was mainly due to the end of some discounting on packaged beer and increases in bar service prices at hotels and clubs.

Over the twelve months to December quarter 2004, alcohol and tobacco prices rose 3.5%. Prices for beer (+4.4%), tobacco (+3.2%), wine (+2.6%) and spirits (+3.5%) all rose.

Australia Sep 2004

ALCOHOL AND TOBACCO (+0.9%)

Prices for all components of alcohol and tobacco rose this quarter. Beer rose 1.0%, tobacco 1.1%, wine 0.5% and spirits 0.9%.

The increase for beer, spirits and tobacco was mainly due to the indexed adjustment to the rate of Federal excise and customs duties from 1 August 2004.

Over the twelve months to September quarter 2004, alcohol and tobacco prices rose 3.4%. Prices for beer (+4.2%), tobacco (+3.7%),

wine (+2.4%) and spirits (+2.6%) all rose.

Australia Jun 2004

ALCOHOL AND TOBACCO (+0.8%)

The rise in the alcohol and tobacco index this quarter was due to increases in the price of beer (+1.0%), wine (+0.8%), tobacco (+0.5%) and spirits (+0.7%).

Beer prices rose in the June quarter due to the flow-on effect of some price increases following the indexed adjustment to the Federal excise on alcohol in February and the reversal of some specialising activity in the March quarter. In addition, there was a reduction in the alcohol content of some mid-strength beers, which is treated as a quality adjusted price increase in the index.

Over the twelve months to June quarter 2004, alcohol and tobacco prices rose 4.4%. Prices for beer (+6.9%), tobacco (+4.1%), wine (+2.4%) and spirits (+2.7%) all increased.

Australia Dec 2003

ALCOHOL AND TOBACCO (+0.6%)

The rise in the cost of alcohol and tobacco this quarter was due to increases in the price of beer (+1.4%), tobacco (+0.6%) and wine (+0.1%).

Over the twelve months to December quarter 2003, the cost of alcohol and tobacco rose 4.4%.

Australia Sep 2003

ALCOHOL AND TOBACCO (+1.9%)

The increase in the cost of alcohol and tobacco was due to increases in the price of beer (+3.7%), tobacco (+1.5%), wine (+0.5%) and spirits (+1.0%).

Over the twelve months to September quarter 2003, the cost of alcohol and tobacco rose 3.8%.

Australia Jun 2002

ALCOHOL AND TOBACCO (+0.5%)

The increase in the cost of alcohol and tobacco this quarter was mainly due to an increase in tobacco (+1.1%) and beer (+0.3%).

Over the twelve months to June quarter 2002, alcohol and tobacco costs rose 2.8%.