

**SUBMISSION TO ANPHA**

**ON THE**

**ALCOHOL ADVERTISING ISSUES PAPER**

**BY THE**

**FOUNDATION FOR ADVERTISING RESEARCH**

1. The Foundation for Advertising Research (FAR) operates in Australia and New Zealand. It provides research and information on best practice advertising regulation and issues of concern such as alcohol advertising.

2. This submission deals with three basic issues

- Does advertising result in an increase of consumption?

- Would full or partial advertising bans reduce consumption?

- Does the current regulatory regime meet best practice standards?

**Does advertising cause increased consumption?**

3. The Issues Paper correctly identifies the disparity of views on whether advertising increases consumption. The purpose of advertising is to entice the consumer to switch brands. This is particularly so with mature products such as alcohol. Therefore in the marketplace there is vigorous competition between various brands with advertising being part of the competitive environment. Each brand is competing for a larger slice of the cake.

4. Brands have a constellation of attributes but a principal requirement is quality. Advertising is used to build the brand and to reinforce the trust consumers have in the brand. Without advertising the value of the brand will suffer and price can become the main determinant of consumer preference. This can have the perverse effect of increasing consumption and lowering quality.

5. Health academics argue that advertising also creates a category effect. - The advertising of the various brands has the effect of increasing the size of the cake as consumers are exposed to a greater volume of advertising. The studies in support of this view are generally theoretical rather than based on actual data.

6. In an endeavour to determine whether there is a category effect and whether there is any correlation between advertising and consumption we have been tracking the volume of alcohol advertising and per capita consumption in New Zealand for some years. Reproduced below is a graph of inflation adjusted alcohol adspend in all media and per capita consumption over a 26-year period.



7. It will be observed that there is no correlation between adspend and consumption. Indeed 1998 was the year of the lowest adspend and the highest consumption. Furthermore there is no evidence of a category effect caused by increased or decreased volumes of advertising.

**Do advertising bans reduce consumption?**

8. There are a number of studies that conclude that full or partial advertising bans would reduce consumption. These studies are generally theoretical and are based on the view that advertising has a category effect in influencing consumption. There is also the intuitive view that advertising will increase overall consumption.

9. There have been a large number of both full and partial advertising bans in various countries. This has provided a fertile field for researchers to measure the effect of the bans in practice. The evidence is overwhelming – **the bans have not reduced overall consumption**. In some cases market share between beer, wine and spirits has altered and occasionally consumption has marginally increased. We attach a Schedule of 20 studies that measure the effect of advertising bans in practice. None of them found that the ban resulted in a decrease in consumption.

**Does the current regulatory regime meet best practice standards?**

10. Box 1 on page 3 of the Issues Paper sets out the requirements of good practice. The current regulatory regime is a mishmash of different regulatory bodies and as a result the current regime does not meet all of the listed requirements. The Paper quotes from a July 2000 Report entitled *‘Industry Self-Regulation in Consumer Markets’.* Over the past 13 years there has been considerable development in best practice self-regulation and regulation in general so the requirements in the July 2000 report are now obsolete and inadequate.

11. In 2006 the European Union conducted an inquiry, involving a large number of stakeholders including consumer groups, chaired by Robert Madelin (Director-General, European Commission; Health and Consumer Protection DG) into advertising self-regulation. The Madelin Report is constructive in that it clearly identified the weaknesses of advertising self-regulation as well as its strengths, and formed the foundation for the development of a best practice model to remedy the weaknesses. It clearly articulated the standards required and at the same time raised the bar significantly.

12. In November 2012 there was an APEC sponsored Dialogue *‘Advertising Standards – Principles and Practice Dialogue’* in Hanoi that was attended by delegates from both Government and industry from 17 of the 21 APEC economies. The focus of the Dialogue was best practice standards and the European best practice principles were used as a starting point for standards appropriate for APEC economies. The Dialogue was organised by the Advertising Standards Bureau (ASB) with the support of the Australian Department of Foreign Affairs and Trade. The current regime does not meet the best practice principles developed at the Dialogue.

13. A basic failing of the current regime is its structure. As the Paper outlines there are various codes and different complaint regimes.

- The hours of broadcast of alcohol advertisements is contained in the Commercial Television Industry Code of Practice (CTICP) with complaints heard by the Australian Media and Communications Authority (ACMA).

- Matters of taste and decency are contained in the Australian Association of National Advertisers (AANA) Codes and complaints heard by the ASB.

- The main code is the Alcohol Beverages Advertising Code (ABAC) with complaints heard by the ABAC Complaints Panel.

- There are also other media codes such as the Outdoor Media Association (OMA) codes.

14. With this myriad of Codes and complaints regimes there is little wonder that there is consumer confusion, deficient codes and a lack of confidence by some sectors.

15. In order to meet best practice principles there should be one authority that is responsible for a single code that covers all matters along with a single complaints board that hears all complaints. The single regime would therefore be responsible and accountable. The ASB is the peak advertising regulation body and the natural organisation to be the single regime.

**Recommendation:**

**That the regulation of alcohol advertising be by a single regime. Essential requirements are a comprehensive alcohol advertising code and complaints system that meets best practice standards.**

16. The current codes are inadequate. Many of the deficiencies are identified in the Paper. In particular the following flaws need to be rectified.

- The definition of ‘advertisement’ is too narrow. An advertisement can take many forms and is not determined by the media used. In essence it is any form of promotion where the advertiser has control. Usually there is consideration but this is not a necessary ingredient. There should be no exceptions whether the advertisement is in the mainstream media or social media.

- There is nothing in the current codes regarding the rules for sponsorship advertising so as a consequence it is inadequately covered. The requirements should include no sales message, no product or packaging, no imitation of parts of product advertisements to prevent crossover and mention of the sponsor only in a subordinate way.

- Paragraph 72 of the Paper expresses concern regarding the volume of advertisements. The volume of advertisements can be controlled by codes with the cooperation of the media. For radio and television there is also the need to take into account sponsorship advertisements and programs to avoid the impression of saturation.

- Alcohol advertising exposure to minors should be minimised as far as practical. The exception to allow advertisements on television prior to 8-30 pm is generous. Data on details of the audience is commercially available and this should be obtained so a considered decision can be made as to whether the exception is justified.

**Recommendations:**

**That the new comprehensive alcohol advertising code eliminates the current omissions to ensure that all forms of advertising are covered, there are specific provisions for sponsorship advertising and the volume of advertising and promotion.**

**That the exception for alcohol advertising during live sporting events be re-examined taking into account audience data.**

17. The Issues Paper makes reference to regulating the digital media and product placement. Government regulation of such areas is fraught with difficulty. Indeed the only practical method of regulation is self-regulation. If a law were passed to prohibit some sort of promotion on the in the digital media then it is easy to avoid by removing the source of the advertisement or promotion to another jurisdiction. The digital media have recognised their responsibilities and have embraced self-regulation. Therefore self-regulatory organisations such as the ASB have had little difficulty with enforcement. This has also occurred when the offending material is cross-border.

**Recommendation:**

**That ANPHA tread carefully when considering the regulation of the digital media and adopt the preferred option of self-regulation.**

18. Similarly Government regulation of alcohol advertising is not practical. Command regulation fosters a culture of regulatory cat and mouse. Loopholes are exploited and then further regulation is required to close the loophole. Best practice self-regulation requires adherence to the codes both in the spirit and the letter. Regulatory cat and mouse and exploitation of loopholes are therefore not available. We therefore submit that advertising be self-regulated but in accordance with the strict requirements of best practice principles.

**Recommendation:**

**That alcohol advertising and promotion be regulated by a self-regulatory regime that adopts best practice principles.**

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**Schedule of Research on Case Studies**

**On the Effectiveness of Ad Bans**

ACTUAL AD BANS

1. Examined 14-month ban of all alcohol advertising in all media in British Columbia in 1971 and compared consumption with Ontario, which did not have a ban. The authors found that the ban had no effect and concluded, “…both the yearly and monthly analysis of beer, wine or liquor consumption show no substantial effect of the ban.”

Smart, R.G., Cutler, R.E., 1976. The alcohol advertising ban in British Columbia: Problems and effects on beverage consumption. *British Journal of Addiction* 71, 13-21.

2. Examined the impact on consumption of an ad ban of all beer advertising in the print and electronic media imposed in Manitoba in 1974. A comparison from 1970 - 1978 was made with Alberta, which did not have a ban. The study found that the ban had no impact on beer consumption compared with Alberta and consumption actually increased after the imposition of the ban.

Ogborne, A.C., Smart, R.G., 1980. Will restrictions on alcohol advertising reduce alcohol consumption? *British Journal of Addiction* 75, 293-296.

3. Examined 51 US states and classified them into 3 groups regarding restrictions on the content and placement of alcohol ads in newspapers and magazines. The groups were - least restrictive, moderately restrictive and most restrictive. The study found that “advertising restrictions were unrelated to per capita beer, wine or spirit consumption, to total per capita consumption or to alcoholism rate.” The authors concluded, “Such restrictions should be given a low priority among the possible solutions to problems of restraining per capita alcohol consumption.”

Ogborne, A.C., Smart, R.G., 1980. Will restrictions on alcohol advertising reduce alcohol consumption? *British Journal of Addiction* 75, 293-296.

4. Examined the effect of ad bans using a cross-section of 35 US states. Concluded “…a prohibition on advertising for alcoholic beverages leads *not* to a general reduction in alcoholic beverage consumption but rather a *shift* from beer consumption to spirits consumption”.

Schweitzer, S.O., Intriligator, M.D., Salehi, H., 1983. Alcoholism: An econometric model of its causes, its effect and its control, in: Grant, M., Plant, M., Williams, A. (Eds.), *Economics and Alcohol:* *Consumption and Controls*. Harwood, New York, pp. 107-127.

5. Examined per capita consumption of spirits over a 25-year period using a cross-section of 48 US states and the various ad bans for billboards, exterior signs and price advertising. Concluded that ad bans “…have been almost totally ineffective as a deterrent on alcohol consumption . . . [and] the most anomalous result comes with restrictions on billboard advertising, where results showed a consistent and fairly large effect in the wrong direction”.

Hoadley, J.F., Fuchs, B.C., Holder, H.D., 1984. The effect of alcohol beverage restrictions on

consumption: A 25-year longitudinal analysis. *American Journal of Drug and Alcohol Abuse* 10, 375-401.

6. Examined a cross-section of 50 US states from 1974-78 and the effect of ad bans for billboards, print price and billboard price on spirits and beer consumption. Found that allowing billboard advertising decreased spirits consumption, allowing price advertising increased spirits consumption, no effect on beer consumption but allowing price ads increased consumption slightly. The authors concluded that “. . . control laws affecting price have the greatest impact on consumption . . . [but] the influence of control measures is small relative to that of sociodemographic and economic variables that affect consumers’ overall attitudes toward drinking”

Ornstein, S.O., Hanssens, D.M., 1985. Alcohol control laws and the consumption of distilled spirits and beer. *Journal of Consumer Research* 12, 200-213.

7. Examined the relationships between alcohol consumption, ad bans and road fatalities in 48 US states for 1976-1979. Found that ad bans for billboards and periodicals had insignificant effects on demand and that ad price bans had a negative effect on consumption. Concluded that “…. the direct effects of regulation on alcohol sales are relatively small. Regulatory restrictions have their largest effect via their impact on the number of outlets”

Wilkinson, J.T., 1985. Alcohol and Accidents: An Economic Approach to Drunken Driving. *Unpublished* Ph.D. dissertation, Department of Economics, Vanderbilt University.

Wilkinson, J.T., 1987. The effects of regulation on the demand for alcohol*. Unpublished paper*, Department of Economics, University of Missouri.

8. Examined the effect of ad bans on per capita consumption of beer, wine and spirits in a cross-section of 48 US states. Found that ad bans were not a significant determinate of consumption but that prices, income, tourism, number of outlets and legal purchase age were significant variables. Concluded, “…there is no effect on consumption of advertising bans.”

Nelson, J.P., 1990a. State monopolies and alcoholic beverage consumption. *Journal of Regulatory* *Economics* 2, 83-98.

Nelson, J.P., 1990b. Effect of regulation on alcoholic beverage consumption: Regression diagnostics and influential data, in: Watson, R.R. (Ed.), *Drug and Alcohol Abuse Reviews: Prevention*. Humana Press, Clifton, NJ, pp. 223-243.

9. Examined the effect of the termination in 1983 of a 58-year-old ad ban of all alcohol in all media in Saskatchewan. The ban continued for spirits ads on radio and television. The study found that the termination resulted in increased beer sales, reduced spirits sales and no effect on wine. There was no effect on total alcohol consumption. The authors concluded that there was “This research found evidence of an impact of the change in legislation regarding alcohol advertising in terms of a substitution effect of beer sales for spirits sales. Advertising does not, however, affect total consumption”

Makowsky, C.R., Whitehead, P.C., 1991. Advertising and alcohol sales: A legal impact study. *Journal of* *Studies on Alcohol* 52, 555-567.

10. Examined ad bans of broadcast alcohol advertising in OECD countries. The study found that a ban on spirits advertising resulted in higher beer consumption and a ban of all advertising resulted in higher spirits consumption. Wine consumption was unaffected by a total ban and negatively affected by a spirits ban. Bans tend to lead to beverage substitution. Concluded that the “…the relationships between advertising bans and consumption of specific types of alcoholic beverages are largely inconsistent with the notion that bans reduce consumption”.

Young, D.J., 1993. Alcohol advertising bans and alcohol abuse: Comment. *Journal of Health Economics* 12, 213-228.

11. Examined alcohol ad expenditure and consumption in France, Germany, Netherlands, Sweden and UK from 1970 to 1990. Sweden banned all alcohol advertising in 1979. Found that consumption reduced in all countries during the period and the four countries without bans were not appreciably different from Sweden. The authors concluded “…. social forces other than prices and income were bringing about a strong reduction in demand for alcoholic beverages, and advertising did nothing to ward off this trend towards reduced consumption”

Calfee, J.E., Scheraga, C., 1994. The influence of advertising on alcohol consumption: A literature review and an econometric analysis of four European nations. *International Journal of* *Advertising* 13, 287-310.

12. Examined the effect of price ad bans in 16 US states between 1982-1987 on the malt beverages market. The study found “Our empirical results suggest that local price advertising plays an important role in the competitive process. Where all sellers are prohibited from conveying price information to consumers in an efficient fashion, larger firms tend to gain market share at the expense of smaller competitors, resulting in an increase in market concentration.”

Sass, T.R., Saurman, D.S., 1995. Advertising restrictions and concentration: the case of malt beverages. *The Review of Economics and Statistics*, 77, 1, 66-81

13. This US study examined relationship between consumption and domestic violence toward children with different variables including billboard bans, window display bans and price ad bans. Found that there were no measurable effects of advertising on violence, including billboard bans and window display bans. It concludes, ”Finally, laws restricting advertising of beer are shown to be ineffective in reducing violence.”

Markowitz, S., Grossman, M., 1998. Alcohol regulation and domestic violence towards children. *Contemporary Economic Policy* 16, 309-320.

14. Examined the effect of the removal of an ad ban on alcohol price advertising on prices in Rhode Island when found illegal by the Courts. Prices in the adjoining State of Massachusetts were used as controls. The study found that while the prices of advertised goods were reduced other prices did not change. The article concluded, “we find that Rhode Island prices decline insignificantly, relative to Massachusetts prices, after Rhode Island’s ban on liquor price advertising is lifted.”

Milyo, J., Waldfogel, J., 1999. The Effect of Price Advertising on Prices: Evidence in the Wake of 44 Liquormart. *The American Economic Review*; 89,5.

15. Examined broadcast ad bans in 17 OECD countries. Found that bans on the advertising of spirits lead to increased alcohol consumption and higher motor vehicle fatalities. Wider bans of additional media and beverages were not consistently related to consumption or abuse. Price was found to be an important determinant of consumption. Concluded that broadcast bans can lead to price reductions due to reduced product differentiation and lower costs, and might therefore increase price competition among producers of more homogeneous goods. Hence, banning advertising could have the perverse effect of increasing alcohol consumption.

Nelson, J.P., Young, D.J., 2001. Do advertising bans work? An international comparison. *International* *Journal of Advertising* 20, 270-294.

16. Examined the literature concerning alcohol ad bans. Found that there was no statistically or material effect of alcohol ad bans, including selective bans of outdoor media and comprehensive bans of broadcast media and other print media. Concluded, “At the beverage level, the results are mixed and suggest that substitution among beverages is a possible effect of a ban. However, the null hypothesis that advertising bans reduce alcohol consumption (or abuse) must be rejected. Conceivably, a total ban of all alcohol advertising and promotion might have some effect on behavior, although anecdotal evidence for the Soviet Union and the US Prohibition-era argue against even this extreme result.”

Nelson J.P. 2001, Alcohol Advertising and Advertising bans: A Survey of Research Methods, Results, and Policy Implications. Chapter 11, Advances in Applied Microeconomics, Volume 10*: Advertising and Differentiated Products* 2001

17. Examined restrictive alcohol control policies, including ad bans, in 45 US states for the period 1982-1997. Found “A restrictive law that applies to only one beverage (or one form of advertising) can result in substitution toward other beverages (or other forms of advertising). Allowing for substitution means that the net effect on total alcohol consumption is uncertain, and must be ascertained empirically. The study found that monopoly control of retail sales of spirits reduces consumption of spirits and increases consumption of wine. The effect on beer is positive, but not statistically signiﬁcant.” Concluded that billboard bans “…increase the consumption of spirits and wine, and reduce the demand for beer. The net effect on total alcohol demand is positive prior to 1989, and zero thereafter.” With regard to price ad bans the study concluded “The empirical ﬁndings for restrictive alcohol laws indicate that, ﬁrst, a ban of price advertising reduces consumption of spirits and wine, and increases beer consumption. The net effect of price bans on total alcohol is very small in magnitude.”

Nelson J.P., 2003, Advertising bans, Monopoly, and Alcohol Demand: testing for Substitution Effects using State Panel Data. *Review of Industrial Organization,* 22, 1-25

18. A meta-analysis of empirical studies that examine the effect of actual advertising bans. Broadcast ad bans were found to be ineffective - “In summary, the cumulative evidence from cross-national studies indicates that broadcast advertising bans do not reduce consumption. The meta-analysis of cross-national bans of broadcast advertising provides point estimates of about -1% for either a partial or a total ban. The effects are small in magnitude, and neither cumulative estimate is significantly different from zero.” Billboard ad bans were also ineffective and slightly increased consumption. “A state billboard ban increased total alcohol consumption by about 3.8%.” However it also “increases spirits consumption by about 12.5%.” It comments, “This result is highly significant and generally contrary to expectations.”

Nelson, J.P., Young D. J., 2003, Meta-Analysis of Alcohol bans: Cumulative Econometric Estimates of Regulatory Effects. *Unpublished*, ------www.montana.edu/econ/djyoung/papers/meta\_alcohol5.pdf

19. A literature review of studies that examine actual case studies of alcohol ad bans. Seven econometric studies estimate the relationship between billboard bans and alcohol consumption in the US. “None of the studies obtained a statistically significant reduction in total alcohol consumption due to bans of billboards. In several studies, billboard bans increased spirits consumption significantly.” There were four studies on broadcast advertising bans. “The results indicated that bans of broadcast advertising had no effect on alcohol consumption relative to countries that did not ban broadcast advertising.”

Nelson, J.P., 2004, Advertising Bans in the United States. EH.Net Encyclopaedia, <http://eh.net/encyclopedia/article/Nelson.AdBans>

20. Examined ad bans in 17 OECD countries from 1975-2000. The study found that alcohol ad bans do not reduce market demand for alcohol. Over 40-year period have been reasonably stable but there have been dramatic changes in consumption levels and beverage shares. There has been a general decline in consumption over the period but the decline has been greater in countries with fewer restrictions on alcohol advertising, marketing and distribution. Concluded, “Instrumental variable models support the conclusion that advertising bans do not decrease alcohol demand.” and “Finally, it should be noted that bans of advertising have existed for many years in some countries, and vary across countries. Many individuals begin drinking alcohol at an early age. If advertising influences this participation decision, it is difficult to see why this behaviour is not reflected in the empirical results for long-standing advertising bans.”

Nelson J.P.,2010, Alcohol Advertising Bans, Consumption, and Control Policies in Seventeen OECD Countries. 1975-2000, *Applied Economics,* 42: 7, 803-823